

## Study on the benefits of Fasal Bima Yojna for farmers

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### Abstract

Agricultural production and farm incomes in India are frequently affected by natural disasters such as droughts, floods, cyclones, storms, landslides and earthquakes. There are man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes, etc. All these events severely affect farmers through loss in production and farm income and are beyond the control of farmers. Crop insurance is one of the most important alternatives to manage such type of risks by the farmers. Government of India has launched several schemes such as National Agricultural Insurance Scheme (NAIS), Modified National Agricultural Insurance Scheme (MNAIS) Weather Based Crop Insurance Scheme (WBCIS), National Crop Insurance Programme (NCIP) and latest launched Pradhan Mantri Fasal Bima Yojana (PMFBY) for the benefits of farmers.

The study concludes with the recommendations that there is a strong need of the hour to educate rural people with regards to Insurance as a concept and as a product. Although Insurance is the subject matter of solicitation, unprofessional practices are prevalent in India. The innocent people are cheated by unscrupulous advisors who do not explain the benefits of the policy to the buyers of the product. Claims are either delayed or denied by the companies leading to distrust amongst the common people. The complaints and grievances of customers must be redressed so that the trust of the people is not lost. The study also suggests for designing policies especially for the rural people rather than selling the same Policies which are sold to the urban people.

**Keywords:** Uncertainty, Risk Management, Crop Insurance, Crop Insurance Schemes

### 1. Introduction

India is a land of farmers where the maximum proportion of rural population depends on agriculture and allied activities for their livelihood. However, in the recent years, agricultural GDP share is declining continuously and is about 14% of the country's GDP in the year 2014-15. The fallout this is the widening disparities in the per worker earnings in agricultural and non-agricultural sectors. The per capita agricultural GDP (in current prices) was Rs 25,780 while Non agriculture per capita GDP was Rs. 2,08,696 in 2014-15 thereby indicating that per capita agricultural income was around 12% of per capita non-agricultural income. The ratio of Non-agricultural to Agricultural per capita GDP which was 3.97 in 1999- 2000 increased to 5.38 thereby indicating growing disparity.

In India, Agriculture heavily depends on monsoons with 60% of the cropped area being rain-fed. Given the fact that around 75% of rainfall occurs during June-September period, the fate of the Kharif crops depends on the Southwest monsoon. Farming community in India, thus, remain at the mercy of rain-Gods. The distress faced by farmers is clearly evidenced by large number of farmers' suicide committed during periods of deficit rainfall. According to the Ministry of Agriculture, the total of number of suicides committed by farmers for agrarian reasons in the last three years stands at 3313, with four states - Maharashtra, Telangana, Karnataka and Andhra Pradesh - accounting for 3280 of them. So, this alarming number of farmer suicides in India, is a burning issue not only in India, but also throughout the world.

The Indian insurance industry has witnessed a sea change in terms of volume and numbers over the past decade ever since the sector has been opened to private and foreign participation in the year 2000. Further, the Insurance industry is also seen as the —engine of growth by the Regulator IRDA. The contribution of this segment of the financial system has been

very significant, next to the software industry as various reports and surveys reveal. The general public, today in India still see insurance products more like an investment product rather than as a risk mitigation tool. However, even after a decade and a half, insurance penetration and density is dismally low, and not very encouraging.

Life insurance to a certain extent is preferred because of the inherent tax incentives inbuilt, but for the general insurance business, people in India have not yet understood the need and importance of protecting themselves against any property and liability risk exposures. However, the insurance companies on their part are making all efforts to ensure availability of insurance through innovative products and innovative distribution channels, but the Indian mindset is still not tuned to buying insurance. Even with the mandated rural and social sector obligation guidelines of the Regulator in place, the growth statistics is not encouraging in rural India too. The need of the hour is make insurance, available accessible and affordable through tailor made policies based on the risk coverage required by people with different needs and capacities. This is particularly important when policies are to be given to people in rural areas with lot of capacity variation and needs variation.

### Review of Related Literature

Kattarkandi Byjesh, Uttam Deb and Cynthia Bantilan (2014) [1] in their research article, —Rainfall Insurance in India: Does it Deal with Risks in Dry land Farming? they have studied rainfall insurance schemes and its operational modalities such as eligibility criteria, payment of premium, benefit structure and payouts, and technical hassles. It examined the hypothesis that low spread of rainfall insurance was linked with the situation where prospective buyers were unable to relate the product to their regular exposure. This study also underlines

incongruity comparing the variation in longitudinal actual village data and reference weather data (mandal level<sup>3</sup>) that were used to calculate strike, exit and payouts to the farmers across six villages of semi-arid tropics (SAT) region.

Robert Aidoo, James Osei Mensah, Prosper Wie, Dadson Awunyo-vitor (2014) <sup>[2]</sup> in their research article, —Prospects of Crop Insurance as a Risk Management Tool among Arable Crop Farmers in Ghana<sup>1</sup> they wanted to assess the willingness of farmers to adopt crop insurance and the critical factors that influence the premium they are willing to contribute towards such a scheme. Two out of the eleven (11) agricultural operational areas in the Sunyani Municipality were selected purposively due to their dominance in maize and cassava production.

Phillip Daniel Daninga, Zhang Qiao (2014) <sup>[3]</sup> in their research article, —Factors affecting attitude of Farmers towards drought insurance in Tanzania<sup>1</sup>, they assessed farmers' attitude towards drought insurance in Bunda district. The sample of the conducted cross sectional survey consisted of 410 respondents. A five point likert scale was generated and included in the questionnaires. Analysis was done using Factor analysis and reliability tested by Cronbach's alpha. Factors that affected farmers' attitudes towards drought insurance were compensation fairness of drought insurance, convenience of service delivery of drought insurance, program appropriateness, and government's protection to farmers. Farmers' attitudes toward the program were negative. Farmers' attitudes and perception should be incorporated in developing effective drought insurance in Tanzania.

Dr. S.M.Uvaneswaran T. Mohanapriya (2014) <sup>[4]</sup> in their research work, —Farmers' Perception and Awareness about Crop Insurance in Tamilnadu – A Descriptive Analysis<sup>1</sup>, they considered Agriculture is the back bone of the Indian economy. Government has launched several schemes like National Agricultural Scheme and Weather Index Based crop insurance schemes for protecting the farmers against risks in agriculture. Due to the risk of loss in agriculture the farmers are making suicide attempts, selling their properties or the properties are seized by the Bank and financial institutions for the loan availed by the farmers. This is due to lack of awareness about the risk management techniques among the farmers. The research was conducted among the 150 farmers of Erode District to assess the farmer's perception about the various facts of crop insurance schemes.

Kiyanoush Ghalavand, Karim. MH (Karim Koshteh) and Abolhassan Hashemi (2012) <sup>[5]</sup> in their research paper, —Agriculture Insurance as a Risk Management Strategy in Climate Change Scenario: A study in Islamic Republic of Iran<sup>1</sup>, they wanted to develop a realistic framework and concrete roadmap for introducing crop insurance as a risk management strategy for the farmers in Iran. The study is based on both secondary and primary data and information. Survey was the research method, and data was collected by questionnaire and different instruments, such as survey questionnaire, FGDs, interview schedule, inception workshop and roundtable discussions with stakeholders at different levels. The three survey districts were: Golestan Province (as a flash flood area, north of Iran), Khuzestan Province (as a drought area, south of Iran) and Khuzestan Province (as a cyclone and flood-prone area, south of the country). The results revealed that four independent variables explain

adoption of Drought insurance. Consult with other farmers is the main independent variable.

Mohammed Nasir Uddin, Wolfgang Bokelmann and Jason Scott Entsminger (2014) <sup>[6]</sup>, in their research article, —Factors Affecting Farmers' Adaptation Strategies to Environmental Degradation and Climate Change Effects: A Farm Level Study in Bangladesh<sup>1</sup>, they have examined the adaptation of agriculturalists to degrading environmental conditions likely to be caused or exacerbated under global climate change. It examines four central components: (1) the rate of self-reported adoption of adaptive mechanisms (coping strategies) as a result of changes in climate; (2) ranking the potential coping strategies based on their perceived importance to agricultural enterprises; (3) identification the socioeconomic factors associated with adoption of coping strategies, and (4) ranking potential constraints to adoption of coping strategies based on farmers' reporting on the degree to which they face these constraints.

Lopamudra Mohapatra & R K Dhaliwal (2014) <sup>[7]</sup>, in their research work, —Review of Agricultural Insurance in Punjab State of India<sup>1</sup>, they have examined various agricultural schemes operating in the state of Punjab microscopically. The design for the study was descriptive research. The focus of the review was on the functional agricultural insurance schemes in Punjab state microscopically and macroscopically in the country. India has administered crop insurance scheme since 1972 of which all the variants of the scheme introduced from time to time had various flaws. Nevertheless India is not alone where public crop insurance has not been successful.

### **Need for Crop Insurance**

Crop insurance is one alternative available to manage risk in yield loss by the farmers. It is a potent mechanism to reduce the overall impact of income loss on the farmer (family and farming). Thus, it is a means of protecting farmers against the probable variations in their yield, resulting from uncertainty of practically all natural factors beyond their control such as rainfall (drought or excess rainfall), flood, hails, other weather variables like (temperature, sunlight, wind), the pest infestation, etc. It is a financial tool to minimize the impact of loss in farm income by factoring in a large number of uncertainties occurring which affect the crop yields of the farmers.

As such it is a risk management alternative process, where the production risk element is transferred to another party at a cost, which is called premium. To design and implement an appropriate insurance programme for the agriculture is therefore very complex process and a challenging task. There are two approaches to crop insurance, namely, the individual approach method, where yield loss on individual farms forms the basis for indemnity payment, and the homogeneous area approach method, where a homogeneous crop area is taken as a unit for assessment of yield and the payment of indemnity. In fact in both the cases the reliable and the dependable yield data for past 8- 10 years are needed for the fixing premium on actuarially sound basis.

### **Pradhan Mantri Fasal Bima Yojana (Pmfby) and Its Benefits**

Pradhan Mantri Fasal Bima Yojana (PMFBY) is the new crop damage insurance scheme that has been approved by the

Union Cabinet in January, 2016. It is one of the major initiatives and Farmers Friendly launched by the Present BJP government for the farmer's welfare. A destiny changer for the farmers of India. It clearly indicates how our present government is seriously concerned for alleviating the problems of our farming communities in India and wants to provide every help to them always, who are the back bone of Indian Economy. New crop insurance scheme will bring about a major transformation in the lives of farmers. A great initiative to transform Indian farming life style.

The Scheme is a Laudable measure taken by Govt., as it is focussing more on Crop Insurance which is the most vulnerable part of agriculture. The scheme is Inclusive and will surely help the farmers of our country at the time of distress. The new scheme is significant as the country is facing drought for the second straight year due to poor monsoon rains and the government desire to enhance insurance coverage to more crop area to protect farmers from vagaries of monsoon.

It will replace the existing two crop insurance schemes National Agricultural Insurance Scheme (NAIS) and the Modified form of NAIS. The new scheme will come into force from the Kharif season starting in June this year. The scheme covers kharif, rabi as well as annual commercial and horticultural crops. For Kharif crops, the premium charged would be up to 2% of the sum insured. For Rabi crops, the premium would be up to 1.5% of the sum assured. For annual commercial and horticultural crops, premium would be 5 per cent. The remaining share of the premium will be borne equally by the central and respective state governments.

There will be one insurance company for the whole state. Private insurance companies will be added along with Agriculture Insurance Company of India Limited (AICL) to implement the scheme. Losses covered Apart from yield loss, the new scheme will cover postharvest losses also. It will also provide farm level assessment for localised calamities including hailstorms, unseasonal rains, landslides and inundation.

How will the Scheme Benefits the Farmers?

1. With Low Premium rates and Total Coverage of Insurance of Crops, Farmers will benefit financially.
2. Widening of the term Disaster (like Flooding of Crops and Damage after Harvest) will enlarge the Protection base and hence beneficial to farmers.
3. Post-Harvest Losses are also included, so it will provide safety and confidence to the Farmers.
4. Time Bound Payment of Losses will prevent delays and further worsening of Farmer's distress condition.
5. Will Reduce Farmers' Suicide (Since Crop Failure and Financial Distress earlier was undressed but now ensured).
6. Easy usage of technology like mobile phone, quick assessment of damage and disbursement within a time frame.

### **Pradhan Mantri Fasal Bima Yojana (Pmfby) and Other Crop Insurance Schemes: A Comparison**

The new scheme is different from earlier schemes on the following grounds.

1. It is open to all farmers but not mandatory to anyone.
2. It is optional for loanee as well as non-loanee farmers.
3. It has so far lowest premium.

4. The existing premium rates vary in between 2.5% and 3.5% respectively for kharif crops and 1.5% for rabi crops respectively—but the coverage was capped, meaning farmers could, at best, recover a fraction of their farming losses. The farmers' premium has been kept at a maximum of 2 per cent for food grains and up to 5 per cent for annual commercial horticulture crops. For rabi crops, it is 1.5%. The balance premium will be paid by the government to furnish full insured amount to the farmers. Since there is no upper cap on government given subsidy, even if the balance premium is about 90 percent, the government will bear it.
5. This scheme provides full coverage of insurance. While NAIS had full coverage, it was capped in the modified-NAIS scheme. It also covers the localized risks such as hailstorm, landslide, inundation etc.
6. Earlier schemes did not cover inundation. It provides post harvest coverage. The NAIS did not cover while the modified NAIS covered only coastal regions.

### **Conclusion**

Crop insurance is important in a country like India with millions of farmers largely dependent on monsoon for the success of their crops. Monsoon also has a bearing on the production costs and agricultural production in respect of irrigated areas too in the country. The need for crop insurance has to be seen in the light of improved security for farmers and an overall boost to the agricultural sectors in particular, the rural economy at large and growth of the country in general. There is a gross mismatch between the risk associated and the profit margins in the agricultural economy making it necessary for subsidy inputs to the farmers through the Governmental mechanism.

The recent launch of the "Pradhan Mantri Fasal Bima Yojana" which is marked by affordable premium, full insurance cover and use of mobile/satellite technology is definitely a great opportunity and challenge for the general insurers. With this initiative along with effective awareness programme by the service providers, it is expected that farmers will develop the habit of insuring their crops. This will certainly increase insurance penetration as far as farm sector is concerned, thereby ensuring higher productivity & prosperity for the agriculture sector - in turn for the economy as a whole.

IRDAI on its part would endeavour to provide the necessary regulatory environment to support the required development in this area. It is hoped that through a concerted approach, the subscription to the crop insurance in the country by the farmers would go from the current level of 20% to much larger levels that are needed not just for the farmers alone but also to lend viability to the lending institutions working in the area of rural credit. This will not only boost the agricultural sector but also the Insurance sector more particularly the General Insurance segment.

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