Failed by design

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Insurance companies collected premiums of Rs 22,180 crore in 2016-17 and Rs 24,454 crore in 2017-18, both directly from farmers and as government subsidy, under the Pradhan Mantri Fasal Bima Yojana (PMFBY). But they disbursed only Rs 12,959 crore of claims in 2016-17 and have paid out just over Rs 400 crore for the last crop year so far. It's possible that claim payments have been low because of 2016 and 2017 witnessing normal monsoons and may well go up in years of widespread natural calamities. This argument, however, doesn't seem to really hold in the case of PMFBY, which, going by field reports, isn't delivering what was promised.

On paper, PMFBY is the most farmer-friendly crop insurance scheme. The sums insured cover production costs, equal to banks' scale of finance for various crops, with farmers having to pay an average 2 per cent premium rate. The gap vis-à-vis the actuarial rates based on the insurance companies' statistical risk assessment is filled by government subsidy. And with losses at every stage, from sowing to post-harvest, being covered, farmers cannot possibly ask for more. Unfortunately, though, the scheme's implementation has been plagued by delays in payouts. The 2017 kharif crop's harvesting was over by December, but farmers have till now got only Rs 402 crore of payments, as against estimated claims of Rs 13,655 crore by state government and Rs 1,759 crore approved by insurance companies. Even for the 2016-17 crop year, there is a difference of Rs 1,474 crore between the payments approved and actually made. It defeats the whole purpose of insurance — which is to provide timely relief against crop loss/damage, so that the farmer can at least repay his bank loans and is not forced to go to the moneylender.

The main flaw in PMFBY is its design, wherein 50 per cent of the premium subsidy is borne by the state governments that are also responsible for conducting crop cutting experiments (CCE) to determine yield losses. Given that the scheme is in the prime minister's name — and insurance is worth subsiding far more than fertilisers or crop loans — it makes sense for the Centre to fund the entire premium subsidy. The insurance companies can no longer, then, complain about not getting their premium monies, especially states' share of subsidy, in time. The Centre can further link release of subsidy to the states adhering to prescribed operational schedules, including carrying out the requisite number of CCEs using remote-sensing technology for smart selection/sampling of fields and capturing survey data using mobile phones with time and date stamping. This will enable faster processing and payment of claims.

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