Evaluating Pradhan Mantri Fasal Bima Yojana

Why in news?

Four private insurance companies have decided to opt out of Pradhan Mantri Fasal Bima Yojana (PMFBY), government's flagship crop insurance programme.

What is PMFBY?

- The Pradhan Mantri Fasal Bima Yojana (Prime Minister's Crop Insurance Scheme) was launched in 2016.
- The scheme is aimed at reducing agricultural distress at instances of monsoon fluctuations induced price risks.
- It envisages a uniform premium of just 2% to be paid by farmers for Kharif crops and 1.5% for Rabi crops.
- The premium for annual commercial and horticultural crops will be 5%.

How has the scheme performed over the years?

- The PMFBY is better than most other farm insurance instruments tried out with little success since the early 1970s.

- However, it does suffer from several inherent flaws which undermine its appeal to both insurers and farmers.
- The insurance companies find it a loss-making business despite the hefty 90% subsidy by the government.
- On the other hand, the farmers complain that the compensation is too meager and comes with an inordinate time lag.

- The common impression that the subsidy is being cornered unfairly by insurance firms seems true but only partly.
- In the initial years after the launch of the scheme in 2016, supportive weather had prevented crop damages.
- Hence, the reimbursement claims were low.
- This allowed the insurers to make good profits.
- But, the situation has since changed with irregular monsoon rainfall.
- There was 9% deficient in monsoon rains in 2018 and 10% excess in 2019.
- This inflicted heavy crop losses in several states.
- As a result, the compensation claims have exceeded the collected premium.
- This, consequently, eroded the insurance companies' profits.

- It ultimately made crop insurance an unattractive proposition for them.

What are the concerns with the scheme?

- The shortcomings in the design of the PMFBY include -

i. the involvement of banks in the mandatory insurance of the crops grown by borrower farmers
ii. the assessment of damages on the basis of average crop loss in a given contiguous area rather than in the farmer's field

- The banks usually adjust the compensation amount against the loans without the consent or knowledge of the farmers.
- This worsens the trust deficit among farmers, banks and insurance companies.
- Also, the involvement of the state governments in sharing the financial burden equally with the Centre is creating problems.
- The states' involvement in estimating the losses through crop-cutting experiments and other means is also problematic.
- The use of technology in damage evaluation is not happening to the desired extent.
- This is limiting the credibility of the crop loss data and is also needlessly delaying the finalisation of reimbursement amounts.
- Moreover, states often release their share of the funds late and in installments.
- This affects the liquidity and paying capacity of the insuring firms.
- Many states have capped the sum assured at unrealistically low levels, which do not adequately cover costs.

How does the future look?

- The above issues need to be suitably addressed to prevent the PMFBY from meeting the same fate as its predecessors.
- The Indian farmers are typically heavily indebted small land holders.
- They need crop insurance to hedge their risks which are steadily mounting due to growing menace of pests and diseases and rapidly changing climate.
- The frequency of erratic and extreme weather events has already aggravated.
- Devastating cyclones, which used to be rare, have become a common feature in coastal areas.
- These developments have added to the woes of the cash-stressed farmers.
- It is, thus, crucial to provide reliable risk management avenues like conveniently accessible farm insurance to abate farmers' distress.

Source: Business Standard