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CROP INSURANCE: A HELPING HAND TO FARMERS FOR RISK AVOIDANCE

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CROP INSURANCE: A HELPING HAND TO FARMERS FOR RISK AVOIDANCE

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ABSTRACT

India being an agrarian country its GDP is mostly dependent on agriculture and allied sectors. Climate plays a major role in agricultural production. Climate has always been moody . “She is unpredictably generous to one state and disconcertingly bad-tempered to another. This fickleness of weather conditions in different parts of the country upsets the whole agricultural economy, and makes one part bountiful, while the other starves.” Crop yield instability is the normal condition and agriculture continues still to be which the farmer’s fortunes are exposed, is practically the same as before. In fact, good years and bad years, wet weather and drought or floods and frost, low yields and bumper crops are to be expected in mixed succession. The total loss due to natural calamities (like flood,

drought and plant diseases) is estimated as high as Rs. 1,000 cores every year. The man behind the plough has to be assured that he will be compensated for such loss in crops. Otherwise, he cannot be drawn into the campaign to increase productivity of land under his plough,” Besides droughts and floods, locusts, plant diseases have always been a serious enemy to our agriculture by destroying standing crops and thereby reducing farmers’ income. Majority of the holdings are tiny, from which the farmers get marginal surplus in good years and incur heavy deficits in the bad ones. Farming is more hazardous than any other enterprise. The weather can make all the difference between success and failure. One of the important means of alleviating distress arising out from natural calamities could be the organisation of crop insurance . However, crop insurance covers only about 10% of sown area and suffers from an adverse claims to premium . Instead of adopting the easy and unsustainable route of large subsidies, in the long term the government should consider risk mitigation through improvements in the irrigation and water management infrastructure.

Key words- Agrarian , Economy, Locust, Drought , Distress .

INTRODUCTION

The need to protect farmers from agriculture variability has been a continuing concern of agriculture policy. According to the National Agriculture Policy (NAP) 2000, “Despite technological and economic advancements, the condition of farmers 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 in many parts of the country. In India crop



insurance is one of the instruments for protecting farmers from agricultural variability. Other instruments include open market operations at minimum support prices (MSP) and Calamity Relief Funds. This paper focuses on the use of agriculture insurance schemes to protect farmers from agricultural variability.

In India crop insurance has been subsidized by the central and state governments, managed by the General Insurance Corporation (GIC) and delivered through rural financial institutions, usually tied to crop loans. The government has now established a separate Agriculture Insurance Company with capital participation of GIC, the four public sector general insurance companies, and NABARD. Insurance policies so far have provided crop yield insurance. This year pilot programmes are being launched to provide crop income insurance. Recently private insurers and the newly formed government Agriculture Insurance Company have executed pilot projects to sell rainfall insurance to farmers, as a substitute for, or complement to crop insurance provided by the government. Some of these initiatives may be partly motivated by the Insurance Regulatory and Development Authority (IRDA) requirement for new entrants to provide coverage to rural and social sectors.

NEED FOR AGRICULTURAL INSURANCE

Indian agricultural sector still depended mostly on monsoons. The erratic and uneven distribution of monsoon rains perpetuated yield/price volatility and hence farmers exposure to risk and uncertainty. In this scenario of high risk and uncertainty of rain fed agriculture, allocating risk is an

important aspect of decision making to farmers. This indicates a need for contingent plans that will help to improve the handling of risky outcomes across individuals. The design and implementation of contingent contracts is thus an integral part of development process in Indian agricultural sector. If benefits of reduced risk exposure from such crop diversification are large, then farmers may be willing to forego some of the possible gains from trade/specialisation; that is they would diversify crop rather than specialize in the activities in which they have a comparative advantage.

RISK IN AGRICULTURAL PRODUCTION **TYPE OF RISK** **EXAMPLES**

Weather Periodic deficit or excess rainfall, varying temperatures, hail storms, strong winds.

Natural disaster (including extreme weather events) Major floods, droughts, hurricanes, cyclones, typhoons, earthquakes, volcanic activity.

Market Changes in supply or demand that impact domestic or international prices of inputs or outputs; changes in demand for quantity or quality attributes, food safety requirements, or timing of product delivery; changes in enterprise or supply chain reputation and dependability.

Logistics and infrastructure Changes in transportation, communication, or energy costs; degraded or undependable transportation, communication, or energy infrastructure; destruction,



IMPORTANCE OF CROP INSURANCE-

Agricultural production and farm incomes in India are frequently affected by natural disasters such as drought, floods, cyclone, storm, landslide, earthquake etc. Susceptibility of agriculture to these disasters is compounded by the outbreak of epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes, etc. All these events severely affect farmers through loss in production and farm income, and are beyond the control of farmers. With growing commercialization of agriculture, the magnitude of loss due to unfavourable eventualities is increasing. In recent times, mechanisms like contract farming and futures trading have been established which are expected to provide some insurance against price fluctuations directly or indirectly. But, agricultural insurance is considered an important mechanism to effectively address the risks to output and income resulting from various natural and manmade events.

ISSUES RELATED TO CROP INSURANCE

□ Most farmers are small and marginal ones. In most areas, agriculture is rain fed, leading to a greater degree of yield variability and risk.

□ Crop Insurance, which aims at addressing yield risk—though necessary for a vast majority of farmers—is subject to structural, design and financial problems.

□ Problems of asymmetry of information—moral hazard and adverse selection—and co-variability are more pronounced in crop insurance than in other forms of insurance. Consequently, crop insurance schemes face many problems.

□ In response to such problems, Schemes based on the area approach were introduced in the 1980s. More recent Insurance Schemes are based on weather, and adopt an area approach.

□ Due to the vastness of the country, large number of small and marginal farmers, and adoption of area-based approaches, several agencies and organizations are involved in crop insurance programmes. Hence, coordinated efforts are critical for effective implementation of crop insurance scheme.

RECOMMENDATIONS FOR IMPROVEMENT

□ A web portal should be developed for all States to make land record data be available to financial institutions.

□ Premium rates to be revisited for MNAIS.

□ Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) should effectively monitor the compliance of their circulars regarding compulsory crop insurance for loanee farmers.

□ Insurance companies and banks should play a pro-active role in insuring effective implementation of crop insurance schemes.

□ State Governments should insure the use of GPRS-enabled and camera fitted mobile phones etc. while conducting crop cutting experiments.

□ An Atlas of critical weather elements for different agro-climatic regions and An Agricultural Insurance Act should be formulated to take care of specific needs of the crop insurance and agricultural insurance in general.



CONCLUSION

The shift from a social crop insurance program with ad-hoc funding from the Government of India to a market-based crop insurance program with actuarially sound premium rates and product design is a major step forward. The improved product and active involvement of private sector insurance markets are expected to lead to significant benefits for farmers, including faster claims settlement, a more equitable allocation of subsidies and lower basis risk. For the product to be pro-poor, small and marginal farmers must purchase the MNAIS product voluntarily, and insurers and government must experiment with cost-effective ways of increasing outreach.

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