



New proposal on Fasal Bima Yojana scheme

Why in news?

\n\n

NITI Aayog has recently announced a cashback proposal for Fasal Bima Yojana scheme.

\n\n

What is the proposal?

\n\n

\n

- NITI Aayog has proposed that 75% of the premium paid by farmers under the Pradhan Mantri Fasal Bima Yojana (PMFBY) will be returned to them if they don't file claims for crop damages for four-six consecutive agricultural seasons.

\n

- At present, just 29% of the 12 crore farmers/cultivators in the country are covered under the crop insurance scheme.

\n

- The government took this decision in the backdrop of an estimated Rs 10,000 crore lying with insurers over the last two kharif seasons as an undue benefit accruing to the insurers at the cost of the farmer.

\n

- The government thus reckon that such a move would attract more farmers into the insurance fold.

\n

\n\n

What are the concerns?

\n\n

\n

- **Delay in State's share** - Under the scheme, there will be a uniform

premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops.

\n

- In case of annual commercial and horticultural crops, the premium to be paid by farmers will be only 5%.

\n

- Thus, the premium rates to be paid by farmers are very low and balance premium will be paid by the Government to provide full insured amount to the farmers against crop loss on account of natural calamities.

\n

- Also, there is no upper limit on Government subsidy.

\n

- Even if balance premium is 90%, it will be borne by both the Central and State Governments.

\n

- Hence, the problem with the scheme lies is not high premiums that farmers pay but in the **delay** on part of the states in paying their share of the premium.

\n

- Farmers are receiving the due payments against their claim with a significant lag.

\n

- Such lags erode farmers' trust in the scheme, given agri-households' heavy dependence on harvest incomes.

\n

- **Rising claims** - Incurred Claim Ratio is basically the overall value of every claim a company has paid divided by the total sum of premium collected during the same period.

\n

- The ratio has been rising from 68% in kharif 2016 to 88% in kharif 2017, and set to increase further in the coming years.

\n

- The government will have to spend more with the increase in higher coverage, once the proposed amendment is worked out.

\n

- Even then, higher coverage is not an end-in-itself unless farmers get their dues paid back quicker.

\n

- **Financial Sustainability** - For this, the Centre has taken steps to improve compliance by insurers and the state governments.

\n

- Farmers need to be paid 12% interest by insurance companies for any delay in settlement of claims beyond two months of the prescribed cut-off date.

\n

- State governments will have to pay 12% interest for the delay in release of their share of premium beyond three months.
\n
- However, these steps will not be financially sustainable for either the insurance companies or state governments.
\n
- **Risk Sharing** - The insurance companies can't take more hits on their margins, since 65% of the net sown area in India constitutes rain-fed crops, demonstrating the **over-reliance on monsoons** for crop growth.
\n
- The recent Economic Survey have also noted that non-irrigated areas are twice as dependent on rainfall as irrigated land areas are.
\n
- Hence, the proposed change is likely to not find favour among insurers, since agriculture is a high-risk activity and it will increasingly get worse with climate change impact worsening.
\n
- Hence, both the central and state governments have to relook their entire spending on agriculture and allocate money to the place where it is best used.
\n
- This will make sure that the claims are paid on time to the farmers and balance both their interests and that of insurance companies.
\n

\n\n

\n\n

Source: Financial Express

\n



IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative