Q.ID 83166

Pradhan Mantri Fasal Bima Yojana (PMFBY) is a good scheme with flawed execution. In this Context, Highlight the major provisions of PMFBY. Also discuss the performance and challenges it is facing during its implementation ? (15 Marks)(250 Words)

Approach to answer:

Focus on following components in your answer :

A. How was the performance of previous schemes? (EXPLAIN IN 2 LINES OR MAKE DIAGRAM) : 30 Words
B. What changes were introduced by PMFBY (70 Words)
C. Achievements of PMFBY (30 Words)
D. What are the issues in implementation of PMFBY? (Rference recent C&AG Report) (80 Words)
E. The Way Forward/Suggestions (40 words)

Indicative Answer

Agriculture insurance is recognised as an important part of the safety net for farmers to deal with the impacts of extreme and unseasonal weather. First let us see why we needed new Fasal Beema Yojna ..

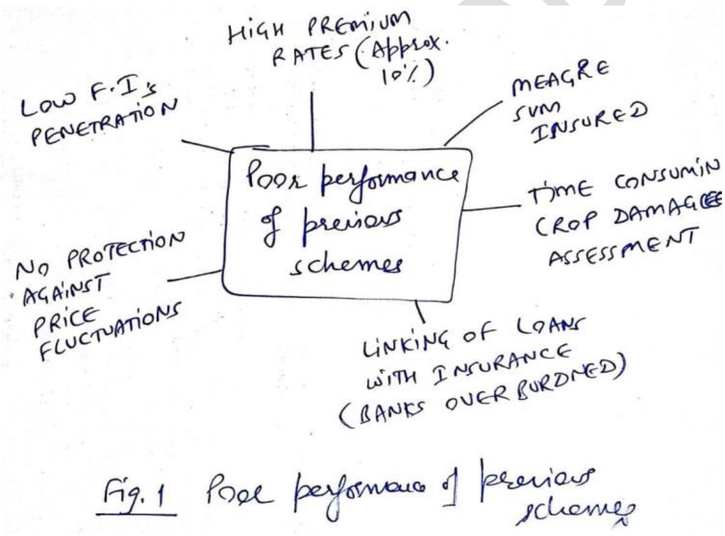

Figure 1 : Poor performace of previous insurance schemes

Major Features of PMFBY are as follows : (This is an exhaustive list. Your answer should cover at least 6 to points)

1. Uniform **premium** of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops and for commercial and horticultural crops5%. Balance by the Government.

2. No upper limit on Government subsidy\
3. The **use of technology like** smart phones, Remote sensing to reduce the number of crop cutting experiments.
4. Exemption from Service Tax liability of all the services involved in the implementation of the scheme.
5. Insurance unit is a village as against the revenue administrative unit of a block in previous schemes. A block covers a large area with sub regional weather variations, risk of exclusion in previous scheme was higher
6. A technical committee in each district decides the scale of finance for the sum insured taking into account all the costs incurred by the farmers.
7. Premiums are decided by, public and private insurance companies, assessing the risk involved.
8. Payment to be transmitted directly to account to reduce leakages
9. Post harvest losses will also be covered
10. In the case of farmers who have taken loans, banks auto-deduct the premium for the scheme. For the rest, the enrolment scheme is optional.

Performance of the scheme can be seen both in terms of achievements as well as failures as follows :
Achievements of PMFBY **(write 2 points. Data & facts increase marks)**

1. ***Number of farmers covered is up by 1 crore and the amount insured nearly doubled in the latest season.***
2. An increase of almost 193% over kharif 2013 and 40% over kharif 2015. Within this the number of non-loanee farmers increased by more than six times.
3. The area insured also increased from 16.5 million hectares (mha) in kharif 2013 and 27.2 mha in kharif 2015 to 37.5 mha under PMFBY.
4. If this rate is kept, India may have half of its cropped area insured within three to five years.
5. In old Insurance Scheme, as per official data, in 2015, only a fifth of the country's farm land was under crop insurance and the limited risk coverage under these policies was a dampener.

Major issues & challenges in implementation of PMFBY are : **(WRITE ANY 4 POINTS IN YOUR ANSWER)**

1. Gaps in assessment of crop loss: officials do not conduct sampling on ground and complete the formalities only on paper. Further, lack of trained outsourced agencies, scope of corruption during implementation and the non-utilisation of technologies like smart phones and drones to
2. Inadequate and delayed claim payment: Insurance companies, in many cases, did not investigate losses due to a localised calamity and, therefore, did not pay claims. Only 32 per cent of the reported claims were paid out by insurance companies
3. High actuarial premium rates: Insurance companies charged high actuarial premium rates during kharif 2016 – the all-India rate was approximately 12.6 per cent, which was highest ever.
4. Massive profits for insurance companies: During kharif 2016, companies made close to Rs 10,000 crore as 'gross profits'.
5. Coverage only for loanee farmers: The percentage of non-loanee farmers availing insurance remained less than 5 per cent. Like previous crop insurance schemes, PMFBY fails to cover sharecropper and tenant farmers.
6. Poor capacity to deliver: There has been no concerted effort by the state government and insurance companies to build awareness of farmers on PMFBY. Insurance companies have failed to set-up infrastructure for proper implementation of PMFBY. There is still no direct linkage between insurance companies and farmers. Insured farmers receive no insurance policy document or receipt.
7. Many issues like delayed notification by state governments, less number of notified crops than can avail insurance, problem with threshold yield estimation etc. has diluted the usefulness of PMFBY

8. Not beneficial for farmers in vulnerable regions such as Bundelkhand and Marathwada where factors like low indemnity levels, low threshold yields, low sum insured and default on loans make PMFBY a poor scheme to safeguard against extreme weather events
9. States had to pay premiums to companies in advance, but in many cases they were not. As a result, only a miniscule of affected farmers got compensation till now.

RECENT NEWS :

What are the shortcomings in implementation As per C&AG (GIVE 3 POINTS FROM HERE)

1. While PMFBY's success is due to the very low premium the farmer pays, the problem lies in the fact that the assessment methods haven't really changed.
2. Due to poor implementation of the crop insurance scheme from the period 2011 to 2016, a huge sum was released to private insurers without proper verification of the beneficiaries.
3. One of the reasons for low claim settlement in relation to premium collected is delay in states releasing their share of the subsidy.
4. Claims must be paid to farmers within three weeks of yield data by insurance companies, while on ground, claims made for Kharif 2016 were still not fully settled.
5. The value of the crop is based on the average yields of the last three years—to that extent, in an area where yields are growing, or for farmers who have higher yields, the sum insured doesn't represent the real value.
6. Most districts tend to have just one or two notified crops, so most vegetables/fruit tend to be uninsured if they are not the major crop of the district.

The way forward is to consider and implement below given recommendations to improve implementation of the insurance scheme. (WRITE ANY 5 TO 6 POINTS)

1. Coverage of tenant and sharecropper farmers should increase.
2. All important crops should be covered under crop insurance.
3. Diversification of crops and mixed farming should be promoted.
4. Instead of threshold yield, 'Potential yield' should be used for crops for which historical average yield data is not available.
5. Damage caused by wild animals, fire, cold waves and frost to crops should also be considered at the individual level. Damage caused by unforeseen weather events like hailstorms should also be included in the category of post-harvest losses.
6. Farmers must be informed before deducting crop insurance premium. They must be given a proper insurance policy document, with all relevant details.
7. Panchayati Raj Institutions and farmers need to be involved at different stages of implementation.
8. The insurance unit (IU) must be reduced over a period of time. In any case, it should not be more than village level. If the IU cannot be at the individual level and is kept at village panchayat level, premium should also be collected at the village panchayat level.
9. Incentivise groups of small farmers or women farmers and promote group insurance.
10. Sum insured should not be less than scale of finance and/or cost of production.
11. PMFBY timelines from insurance coverage to claim payment should be strictly adhered to.
12. Robust assessment of crop loss should be done through capacity building of state governments, involvement of PRIs and farmers in loss assessment, auditing and multi-level checking to ensure

credibility of data and testing incorporating technology such as remote sensing, drones and online transmission of data.
13. All PMFBY related data related to farmers must be available in the public domain and shared openly with farmers.
14. The clause addressing prevented sowing and post-harvest losses must be implemented appropriately by issuing state notifications prior to sowing.
15. Robust scheme monitoring and grievance redressal mechanism should be in place.

In an era of climate change, a universal, subsidised agriculture insurance is crucial to safeguard the lives and livelihoods of farmers. But we need a farmer-friendly, fair and transparent agriculture insurance.

CONCLUDE

PMFBY if implemented properly across the country would mitigate farm distress to a large extent especially when the erratic climates have become a norm rather than exception. These loopholes are to be addressed along with making steps to improve the insurance coverage.

MORE FODDER POINTS ON PMFBY: (NOT PART OF THE INDICATIVE ASNWER rather JUST TO ENSURE THAT THIS TOPIC IS READY FOR YOU FOR ONCE AND ALL)

The PMFBY replaced National Agricultural Insurance Scheme (NIAS) and the Modified National Agricultural Insurance Scheme (MNAIS). The Weather-Based Crop Insurance Scheme (WBCIS) remains in place, though its premium rates have been streamlined with the latest scheme.

The major lacunas in previous schemes were :

1. The sum insured under MNAIS, particularly for risky crops and districts, was meagre.It was based either on the quantum of crop loans or on the capping of the sum insured.
2. The crop damage assessment based on crop cutting experiments was time-consuming.
3. The compensation to farmers often took several months or even more than a year to reach.
4. Without adequate use of technology in previous schemes, burden fell on state governments to conduct crop cutting experiments to estimate the actual yield and thereby calculate losses. Such experiments were often poorly done and do not give real value of the produce
5. Low penetration of Financial Institutions also added to the cause of poor insurance coverage
6. The previous insurance schemes were unable to protect the farmers against price fluctuations
7. Getting data on reliable yield and price was difficult because it keeps on fluctuating from season to season
8. **Modified National Agri IS and Weather Based CIS had very high premium rates** to the tune of 10% of sums insured based on 3 years average data collected for Kharif and Rabi season. This is a major reason behind the NSSO’s data that only 5% of farmers who go for institutional credit opt for insurance
9. **As per Financial Stability Report by RBI** linkage of loans with insurance doesn’t meet good response from banks as the burden of Priority Sector Lending is already there on banks

Editorial Analysis PMFBY: Modi govt's crop insurance scheme sees decline in farmers' enrolment (BUSINESS STANRAD)

1. Between FY16 and FY17, the number of farmers enrolled in the scheme declined from about 57.3 million to about 48.5 million, a fall of around 15%3
   The key reasons cited for this sharp fall in farmers' enrolments include
   - missing data while linking Aadhaar with bank accounts,
   - the low growth of agriculture credit offtake, and
   - technical glitches while shifting the PMFBY data to a new portal (owing to poor network connectivity, many farmers reportedly failed to enrol in the scheme)
2. Despite the fall in the number of enrolments, both premium and claims increased substantially over the last financial year. As a result, the premium rates quoted by insurance firms to the government this year are likely to remain high, raising questions about the increasing cost of the scheme.
3. **Data discrepancy**, which led to particularly high claim ratios in certain states, has been one of biggest concerns for insurers
   For example, in the first year of operation, *in Gujarat, despite a bumper production of groundnut, the claim ratio determined by the state government was as high as 200 per cent.*

DESIGN BASED Limitations of PMFBY

There does not seem to be anything in this scheme to address the problem of tenant farmers who bear the risk of crop failure but are not entitled for compensation and insurance payments

Post harvest losses does not include storage losses

In India, still 83% of farmers are small and marginal farmers , use of technology is difficult for them

It do not provide income insurance but only revenue loss coverage

Only insures against weather risk and not crop loss risk. Risks such as destruction by wild animals not covered under the scheme

MORE SUGGESTIONS to tacle risks

De-risking agriculture does not begin or end with insurance. The assessment of risk should begin much before sowing and proceed beyond harvest.

The decision of what to sow and reap is currently not a well informed choice based on a sound assessment of soil, yield and prices.

If insured, small and marginal farmers show an increasing tendency to sow cash crops reliant on the monsoon—a classic case of moral hazard. It is here that better risk assessment, contract design and cooperatives prove handy.

Mixed farming and inter-cropping also helps in diversifying the risks generally associated with monocropping.

Commodity futures are yet another solution to achieve price risk management and price discovery. Unfortunately in India, no significant price discovery has occurred in agricultural commodity markets which started their operation a decade ago. This is primarily because of the lack of integration between the futures and spot markets.