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CROP INSURANCE : AN OVERVIEW

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Crop insurance offers protection against losses caused by fluctuations in the output of a crop from one year to another or from one crop season to another. Its objective is to stimulate and support the production of principal crops in the country. Providing financial support to farmers in the event of crop failure, it makes farmers credit-worthy for the next crop season. In 1979-80, a pilot crop insurance scheme was launched in limited areas in 12 states. In April 1985, a comprehensive crop insurance scheme was implemented. It is expected to cover all the willing states and union territories. It has been in operation in 17 states and 2 union territories up to *kharif* 1990. The benefits of crop insurance have been extended to nearly 1.94 million farmers and covered 3.41 million hectares. The General Insurance Corporation of India (GIC) is implementing the scheme on behalf of the central and state governments. The Ministry of Agriculture, bears 50% of the administrative expenses incurred by the GIC in implementation of the scheme. The state government bears 33% of the losses, if any. In the union territories the entire loss is borne by the Government of India. Presently this scheme covers principal crops like rice, wheat and millets, as well as pulses and oilseeds, whose production is short of the domestic demand.

Sugarcane, jute, tobacco, chilli, potato, onion, and other cash crops are not under the purview of the crop insurance scheme. Most of these crops are grown by small and marginal farmers in regions susceptible to natural calamities like floods, drought and diseases. Apple, litchi, grape, mango and banana are also not under the purview of the crop insurance scheme. The central and state governments should include cash and fruit crops under the scheme and help the risk-prone farmers.

Insurance Premium

The insurance premium is 2% of the sum insured for rice, wheat and millets and 1% of the sum insured for oilseeds and pulses. The central and state governments subsidize 50% of the premium payable by small and marginal farmers. When the scheme was started the government charged a low rate of premium to make the scheme attractive to farmers. It was expected that the scheme would be implemented on a compulsory basis to make it financially viable. But it was made applicable only on voluntary basis. Gujarat, Andhra Pradesh and Maharashtra opted for the scheme

in big way. Punjab, Harayana and western Uttar Pradesh, where agricultural production is stable, have not shown any interest in the scheme. The scheme also could not make any significant dent in Bihar, Assam, Orissa and other north-eastern states in spite of their unstable agricultural production.

The scheme is operative in defined areas for each crops as notified by the Ministry of Agriculture. The scheme operates on areas basis. But a homogeneous area does not mean an area in which all farmers have equal or normal yield of the specified crop. The principal advantage of the area approach is that it avoids all reference to the individual. The concept of homogeneity is primarily based on climate, soil, topography and irrigation facilities. At most, a district or a block may be considered homogenous. In reality, however, a district or block may not be completely irrigated or evenly dry. The delineation of area on the basis of homogeneous space concept will certainly minimize the variation in the yield of a particular crop within the delineated homogeneous space.

Payment to Farmers

Payment of claims to farmers under the scheme is based on the average yield per hectare of the insured crop for the defined area determined on the basis of crop-cutting experiments in the insured season. If the average yield of a particular crop falls short of the specified threshold yield, all the insured farmers growing that crop in the defined area are deemed to have suffered a shortfall and the scheme seeks to provide coverage against such a contingency. The original indemnifiable limit for all the identified crops under the scheme was 80% since *rabi* 1986-87 and the limit was raised to 90% for rice and wheat.

Collection of Premia

The collection of premia from farmers regularly is difficult because the liquidity of the majority of farmers is usually nil, if not minus. Keeping in view the constraints, the scheme covers only crop loanees who are availing loan facilities from co-operative credit institutions, commercial banks and regional rural banks. Thus, non-loanee farmers are not eligible for insurance coverage. The linking of crop insurance to crop loan has not been implemented merely as an expediency but the entire agricultural credit structure is in urgent need of protection from agricultural hazards, and this can be

done only by means of an appropriate crop insurance scheme suitably linked to the agricultural credit structure.

The objective of linking crop insurance to crop loan is also to cater to the needs of small and marginal farmers who are in dire need of agricultural credit and support in the event of natural calamities. Our small and marginal farmers deserve special consideration. But medium and big farmers, who generally do not avail crop loan facilities from institutional agencies, should also be covered under the crop insurance scheme. If the agriculture production is to be increased, it could only be achieved by providing encouragement through various development schemes to medium and big farmers having cultivable and irrigated land.

At the time of formulation of this scheme the sum insured per farmer was 150% of the loan disbursed to him for growing the particular crop in a defined area during the insured season. From *kharif* 1988 it was reduced to 100%. The higher limit of the sum insured has also been fixed to Rs. 10,000 per farmer irrespective of the quantum of crop loan taken by the farmer. The present scale of finance of different crops is nearly half of the cost of cultivation of respective crop if rented value of own land, land revenue, interest on fixed assets, cost of own labour, etc., are added to the cost of cultivation. Hence, the decrease in the amount of sum insured seems to be illogical and it needs reconsideration at the level of policy formulation. Otherwise the objective of crop insurance would be jeopardized, and its role will not be more than that of a relief scheme.

Many difficulties have come up in the implementation of the crop insurance scheme. The Ardhanareeswaran Committee constituted by the Government of India to review the functioning of comprehensive crop insurance scheme made an attempt to define the role of each concerned institution precisely. It would facilitate the evaluation of performance of participating institutions and monitoring the scheme.

Financially Unviable

The premium collected in *kharif* 1990 was nearly Rs. 76 million, and the total claims paid to farmers was Rs. 154 million. The accumulated amount of deficit from *kharif* 1985 to *kharif* 1990 is Rs. 5,454 million. The financial viability of the scheme has been probably affected adversely because participation in it is voluntary. It could be improved if the rate of premium is increased and the non-borrower farmers are allowed to participate in the scheme. A scheme of differential premium rate and limit of insured sum as per level of stability would help in improving the financial viability of the scheme. To make an overall no-profit, no-loss insurance scheme, a provision must be made to realize differential rates of premium from different categories of farmers. Farmers with larger year-to-year variability in output need to pay premia at higher rates.

The benefit of the crop insurance scheme has been availed in Gujarat, Maharashtra, Andhra Pradesh and Madhya Pradesh. Their share was nearly 90% of the claims paid in the country during the last 5 years. Bihar, Assam and the north-eastern states lagged behind in availing the benefits of crop insurance. Their share was less than 1%. Sincere efforts of the responsible agencies in general, and the state government in particular, is required for implementing the crop insurance scheme in these states.

The crop insurance scheme needs continuous improvement, and there is an urgent need for improvement in its financial viability. It needs more attention because the scheme is a part of institutional infrastructure essential for the development of agriculture which is basically insecure. The importance of agricultural credit is now universally understood. If there is no protection from agricultural insecurity, the entire structure of agricultural credit will be in danger of total collapse, burying the poor cultivators in perpetual indebtedness. The scheme should be given top priority in the Eighth Five-Year Plan so that risk-prone farmers are motivated to participate in achieving the targets of agricultural production.

Source — Indian Farming, January 1993.

