2. Analysis of Crop Insurance Scheme in Karnataka

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Introduction

Agriculture all over the world is fraught with risk and uncertainty. Provision of crop insurance facilitates stabilization of farm production as well as income of the farming community and helps in optimal allocation of resources in the production process. Considering the overwhelming impact of nature on agricultural output and its disastrous consequences on society in general and farmers in particular, the present study examines the phases of development of crop insurance and its coverage over space and time in Karnataka. The study is based on secondary data gathered mainly from General Insurance Corporation of India Limited.

As elsewhere in the world, policy makers in India have also been concerned about the risk and uncertainty prevalent in agriculture. A number of models of crop insurance were considered for feasibility and finally a crop insurance scheme linking institutional credit, i. e., crop loan based on area approach as suggested by Prof. Dandekar (1976), was implemented from kharif 1985 at the all-India level. The scheme was called Comprehensive Crop Insurance Scheme (CCIS). The main objectives of the scheme were: (I) to provide a measure of financial support to farmers in the event of crop failure as a result of drought, floods, etc., (ii) to restore credit eligibility of farmers after a crop failure for the next crop season. The crop insurance scheme was multi-peril insurance in nature as it covered almost all the natural risks except war and nuclear risks. The basic unit of insurance was 'homogeneous area,' consisting of a development block or taluk. The premium as well as the indemnity rate for the notified crop was uniform for all the insured farmers irrespective of their actual yield. Indemnities were paid to all insured farmers when the average output of the given area falls below the 'normal' output of the area. The CCIS was in operation till Rabi 1999.

A new crop insurance, called Rashtriya Krishi Bima Yoana (RKBY) or National Agricultural Insurance Scheme (NAIS), was launched by the Prime Minister on June 23, 1999. Participation in RKBY was compulsory for farmers growing notified crops and availing of crop loans from formal credit institutions. However, non-borrower farmers growing notified crops were also eligible to opt for the scheme on a voluntary basis. In case of loanee farmers the Sum Insured (SI) was equal to the amount of crop loan advanced. However, the farmer has the option to insure the amount equivalent to the value of threshold yield of the insured crop. A farmer has the option to insure his crop for a value of one-and-a-half times the average yield of the crop in the notified area on payment of premium at commercial rates. RKBY is being implemented in Karnataka from Kharif 2000.

Findings and Policy Implications

1. All the major cereals, pulses and oilseed crops were covered under CCIS and a few horticultural crops like potato, onion, etc, were included in NAIS.

2. The spread and coverage of CCIS is very meagre. In 1985–86, the total number of

holdings covered under CCIS was 66, 000, accounting for 1.5 per cent of the 43.83 lakh holdings in the State. The number of holdings covered under CCIS declined further to 41,000, accounting for just 0.71 per cent of the 57.76 lakh holdings in Karnataka during 1990–91.

3. The small and marginal farmers accounted for roughly 50 per cent of the total number of farmers participating in the crop insurance programme.

4. Most of the years, the proportion of farmers as well as area covered under CCIS were the highest under paddy, followed by groundnut and sunflower.

5. The claim premium ratio in Karnataka was more than unity for most of the years except in 1994. On average, GIC paid Rs.3.33 as indemnity for every rupee of premium it collected under CCIS.

6. The proportion of farmers receiving indemnity payments varied between 6 per cent of the insured farmers in 1994–95 and 37 per cent of the farmers during 1985–86 crop year.

7. The average amount of indemnity claimed was Rs.1,197 per beneficiary household, and it ranged from Rs.423 in 1989 to Rs.2,144 during 1992.

8. The average amount of claim paid varied from one-fifth of the sum insured by beneficiary farmers for paddy, ragi and sunflower to one-third of the sum insured in the case of groundnut.

9. Claims paid as the proportion of the sum insured by beneficiary households varied widely across crops and districts.

Since the number of farmers as well as the area covered under CCIS was very negligible, its impact is not visible. However, the CCIS has helped financial institutions to reduce overdues and maintain the flow of crop loans / short-term credit at least in areas where indemnities were paid by the GIC of India. The literature on agricultural insurance indicates that multi-peril crop insurance can be provided by the State (government agencies) only due to unpredictable weather risk and co-variate risk of crop damage/failure over a large area.

It has also been documented that agricultural insurance programmes are being subsidised all over the world. The subsidies have been essential and the governments provide those on the ground of broad social objectives. To become self-sustainable, these programmes would have to increase the premium rates substantially. However, as shown by the experiences of United States of America or Brazil, this could cause such a drop in participation that the insurance programme would have to be discontinued.

Suggestions

Some of the shortcomings of CCIS have been rectified in the recently introduced NAIS (RKBY).

These include redefining of homogeneous area, inclusion of horticultural crops and providing access to non-loanee farmers to buy insurance cover.

Area approach should continue considering hobli or revenue village as a homogeneous area for indemnity payments.

Differential rate of premium based on the variability in yield levels in the past and movement towards premium rates based on actuarial principles.

Awareness campaign to induce non-borrowers to buy insurance covers for major / notified crops.

In the event of crop failure or damage, the farmer receives indemnity payment only for the difference between threshold yield and the average yield and that too for the loan amount. It would be more prudent if the expected revenue from the crop is insured (as in USA). This would help the farmers to manage their consumption needs in the event of crop failure. A range of innovative insurance products covering diverse risks needs to be introduced.