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Agriculture Insurance in India : Issues and Concern

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Agriculture Insurance in India : Issues and Concern

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Ours is an agrarian country with two third of its one billion population depends on agriculture for their livelihood. Agriculture also contributes approximately 18% of GDP. The Indian business cycle is influenced by the crop pattern that mainly depends on the vagaries of nature; every flood or drought has its own impact on the Indian economy. Agri-business encompasses whole lot of activities of agriculture sector under one umbrella, like integration of production, processing and marketing. The process starts at the product level and reaches out to the final consumers through vertical integration. Agribusiness favors Indian farmers in every possible way be it policy, climate and several other advantages points that India inherently possess in production.

So in this paper we would like to trace the problems related with agriculture insurance agencies, farmers and entrepreneurs, to identify risk in agribusiness, to know performance of Agriculture insurance schemes in India, role of agriculture insurance schemes in protecting farmers from agricultural variability, what's the major problems in crop insurance and National Agriculture insurance (NAIS), and how to cope up with those problems. In this study, we have tried to find out the rise in accuracy and timeliness of crop estimation methods.

Introduction:

India is an agriculture oriented country where main dominant form of occupation is agriculture. Indian society with two third of its population depend upon agriculture for their livelihood. It contributes 18% of GDP (Gross Domestic Product) approximately. India has got second rank in the world for its agriculture and farm products. But it is not so easy for the farmers of India to earn income from agriculture. Indian agri-business is synonymous with risk and uncertainty because the agriculture in India depends upon the natural factors, i.e. adverse weather conditions, flood, draught, peril etc. Uncertainty of nature leads the farmers to various agriculture related problems.

Low productivity, less income and high loans taken for agriculture are forcing the farmers of India to commit suicide. They are living a stressful life even after giving others an unstressful life by fulfilling their most wanted need in the form of farm products. In agriculture, agribusiness is a generic term for the various businesses involved in food production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing, and retail sales The process starts at the product level and reaches out to the final consumers through vertical integration. Agribusiness favors Indian farmers in every possible way be it policy, climate and several other advantages points that India inherently possess in production.

Therefore, to cope up with these agro-problems, a risk management tool "Agriculture Insurance" is launched for the farmers. Economic growth and agricultural growth are directly related to each other. This tool helps in stabilization of farm production and income of the farmers. It helps in optimal allocation and utilization of resources in the production process.

Agriculture or crop insurance has assumed importance with large scale damage caused due to pest attacks, crop diseases and vagaries of weather. The objective is to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases. The list of crops being covered for insurance differs from state to state. Generally quite a few Kharif and Rabi season crops are covered. These crops are insured at the community/block/gram panchayat levels. Agriculture insurance schemes are of immense help to farmers, providing them with financial security.

Agriculture insurance for farmers helps greatly in reducing risk horizontally across the states (a drought in Rajasthan is mitigated by a bumper crop in Andhra Pradesh) and vertically across big and small farmers. In fact, states which have accepted the scheme require that any farmer borrowing from any financial insists take insurance too. Unfortunately, data from the scheme so far shows that only 4 % of the Rabi (winter) crop and 11 % of the more risk-prone Kharif (monsoon) crop holdings are insured. On the positive side, the percentage of the holdings covered is more than the

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percentage of area covered indicating better penetration among the small land-holders, the most vulnerable farmers. Most of the crops covered were food crops (summer paddy, wheat) indicating that food security is the primary concern for India's small farmers.

Review of Literature:

There are various studies related to Agriculture Insurance. It was found that the numerous numbers of literatures is available on agriculture insurance and its various aspects. Few reviews are discussed here under:

Narayanan H. (2006), reports that agriculture insurance is destined to play an important role in managing the risk of the agriculture sector, whose contribution to the growth of economy is substantial. The role of agriculture insurance for India can never be underplayed.

Parchure Rajesh (2009), shows that the aim of crop insurance schemes is not to make profits, profits can be used either to give indemnities covering principle repayments and/ or the funds of the finesurer can be directed towards investments in agriculture infrastructure.

Sinha Sidharth (2005), founds that Agriculture insurance can be improved by increasing the accuracy and timeliness of crop estimation methods possible through the use of new technologies. This would need to be supplemented by institution and operating procedures which enable the private sector to provide agriculture insurance.

According to the National Agriculture Policy (2000), "Despite technological and economic advancements, the condition of farmer continues to be unstable due to natural calamities and price fluctuations". The impact of this variability is highlighted in drought years with news of farmer suicides from agriculture variability.

Sinha Sidharth (2004), Says that crop insurance is one of the instruments protecting farmers from agriculture variability.

Considering the contribution of the sector to the economy, the former Governor of the Reserve Bank of India, Dr. Y. V. Reddy, had suggested a national policy on agricultural risk management.

After an intense review of literature (as above) and going through various available secondary data it can safely asserted that the help of agricultural insurance schemes, farmers can get benefits and protection of high farm production, regular income, savings and investment, loans against security etc. Agriculture insurance contributes in rapid economic development of the country. It is an adaptive solution in order to ensure viability and profitability for agriculture.

Objective of the Study:

The aim of the study is to improve knowledge about climatic and natural risk in Indian Agriculture and to examine the role and the functioning of Agriculture Insurance as a risk management tool. This study reviews the emerging opportunities for agribusiness enterprises with ongoing market development. Its main objectives are to know the agricultural condition of India and find out the problems and prospects of agricultural insurance.

Importance of Study:

Traditional agriculture was a 'way of life' for our farmers is now becoming a 'business proposition'. Along with the adoption of new technology in farming, the problem faced by the farmer's fare also increasing. There are problem of soil and water management, natural hazards, technical know-how, marketing, finance, pests and diseases and so on. In finding the solution for these problems, Agriculture insurance is to be applied. An important ray of hope in this complex scenario of agribusiness is that new generation are more educated, young and energetic have taken up to this enterprise. About 75% of the population is dependent directly or indirectly on the agriculture sector. Today it is not only a seen as mean of solving food problem within the country, but also as a foreign exchange earner. In several countries Agricultural insurance is an Integrated Risk management mechanism managed by public and private enterprises. They have approached in an integrated manner for risk management. In future, India too, agriculture insurance is destined to play an important role in managing the risk of the agriculture sector, whose contributes to the growth of the economy is substantial. Therefore, this paper has tried to fiend the potential for Agriculture insurance companies and also made an attempt to realize the importance of Agriculture Insurance Industry in the rural and economy development.

Research Methodology:

Descriptive research methodology is carried out in this paper. It is mainly based

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on the secondary data collected from various sources. We have also used some primary data which is collected by telephonic talk and interviews of the farmers, entrepreneurs. Different research articles reports have been reviewed to make this study more relevant.

Concept and need of Risk Management:

Risk Management is "A systematic way of protecting the concern's resources and income against losses so that the aims of the business can be achieved without interruption". Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. Risk management is a central part of any organization's strategic Management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. In the safety field, it is generally recognized that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm. In the insurance parlance, the Risk Management is a tool identifying business opportunities Humans have always sought to achieve security and reduce uncertainty. Risk lies at all levels of human and business activity. Big irony-technology has reduced loss frequencies but loss severities have increased leading to greater risk. Risk is universal. Individuals, business and government must all cope with it by design or default. Risk is often confused with uncertainty. While risk involves an element of uncertainty, a situation is uncertain if decision maker does not have enough information to assign probabilities to possible outcomes. Risk and uncertainty are related in that uncertainty leads to risk. When an event has outcomes lacking in predictability it is uncertain.

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats. Traditionally, risk management was thought of as mostly a matter of getting the right insurance. Insurance coverage usually came in rather standard packages, so people tended to not take risk management seriously. However, this impression of risk management has changed dramatically. With the recent increase in rules and regulations, employee-related lawsuits and reliance on key resources, risk management is becoming a management practice that is every bit as important as financial or facilities management.

Role of Agriculture Insurance:

After the unlimited success of the famous Green Revolution, the agriculture in India has gained substantial importance in the context of national economy. India is one of the largest exporters of various food grains, crops and farm products. The farmers of India play a very vital role in the development of economy but they are still living in the curse of poverty and deprivation. Agriculture production and farm incomes in India are frequently affected by weather and climatic aberrations like droughts, floods, cyclone, frost, storms, land slides, etc. Outbreak of epidemics, fire, and market fluctuations are the other factors which seriously affect production and farm income. All these events are beyond the control of the farmers. With the growing commercialization of agriculture, the magnitude of shock due to unfavorable eventualities is increasing and the need to protect farmers against production and income losses is becoming stronger. Agricultural insurance is considered an important mechanism to effectively address the risk to output and income resulting from various natural and manmade events. Agriculture Insurance plays an important role in sharing the risks of people in an affordable form. It helps the farmers to quickly recover from damages and losses. So, it is of great advantage an importance. It promotes savings and investment because a regular premium is paid for it. Farmers can get loans against the security of insurance policy from insurance companies and banks. It protects against losses and dangers. Insurance for farmers is very relevant. The uncertainties of rainfall and the resultant loss of agricultural products create problems for the farmers production across the country every year. So the Agriculture Insurance Company of India Ltd. has come up with intensive insurance coverage for farmers. There are various insurance policies launched for the farmers such as the Weather Based Crop Insurance Scheme, Rainfall Insurance Scheme for Coffee Growers, Varsha Beema etc. These schemes are discussed further in the paper.

Agriculture Insurance Company of India:

Agriculture Insurance Company of India Limited (AIC) is a public sector

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undertaking. Its headquarter is in New Delhi. It currently offers area based and weather based crop insurance programs in almost 500 districts of India. It is one of the biggest crop insurers in the world because it covers almost 20 million farmers in India. AIC is promoted by General Insurance Corporation of India (GIC), NABARD and the 4 Public Sector General Insurance companies. It works under the administrative control of Ministry of Finance, Government of India, and under the operational supervision of Ministry of Agriculture. Insurance Regulatory and Development Authority, Hyderabad, is the regulatory body governing AIC. AIC has 17 Regional Offices spread across India. AIC offers various agriculture and allied insurance products and schemes. A significant amount of business is derived out of National Agriculture Insurance Scheme.

National Agriculture Insurance Secheme (NAIS) Performance

No. of Farmers covered (in millions)

Total Sum Insured (Rs. In Billions)

Source: Agriculture Insurance Company of India limited

The above first graph shows that numbers of farmers covered under NAIS are increasing. There were 16.22 millions farmers who were insured in the year 2004-05 which became 19.51 millions in the year 2008-09 just in four years.

In the second graph total sum insured under NAIS is shown. It is also growing rapidly every year. It has come to 2.75.59 billions rupees in the year 2008-09 which were 169.45 billions rupees in the year 2004-05. Thus, the performance of NAIS is up to the satisfactory level.

Products of Agriculture Insurance Company of India Ltd:

The various products offered by AIC have been categorized as past, present and future products. Some of present products are:

Mango Insurance
Poppy Insurance
Potato Insurance
Grapes Insurance
Wheat Insurance
Coconut Insurance
Rubber Insurance
Rabi Weather Insurance
Pulpwood Tree Insurance
Bio-Fuel Tree/Plant Insurance
Varsha Beema/Rainfall Insurance
USBY - Uttarakhand Seb Bima Yojana
NAIS- National Crop Insurance Scheme

WBCIS - Weather Based Crop Insurance Scheme

RISC- Rainfall Insurance Scheme for Coffee Growers

Performance of Agriculture Insurance:

Natural calamities and adverse seasonal conditions are grossly impacted the level of agriculture productivity. Nearly 65% of Indian agriculture is heavily dependent on natural factors, particularly rainfall. Crop failure can lead to economic down fall and market difficult for a former to repay existing loans. Crop loss can be reimbursed through proper weather risk management. Management of weather risk deserves top priority in the government agenda. For coping with natural risks, agriculture insurance is the only mechanism available. It is an important instrument that protects agriculturists against uncertainties of Crop production that are beyond their control. Since 1985,when comprehensive crop insurance scheme was started who replaced by National Agriculture Insurance Scheme (NAIS) in1999. The NAIS was introduced on a large scale to provide insurance coverage to farmers against weather risk.

State-wise Number and Percentage of farmers Covered under National Agriculture Insurance in India (2007-2008)

Abbr.: NA: Not Available.

Source: Rajya Sabha Unstarred Question Number 790, 24.10.2008.

After analyzing the above table, we can say that NAIS has performed well in the states of Rajasthan, Chhattisgarh, Andhra Pradesh, Gujarat, Madhya Pradesh, and Orissa. In the states of Assam, Bihar, Goa, Haryana, Himachal Pradesh, Kerala, Meghalaya, Sikkim, Tripura, Jammu & Kashmir etc. the numbers of farmers covered are very less in number. So, only a few numbers of states has taken the benefits from NAIS.

Highlights on Agriculture Insurance in India:

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The National Agricultural Insurance Scheme in India was introduced in 1999-2000 season. The Ministry of Agriculture in India implemented it. The scheme aims at protecting the farmers against losses incurred by the farmers due to crop failure because of natural calamities (drought, flood hailstorm, cyclone). Sugarcane, potato, cotton, ginger, onion, turmeric, chilies, jute, tapioca, banana and pineapples are the crops which are generally covered by the scheme. The insurance premiums for different types of crops are as follows:

3.5 per cent of sum insured for Bajra and Oilseeds

2.5 per cent of sum insured for Cereals, other Millets and Pulses

Apart from this 50 percent of subsidies in premium are allowed to small and the marginal farmers.

Farm income Insurance Scheme:

The Department of Agricultural and Cooperation introduces the Farm Income Insurance Scheme (FIIS). As to this scheme, a farmer is being insured from his level of production as well as market risks. Actuarial calculations determine the premium rates in this scheme. The Government also provides a larger part as subsidy. Around 75 percent is being subsidized to the small and the marginal farmers and 50 percent to the other farmers. As to the statistics, during the Rabi 2003-04, over 1.8 lakh farmers were being covered under this scheme. There was a total income generation of Rs 14.1 crores a premium.

Rainfall Insurance “Varsha Beema”

"Varsha Beema" insurance scheme was introduced during the year 2004. It is also known as rainfall insurance scheme. The scheme is piloted in 20 rain-gauge areas in the states such as Andhra Pradesh, Karnataka, Rajasthan and Uttar Pradesh.

Crop Insurance Schemes:

In order to provide a boost to the agriculture in India, a number of experimental crop insurance schemes have been introduced in the country. The first ones of the experimental crop insurance schemes has been a Pilot Crop Insurance scheme. This was introduced by GIC from the year1979. Some of the important features of the scheme were that the scheme was based on "Area Approach". This scheme covered crops such as Cereals, Millets, Oilseeds, Cotton, Potato and Gram. The scheme was confined to loanee farmers only and on voluntary basis. The risk was shared between General Insurance Corporation of India and State Governments in the ratio of 2:1. The maximum sum that could be insured under the scheme was 100% of the crop loan, which was later increased to150%. Under this scheme, 50% of the subsidy was provided for insurance charges which was payable to the small / marginal farmers by the State Government & the Government of India on 50:50 basis.

Among the earlier crop insurance schemes that were introduced was a comprehensive Crop Insurance Scheme. The Government of India introduced the Comprehensive Crop Insurance Scheme with effect from 1st April 1985. This scheme was introduced with the active participation of State Governments. The Scheme was optional for the State Governments.

This Scheme was linked to the short-term crop credit that was extended to the farmers and was implemented using the Homogeneous Area approach. The number of states that were covered under the scheme were 15 States and the number of UTs that were included were

This Scheme was implemented until Kharif 1999. Some of the important features of this scheme allowed a cover to the farmers availing crop loans from Financial Institutions for growing food crops & oilseeds on compulsory basis. The coverage under this scheme was restricted to 100% of crop loan subject to a maximum of Rs. 10,000/- per farmer. The premium rates for Cereals and Millets were 2% and for Pulses and Oil seeds 5%.

The premium and risk claims were shared in a ratio of 2:1 by the central and state Government. The Scheme was optional to State Governments.

Area Approach and Unit of Insurance:

The Scheme would operate on the basis of 'Area Approach' i.e., Defined Areas for each notified crop for widespread calamities and on an individual basis for localised calamities such as hailstorm, landslide, cyclone and flood. The Defined Area (i.e., unit area of insurance) may be a Gram Panchayat, Mandal, Hobli, Circle, Phirka, Block, Taluka etc. to be decided by the State/UT Govt. However, each participating State/UT Govt. will be required to reach the level of Gram Panchayat as the unit in a maximum period of three years. Individual based assessment in case of localised calamities would

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be implemented in limited areas on experimental basis, initially and shall be extended in the light of operational experience gained. The District Revenue administration will assist Implementing Agency in assessing the extent of loss.

Areas covered under National Agriculture Insurance Scheme (NAIS) in India

Source: - Rajya Sabha Unstarred Question No. 2421, dated 17.03.2006

Benefits Expected from Scheme:The scheme is expected to

Be a critical instrument of development in the field of crop production, providing financial support to the farmers in the event of crop failure.

Encourage farmers to adopt progressive farming practices and higher technology in Agriculture.

Help in maintaining flow of agricultural credit.

Provide significant benefits not merely to the insured farmers, but to the entire community directly and indirectly through spillover and multiplier entire community directly and indirectly through spillover and multiplier effects in terms of maintaining production & employment, generation or market fees, taxes etc. And net accretion to economic growth.

Streamline loss assessment procedures and help in building up huge and accurate statistical base for crop production.

Agriculture Insurance-Challenges and Way Forward:

There are about 100 million farmers in India who work the hardest and yet seem to suffer the most. Their occupation totally depends upon the mercy of nature. It becomes the primary duty of Government to think of the welfare of farmers which would necessitate thinking of ways and means of reducing the risk in farming. Crucial aspect of agriculture is weather. It can make or break a farmer's fortune. If rains fail, crops fail. If rain comes at wrong time, then this also results in crop failure. There are following various complexities in agricultural insurance:

(a) Outdated model: The model of NAIS is outdated because crop cutting experiments (for deciding claim payout) is quite laborious and time-consuming. Also, these experiments are no longer valid as farmers cultivate multitude of crop varieties within unit area of insurance coverage having varying degree of productivity completely unrelated to the yields from crop cutting experiments.

(b) Delay in claim payout: Claim payout to the farmers often takes more than a year to reach the farmers or to the banks from whom they have taken crop loans.

(c) Huge burden on exchequer: Since the 1999 to the 2007-08 rabi seasons, the total paid and payable claims were about Rs 11,607 crore against a collected premium of Rs 3,626 crore rendering it unsustainable.

(d) Lack of historical weather data: Indian Meteorological Department is the central body controlling the weather stations and the captured data do not have a pan India network to give historical weather data.

(e) Lack of dedicated weather station network: IMD does not work exclusively on agro meteorological services. It has other functions to take care of such as aviation, weather forecasting etc. So a focused weather station network for agriculture at mandal/tehsil level is much needed for capturing the true losses incurred by farmers.

In addition, there is a crying need to educate farmers on the insurance schemes. The Government should use formal and informal networks to spread awareness in this area. The State Governments can be made accountable to ensure that farmers enroll in crop insurance schemes through the co-operative sector and get some benefit when burdened by natural calamities. AIC has plans to move beyond Crop Insurance towards a novel weather based insurance scheme as an alternative to NAIS. AIC is looking at a comprehensive package that includes farmers' huts, tools, implements, and animals besides crops - all this is of course subject to IRDA approvals. Weather-based insurance products will help the farmer in faster claim settlement. This could also mean lower premiums for farmers buying these insurance products. Differential rate of premium based on the variability in yield levels in the past and movement towards premium rates based on actuarial principles these are some of the areas that need to be focused on. A good risk assessment tool needs to be developed so that both farmers and insurers benefit. This can happen if insurers work closely with institutions specializing in statistical research. Agricultural insurance schemes are being subsidized on a global scale.

The Way Forward:

Sustainability is the key for any risk management model and dependence on subsidies or support in any form for a successful risk cover need to be done away with.

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The only way this can be achieved is by increasing the spread of insurance cover by taking the following measure on a war footing.

All-India Crop and Weather Risk Profiling: Understanding of crop agronomy, pest complex and weather risks for effective insurance product design. An in-depth study of the various crops (horticultural and agricultural) grown in the country and the associated weather risks is the need of the hour and this will go a long way in providing information for developing appropriate risk covers.

PPP (Public Private Partnership) model in weather station network: Given the probability of increased vagaries of floods and droughts due to climate change, devising an effective risk management system for agriculture would be crucial for the farming community. Financial resources could be made use of for devising this system. Inviting global tenders for installation and maintenance of weather stations in PPP mode at the rate of 10 each district in the 600-odd districts in the country can be considered for immediate implementation.

Application of remote sensing: The sound remote sensing capabilities can be harnessed to aid the insurance sector. Satellite imagery of Normalized Difference Vegetation Index (NDVI) can be used to assess crop growth stages, amount of loss in harvest etc.

Managing crop and price risks: The three risks which farming as an enterprise is encountered with are the agronomy (farming practices) and pest risk, the output price risk and lastly, the weather risk. Effective management of the first two risks by proper interventions such as ramping up the extension services will enable insurance companies to offer better weather risk covers.

Voluntary Vs Compulsory insurance: Farmers should be encouraged to habitually include insurance in their budgets. It can be achieved by designing products offering genuine protection at reasonable premiums and demonstrating the economic illustration of the risk with and without insurance by carrying out a mass campaign.

The need of the hour is introduction of a range of innovative insurance products covering diverse risks. Some have hinted at schemes like excess rainfall insurance, draught insurance schemes, sowing failure risk cover etc. Instead of one-size fits all approach, we can look at linking the risks with the type of crops. More importantly, the Government subsidy on insurance schemes has to reach the farmer who needs it the most.

Conclusion:

Now a day's change is happening in agriculture sector. Traditional farmers are expending their operation to include new and different options in doing so they are met with new liability; issues and new risk management needs. Agriculture Insurance is a risk management tool and as a risk transfer device that farmers can depends on as an instrument of indemnity in the event of crop failure. Risks like the price for the agriculture produce and Monsoon are two major factors on which the agriculturalist has absolutely no control. In a country like India, where crop production has been subjected to vagaries of weather and large scale damage due to attack of pests and diseases, agriculture insurance assumes a vital role in the stable growth of the agriculture sector. Agriculture Insurance requires the full support of the IRDA. The present Agriculture insurance policies are weak on the various fronts. These Agriculture insurance policies can not create success story in India. Therefore, we recommend introducing separate Agriculture Insurance Development Authority in India, as the existing authority is incapable to deal with the various issues and emerging problem in the Agribusiness.

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