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RURAL INSURANCE SCHEMES – A STUDY ON COVERAGE AND IMPLEMENTATION

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ABSTRACT

At present rural insurance schemes are available for human covers, livestock covers (cattle, sheep, goat, elephant, bullock etc.) *bird covers* (poultry, duck etc.*), sub-animal covers* (sericulture, freshwater fish, prawn etc.*), plant covers* (crop insurance*) and other rural covers* (well, biogas plant, pumpset, hut, tonga etc.*).*

Most of the insurance companies which enter the arena of rural sector move with strategies like more Government support by way of premium subsidy, Group Insurance Schemes, banks and insurance tie-up in rural areas, economy in expenditure – reduction in agency commission and other operating expenditure, corporate tie-ups with banks for rural insurance to generate volumes, General Insurance - non-life covers trucks, tractors and power tillers, house and household articles and Health Insurance . While the strategy of the insurance companies is extending the scope of Crop Insurance Schemes to more crops and more areas, Crop Loss Calculation at village level instead of block level, Livestock Insurance available for death – can be extended for theft. Rural people do not have regular income and hence flexible options to be given for premia payment for Life Insurance and bank loans for premium payment . This paper sought to focus on the problems and enlighten the insurance takers by giving the problems and operational modalities in question and answer pattern.

Introduction

"In spite of several schemes having been designed for promoting and protecting the interests of cultivators, reports of suicides by several agriculturists due to their inability to cope with the loss of income for various reasons including crop failures and the after-effects of globalisation, are appearing in the press. It is, therefore, obvious that the various protective schemes drawn up by the Government need to be strengthened and enlarged to cover those who are outside".

"The Crop Insurance Scheme introduced by the Central Government has to be put on a firm footing to cover all farmers and all crops against all contingencies. It is also necessary to design appropriate social insurance schemes with adequate benefits to give protection to self-employed workers like milk producers, boatmen and fishermen".

The plain reading of the above two statements made by the National Commission on Labour 2002 would unambiguously make each one of us think about the complex issues concerning the rural sector Insurance. The main activity of the rural sector in India is agriculture only.

Agriculture all over the world is burdened with risk and insecurity. Risks to agricultural activity may broadly be categorised as i) Risks from natural factors like inadequate rainfall ii) Market risks viz. price risks iii) Risks to agro-allied activities like risk to livestock iv) Risks to assets used in non-farm activities v) Health risks vi) Expenses for diagnosis and treatment vii) Loss of wages to the entire family . The solution for these types of risk alleviation or minimisation is through better pest management practices, disease prevention and risk management through financial instrumental methods like insurance.

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About 60 per cent area is still un-irrigated in India for want of adequate irrigational facilities. Some of the areas are prone to floods and some to drought, which immensely affect crop yields. Crop Insurance is an efficient risk management tool which eases stabilisation of farm production and income of the farming society and helps in most beneficial allocation of resources in the production process.

Considering the tremendous impact of nature on agricultural production and its unfortunate consequences on society in general and farmers in particular, our forefathers invented many models of crop insurance for viability 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) with an objective to:

- provide a measure of financial support to farmers in the event of crop failure as a result of drought, floods, etc.,
- re-establish credit eligibility of farmers after a crop failure for the next crop season.

The above scheme was multi-peril insurance one in nature as it covered almost all the natural risks except war risks and nuclear risks. The Scheme was optional for the State Governments. The Scheme was linked to short-term crop credit and implemented on homogeneous area approach. Fifteen States and two Union Territories had implemented the Scheme until kharif 1999. The basic unit of insurance was 'identical area,' consisting of a development block or taluk. The premium as well as the compensation rate for the notified crop was uniform for all the insured farmers irrespective of their actual yield. Compensations 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. The statistical figures regarding the coverage of the scheme since its beginning to end are as follows:

Total number of farmers covered : 7,62,65,43

Total area covered (hectares) : 12,75,70,282

Total sum insured (Rs. crore) : 24949

Total insurance charges (Rs. crore) : 403.56

Total claim (Rs. crore) : 2303.45

Claims ratio : 1 : 5.71

Majority of the claims in respect of th scheme were paid in the States of Gujarat - F 1086 crore (47 per cent), Andhra Pradesh - F 482 crore (21 per cent), Maharashtra - Rs. 2 crore (9 per cent), Orissa - Rs. 181 crore (8 p cent).

Presently Available Insurance Schemes

There are quite a lot of agri-insuranc designs in vogue viz. the National Agricultur Insurance Scheme (1999), the Drought Risk In surance (2002), the Rainfall Insurance (2005) an the Coffee Rainfall Index & Area Yield Insuranc (2005). The schemes on pilot run are the Pil Scheme on Seed Crop Insurance (PSSCI) and th Pilot Project on Farm Income Insurance (PPFIIS The most prominent among the above is th National Agricultural Insurance Scheme (NAI which is implemented on a large scale. A present, insurance to rural sector is mainly avai able for human covers, livestock covers (*cattl sheep, goat, elephant, bullock etc.*), bird cove (*poultry, duck etc.*), sub-animal covers (*sericultur fresh water fish, prawn etc.*), plant covers (*crop in surance*) and other rural covers (*well, biogas plan pumpset, hut, tonga etc.*). But the very significar one we take up for review is crop insuranc Before such review of coverage and implemen tation of crop insurance, let us look in brief abou some familiar rural insurance covers which ac tually have some impact in the rural sector apa from crop insurance which is considered to b the one with more impact.

i. ***Livestock Insurance*** consisting mainly o cattle cover implemented by the fou public sector general insurance compa nies from the year 1997-98 normally pro vides for insurance cover up to the sum insured or the market value of the anima at the time of death, whichever is less.

ii. ***Seed Crop Insurance*** scheme started with an object to protect seed breeders/ growers in the event of failure of seed crops, has been introduced in ten States (viz.,Andhra Pradesh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh) from rabi 1999-2000 season, on a pilot basis. The scheme covers paddy, wheat, maize, jowar, bajra, gram, redgram, groundnut, soyabean, sunflower and cotton.

iii. ***Farm Income Insurance Programme*** (FIIP) has been taken up on a pilot basis in 23 districts of 18 states for wheat and rice during the rabi 2003-04 season. Based on the outcome of the pilot project, the programme has been fine tuned and launched on a nation-wide basis from kharif 2004. The programme as well as the pilot project has been implemented by the Agricultural Insurance Company of India (AICI).

iv. ***Input Purchase-linked Insurance*** IFFCO have launched insurance programmes linked with purchase of their products by farmers. According to the scheme introduced by IFFCO (*Sankat Haran Bima Yojana*), each farmer is insured for Rs.4,000 against personal accident on purchase of one bag of fertiliser - Urea, DAP or NPK. While premium for the insurance is paid by the Company, maximum insurance cover is restricted to Rs. one lakh for one-year period.

Strategy of the Companies and Actual Requirement of the Sector

Most of the insurance companies which enter the arena of rural sector move with strategies like more Government support by way of premium subsidy, Group Insurance Schemes, banks and insurance tie-up in rural areas, economy in expenditure - reduction in agency commission and other operating expenditure, corporate tie-ups with banks for rural insurance to generate volumes and general insurance to non-life covers such as trucks, tractors and power tillers, house and household articles and health insurance . While the strategy of the insurance companies are such that the actual requirement of the rural agriculture mass , to enlist a few are, extending the scope of Crop Insurance Schemes to more crops and more areas, Crop Loss calculation at village level instead of block level , Livestock Insurance for death and theft and people do not have regular income and hence flexible options to be given for premia payment for Life Insurance and Bank Loans for premium payment.

Rashtriya Krishi Bima Yojana (RKBY) or National Agricultural Insurance Scheme (NAIS)

Price fluctuation and natural calamities are the main factors for the unstabilised condition of farmers. Agriculture Insurance Scheme covering all farmers and all crops throughout the country with built-in provision for insulating farmers from financial distress is need of the time. At present, Government sponsored National Agricultural Insurance Scheme (NAIS) and pilot project on Farm Income Insurance Scheme (FIIS) are under implementation. Another insurance scheme called Varsha Bima Yojana (Rainfall Insurance) is under implementation including the AIC, on pilot basis.

Agriculture Insurance Company of India (AIC) is the agency for the scheme. The AIC was incorporated under Companies Act on 20 December, 2002 in pursuance of the announcement made in the Union Budget, 2002-03 for setting-up of an Agriculture Insurance Corporation for farmers. Authorised and paid up capital of the company is Rs.1,500 crore and Rs.200 crore, respectively. NABARD and General Insurance Company (GIC) have contributed 30 and 35 per cent, respectively, and four other Insurance Subsidiaries, at 8.75 per cent each to the equity. One of the objectives for the formation of AIC was to act as the implementing agency for the Government's 'National Agriculture Insurance Scheme' (NAIS). The company has obtained Certificate of Registration from Insurance

Regulatory and Development Authority (IRDA). The Pilot Scheme on Seed Crop Insurance that was implemented through GIC has also been transferred to AICI. NAIS is in operation since rabi season 1999-2000 and is being implemented by 24 states and 2 UTs. So far, 590.55 lakh farmers have been covered under the scheme.The States/UTs which have not adopted NAIS so far are - Arunachal Pradesh, Delhi, Manipur,Mizoram,Nagaland,Punjab,Chandigarh, Dadra & Nagar Haweli, Daman & Diu and Lakshadweep. Participation in RKBY is compulsory for farmers growing notified crops and availing of crop loans from formal credit institutions. However, those who do not avail of crop loan but growing notified crops are also eligible to step into the scheme on a voluntary basis. In case of farmers who availed of crop loan, 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. The Scheme is implemented with an expectation to be a critical instrument of development in the field of crop production, provide financial support to the farmers in the event of crop failure, encourage farmers to adopt progressive farming practices and higher technology in agriculture, help in maintaining flow of agricultural credit, provide significant benefits not merely to the insured farmers, but, to the entire community directly and indirectly through spill over and multiplier effects in terms of maintaining production and employment, generation of market fees, taxes etc., and net accretion to economic growth and streamline loss assessment procedures and help in building up huge and accurate statistical base for crop production.

Before we embark on the characteristic review of the presently being implemented scheme called NIAS it would be worthwhile to read about the comparison of its features with the erstwhile CCIS and performance statistics from 1999 to 2005.

Comparison of the features of the two schemes:-

Comprehensive Crop Insurance Scheme	**National Agriculture Insurance Scheme**
Only food crops and oilseeds crops were covered.	In addition to food and oilseed crops, annual commercial/horticultural crops are covered.
Cover loanee farmers on compulsory basis.	Covers both loanee (compulsory) as well as non-loanee farmers (optional).
Premium rates were 2 per cent for cereals and pulses and 1 per cent for oilseeds crops.	Kharif – 3.5 per cent for bajra and oilseeds and 2.5 per cent for other food crops.Rabi – 1.5 per cent for wheat and 2 per cent for other food crops. Annual commercial horticultural crops – Actuarial premium rates
Sum Insured was restricted to Rs. 10,000.	Sum Insured extends to the value of Threshold Yield of the crop with an option to cover up to 150 per cent of average yield of the crop. Coverage beyond 100 per cent is charged at the actual rate.
Premium subsidy of 50 per cent was allowed to small and marginal farmers.	Premium subsidy of 50 per cent is allowed to small & marginal farmers, which will be phased out on twilight basis over a period of five years.
Premiums and Claims are shared by Centre and State on 2 : 1 ratio .	Premiums and Claims are shared by Centre and State on 50: 50 basis

Table 1: Performance Statistics from 1999 (Rabi) to 2005 (Kharif)

Heading	Rabi 99-00	Kharif 2000	Rabi 00-01	Kharif 2001	Rabi 01-02	Kharif 2002	Rabi 02-03	Kharif 2003	Rabi 03-04	Kharif 2004	Rabi 04-05	Kharif 2005
Farmers covered (lakhs)	6	84	21	87	20	98	23	80	44	127	35	126
Area (lakh hectares)	8	132	31	129	31	155	40	124	65	243	53	208
Assured Sum (crore)	356	6903	1603	7502	1498	9432	1838	8114	3049	13170	3774	13416
Premium (crore)	5	207	28	262	30	325	39	283	64	459	76	446
Total Claims (crore)	8	1222	59	494	65	1824	188	649	490	760	157	NA

Source:- Ministry of Finance.

Main features of the NIAS and its review, recommendations/ suggestions of the Standing Committee on Finance 2004-05 (SCF) vis-à-vis the Government action/stand on the Committee's recommendations and the final recommendation of the Joint Study Group (JSG) set up to consider various suggestions including the suggestion given by the Committee are discussed in detail under each feature head so as to arrive at a clear finding of the operation and implementation of the scheme. The Joint Study Group constituted by Government of India to study the improvements required in the existing crop insurance scheme submitted its report on 20.12.2004. The Group has made recommendations for improving NAIS, covering Personal Accident & Package Insurance Policy, encouraging private sector insurers and weather insurance products etc. The Report of the Joint Group has been circulated to all States/UTs and further consultation with all the stakeholders on the Joint Group recommendations are in the sway.

i) Availability

The scheme is available to all the farmers irrespective of the size of holding.

Suggestion of the SCF: The Scheme should be extended to all farmers which might include landless farmers, sharecroppers, tenant farmers etc.

Government's Reply / Action: All farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage under the scheme.

ii) Risks

a) Coverage : Comprehensive risk insurance is provided to cover yield losses due to non- preventable risks, 1) Natural Fire and Lighting 2) Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane, Tornado etc. 3) Flood, Inundation and Landslide 4) Draught, Dry spells 5) Pests/Diseases.

Recommendation of JSG: A single window approach is suggested for providing comprehensive package insurance to farmers. In this approach, crops will be covered under area approach and other assets under individual approach.

b) Exclusion: Losses arising out of war and nuclear risks, malicious damage and other preventable risks are excluded.

iii) Important Conditions Applicable for Coverage Risk

1) Loans given for unsown areas are not covered by the Scheme, because, indemnity claims will arise under the Scheme, only after the crop has been sown and in the event of crop failure. Mere disbursement of loans by the financial institutions / submission of proposal by a non-loanee farmer does not entitle him for compensation under the Scheme.

2) In the areas where crop is sown but, withered away / spoilt on account of adverse seasonal conditions / pest and/or diseases and also where there is no possibility of reviving crop, no further loaning are made by the financing institutions. Any further loaning in such cases are not covered by the Scheme.

3) The Scheme covers notified crops until harvesting stage only. Losses caused to crops which are spread in the field for drying after cutting / harvesting are excluded from the scope of the Scheme.

Suggestion of SCF: The cropping pattern and local conditions should be taken into account and loan might be disbursed close to agriculture seasons or as and when required by the farmers.

Government's Reply / Action: Under the existing Crop Loan system loans are provided on the basis of scale of finance for different crops which are fixed, after taking into account all the requirements i.e. cost of cultivation, cropping pattern, variation in local climatic conditions etc. Loans are provided to the farmers close to agriculture season and as per the requirement of the farmers. Apart from this, the Kisan Credit Card has facilitated timely access of agricultural credit to the farmers.

Recommendation / Suggestion: As far as possible all field crops, annual commercial/ horticulture crops, medicinal crops, agricultural allied activities like aquaculture, animal husbandry, poultry etc. should be included in the ambit of the scheme.

Government's Reply / Action: Under the scheme, the following three broad groups of crops are covered subject to availability of past yield data of requisite number of years and capacity of the State Government to conduct requisite number of crop cutting experiments.

(a) Food crops (i.e. cereals, millets and pulses)

(b) Oilseeds

(c) Annual commercial/horticultural crops i.e. sugarcane, potato, cotton, ginger, onion, turmeric, chillies, pine-apple, banana, jute and tobacco. Ministry of Agriculture, the nodal Ministry of Crop Insurance has set up a Joint Group to study the improvements required in the existing Crop Insurance Scheme. The group will explore the possibility for extending the scope of coverage under the scheme.

Recommendation of JSG: Insurance coverage should be provided to perennial horticultural crops and vegetables. A road map is suggested for designing and launching a pilot insurance scheme w.e.f. kharif 2005 seasons.

Personal Accident Insurance and dwelling and contents insurance should be made compulsory along with crop insurance.

iv) Coverage limit

The sum insured extend to the value of the threshold yield of the insured crop at the option of insured farmers. However, a farmer may also insure his crop beyond value of threshold yield level up to 150 per cent of average yield of notified area on payment of premium at commercial rates. In case of loanee farmers the sum insured would be at least equal to the amount of crop loan taken. Further, in case of loanee farmers, the Insurance Charges are additional to the scale of finance for the purpose of obtaining loan.

v) Rates of Premium

Season	Crops	Premium Rates
Kharif	Bajra & Oilseeds	3.5% of SI or actual rate, whichever is less.
	Other crops (cereals, other millets & pulses)	2.5% of SI or actual rate,whichever is less
Rabi	Wheat	1.5% of SI or actual rate,whichever is less
	Other crops (other cereals, millets, pulses & oilseeds)	2.0% of SI or actual rate, whichever is less
Kharif & Rabi	Annual commercial / annual horticultural crops	Actual rates

Suggestion of SCF: The premium on annual commercial/horticulture crops which was calculated on the actuarial rates, is very high. This high rate together with interest was unaffordable for the farmers with the result that they were not inclined to avail of the financial assistance from banks and ultimately were not able to derive the benefits of the Scheme. Therefore, the Government should reduce the premium rate on annual commercial/horticulture crops to the extent possible.

Government's Reply / Action: A Joint Group has been set up to study the improvements required in the existing Crop Insurance Scheme i.e. NAIS. The Group will consider various suggestions including the suggestion given by the Committee.

Recommendation of JSG: Insurance scheme to be placed on actuarial regime. However, the premium to be actually paid by the farmers be suitably subsidised.

Banks will bear 25 per cent of net premium payable by loanee farmers subject to a maximum of 1.00 percentage point of premium.

vi) Premium Subsidy Allowed

Fifty per cent subsidy in premium is allowed in respect of small and marginal farmers shared equally by the Government of India and State / UT Government. The premium subsidy is phased out on sunset basis in a period of three to five years subject to review of financial results and the response of farmers at the end of the first year of the implementation of the Scheme. For this purpose the definition of small and marginal farmer is a cultivator with a landholding of 2 hectares (5 acres) or less, as defined in the land ceiling legislation of the concerned State / UT and a cultivator with a landholding of 1 hectare or less than 2.5 acres, respectively.

Suggestion of SCF: Premium subsidy for small and marginal farmers @ 50 per cent which was to be phased out as per the scheme on sunset basis in a period of 3 to 5 years should not be withdrawn and wherever it had been withdrawn, it should be restored.

Government's Reply / Action: A Joint Group has been set up to study the improvements required in the existing Crop Insurance Scheme i.e. NAIS. The Group will consider various suggestions including the suggestion given by the Committee.

Recommendation of JSG: The Government should allow private insurers in area based yield insurance on experimental basis. The method suggested would entail all insurers to enjoy premium subsidy at uniform rate.

vii) Sharing of risk by the implementing agency and the Government

Risk coverage is being shared by the implementing agency and the Government in the following manner:

a) For Food Crops and Oilseeds: Till complete changeover to actual rates in a period of five years takes place, claims beyond 100 per cent of premium are borne by the Government. Thereafter, all normal claims, i.e. claims up to 150 per cent are paid out of Corpus Fund for a period of three years. After the period of three years claims up to 200 per cent are met by the implementing agency, and above this ceiling, is shared out of the Corpus Fund.

b) For Commercial Crops / Horticultural Crops: The implementing agency bears all normal losses i.e. claims up to 150 per cent of premium in the first three years and 200 per cent premium from then on subject to agreeable claims experience. The claims further than 150 per cent of premium in the first three years and 200 per cent of premium thereafter are paid out of Corpus Fund. However, the period of three years specified for this purpose is reviewed on the basis of financial results after the first year of implementation and the period will be extended to five years if considered necessary. To meet horrifying losses, a Corpus Fund is available with backing from the Government of India and State Government/ UT on 50:50 basis. A portion of Calamity Relief Fund is also used for contribution to this fund. State-wise number of claims paid during the period rabi 1999-2000 to kharif 2004 and sharing between the Centre and State are furnished in the following Table.

(Amount Rs. in Lakh)

S. No.		Claims			
	States/Uts	Paid	GoI Share	States Share	Total Farmers
1	Andhra Pradesh	63122.32	20351.72	20351.72	1708057
2	Assam	51.67	34.00	34.00	7128
3	Bihar	4992.40	2001.05	2001.05	395981
4	Chhattisgarh	16462.50	7416.54	7416.54	952298
5	Goa	2.23	0.97	0.97	696
6	Gujarat	165822.06	70927.68	70927.68	3429719
7	Haryana	118.20	4.88	4.88	16600
8	Himachal Pradesh	491.63	211.88	211.88	65341
9	Jammu & Kashmir	0.00	0.00	0.00	0
10	Jharkhand	295.43	118.15	118.15	60934
11	Karnataka	94203.11	41421.07	41421.07	2700791
12	Kerala	1253.00	510.86	510.86	36834
13	Madhya Pradesh	37549.51	13602.97	13602.97	2268974
14	Maharashtra	73336.10	26696.90	26696.89	4304834
15	Meghalaya	10.80	4.76	4.76	1161
16	Orissa	38845.35	15722.71	15722.71	1346164
17	Rajasthan	8171.38	1906.17	1906.17	302977
18	Sikkim	1.28	0.54	0.54	86
19	Tamil Nadu	6099.25	2583.11	2583.11	154395
20	Tripura	8.24	2.49	2.49	847
21	Uttar Pradesh	9469.07	1923.90	1923.91	1003015
22	Uttranchal	37.42	8.81	8.81	6411
23	West Bengal	5472.40	1765.14	1765.14	336611
24	A & N Islands	0.61	0.01	0.01	56
25	Pondicherry	110.71	42.97	42.97	2486
	Total	**525926.67**	**207259.28**	**207259.28**	**19102396**

Source:- India.budget.nic.in

Suggestion of SCF: The Government might also reconsider the sharing of premium subsidy and insurance claims in the ratio of 2:1 which was recently being shared between the Centre and the States in the ratio of 1:1.

Government's Reply / Action: Keeping in view the risk involved and the limitation of financial resources, the matter, at present, is not under the consideration of the Government.

viii) Scheme Operation on Area Approach

The Scheme operates on the basis of 'Area Approach' i.e., Defined areas for each notified crop for widespread calamities and on an individual basis for localised calamities such as hailstorm, landslide, cyclone and flood. The Defined Area (i.e., Hobli, Circle, Firka, Block, Taluka, etc.,) is decided by the concerned State/UT Government. Individual based assessment in case of localised calamities are implemented in limited areas on experimental basis at the start and further extended in the light of operational experience gained with the assistance of District Revenue administration in assessing the extent of loss.

Suggestion of SCF: The unit area or the area approach for insurance which differed from State to State and varied from Gram Panchayat in A&N Island to Districts in J&K might be standardised and fixed as Gram Panchayat for the whole of the country. This area approach might operate through Small Area Crop Estimation Method (SACEM) which might report yields at Gram Panchayat level as designed by the Ministry of Agriculture in consultation with the Indian Agriculture Statistics Research Institute (IASRI).

Government's Reply / Action : At present, the Scheme is operating on the basis of area approach for widespread calamities. The unit of insurance under area approach could be Gram Panchayat, Mandai, Hobli, Circle, Firka, Block, Taluka, etc. as decided by State Government, for each notified crop. For localised calamities, such as hailstorm, landslide, cyclone and localised flooding, the scheme operates on individual farmer basis. However, it is tried out in limited areas only, and will be extended to more areas in the light of operational experience. The reduction in unit area of insurance will help in more realistic assessment of claims, but it may be difficult for implementing States to an assessment of yield based on Crop Cutting Experiments (CCEs) at smaller unit area level as it will involve a large number of CCEs. The implementing States do not have adequate infrastructure to conduct required number of CCEs. Ministry of Agriculture has made efforts to explore alternative methods for making assessment of yield at smaller unit area through Small Area Crop Estimation Method (SACEM), which was based on farmer's appraisal, was experimental in selected districts/crops and it was not proved as an effective method. In spite of all this, the issue of reduction in the unit area of insurance is under consideration as a part of the review of the scheme.

Recommendation of JSG : Reduction in the unit area of insurance to the level of village panchayat for major crops.

ix) Collection of Proposals and Insurance Charges

The Nodal Banks system under CCIS, has also been adopted for NIAS wherein the implementing agency is not required to deal with all loan disbursing points but in its place, deals only with nominated Nodal points, mostly at district level.

a) *Compulsory Coverage for Loanee Farmers*:- The modalities are similar as in case of CCIS. Whenever a bank disburses loan for insurable crop, supplementary loan towards insurance charges are also granted. The disbursing branch prepares a statement of monthly crop-wise and defined area-wise details of crop insurance with insurance charges, and remit the same to it's Nodal Branch by 15th day of the next month. The Nodal Branch, in turn, consolidates these statements from the branches under it, and forwards the same to the implementing agency along with a draft for the insurance charges in accordance with monthly cut-off dates fixed. For the loans disbursed through Kisan Credit Cards (KCC) which are also eligible for coverage, banks maintain all back-up records, registers relating to compliance with RKBY and its seasonality order, cut-off date for submitting the declarations and end use etc., as in the case of normal crop loans. The crop loans disbursed through KCC, but outside the purview of the provisions of the NIAS are not eligible for coverage. The farmer opting for sum insured higher than the amount of loan availed is treated at par with non-loanee farmer and relevant cut-off date for submitting declarations will apply. For coverage of higher sum insured or higher Indemnity Limit, the farmer has to bear the difference of premium. Declaration formats submitted by Nodal banks will be different for loanee farmers availing of sum insured up to the limit of amount of loan availed of and those loanee farmers availing of higher limit of sum insured. The sum insured may extend to the value of the threshold yield of the insured crop at the option of the insured farmers. Further, a farmer may also insure his crop beyond value for threshold yield up to 150 per cent of average yield of notified area on payment of premium for balance sum insured at commercial rates. For the purpose of sum insured, average yield is reckoned as average of past three years yield for rice and wheat and five years for "other crops" in the notified area. In respect of loanee farmers availing of sum insured beyond amount of loan availed of the details of those farmers availing of sum insured beyond value of threshold yield are furnished separately in a schedule in the Declaration.

b) Optional Coverage for Non-Loanee Farmers: The farmers desirous of joining the Scheme should fill up proposal form of the Scheme and submit the same to the village branch of a Commercial Bank or Regional Rural Bank (RRB) or District Central Cooperative Banks (DCCB) with the requisite insurance charge/premium amount after opening an account in their name. The functionaries in Branch/DCCBs shall assist farmers in completing the proposal form and provide necessary guidance. While accepting the proposal and insurance charges, it shall be the responsibility of such branch / DCCBs to verify the particulars of sum insured and its limit on the applicable insurance charges etc. The branch/DCCBs shall thereafter consolidate these particulars and send them to the respective Nodal points. The Nodal Banks in turn submit to the implementing agency crop-wise and Notified Area-wise Crop Insurance Declarations in a given format (separately for non-loanee farmers) along with the insurance charges/premium within the stipulated time. In respect of optional coverage/premium on the basis of the proposal of the farmers are deposited with the branch/DCCB within the stipulated dates and in turn banks consolidate, prepare a declaration and forward the same to implementing agency with premium.

c) Direct Proposal for Non-Loanee Farmers: The non-loanee farmers may submit the proposals personally to the implementing agency with requisite insurance charges/premium. The implementing agency then consolidates these proposals and converts them into Declarations. However, it is mandatory that the non-loanee farmers personally submitting proposals to the implementing agency should hold a Bank Account in the Service Area Branch/designated bank branch to receive compensation. Personal submission of proposals to implementing agency is limited to districts designated for experimentation of individual loss assessment on occurrence of localised perils. The implementing agency has opened an office in these designated districts HQs for this purpose.

Recommendation of JSG: AIC should expand its network in terms of district level franchise, rural agents, micro-insurance agents to provide better service to farmers.

x) Option for Higher Sum Insured

a) *Food Crops and Oilseeds*: Sum Insured is worked out by multiplying the threshold yield of the crop with Minimum Support Price or the market price if MSP is not available in respect of previous year. A farmer is eligible to cover unto the value of threshold yield of crop at a given premium rate. Additionally, a farmer may extend the sum insured up to 150 per cent of the value of the average yield of the crop on payment of premium at actual rate for the part of the sum insured exceeding value of threshold yield.

b) *Commercial / Horticultural Crops:* Sum Insured may extend up to 150 per cent of the value of average yield of the crop at commercial (actuarial) rate for the entire sum insured. In case of loanee farmers the minimum sum insured is the amount of loan availed.

xi) Protection Levels and Threshold Yield

Three levels of protection, viz., 90, 80, and 60 per cent corresponding to low level risk, middle level risk, and high risk areas are available for all crops (cereals, millets, pulses and oilseeds and annual commercial / annual horticultural crops) based on coefficient of disparity in yield of past 10 years data. However, the insured farmers of unit area may opt for higher level of indemnity on payment of additional premium based on actual rates. The Threshold Yield or Guaranteed Yield for a crop in an Insurance Unit shall be the moving averages based on past three years average yield in case of rice and wheat and five years average yield in case of other crops, multiplied by the indemnity level.

Recommendation of the JSG: Indemnity levels may be 90 per cent for low risk areas/crops and 80 per cent for other areas/crops In case of coverage of pre-sowing/planning risks (i.e. prevented sowing on account of adverse seasonal conditions), the indemnity payable may range between 20 – 25 per cent of sum insured.

xii) Nature of Coverage and Protection

If the 'Actual Yield' per hectare of the insured crop for the defined area on the basis of requisite number of Crop Cutting Experiments in the insured season, falls short of the specified Threshold Yield, all the insured farmers growing that crop in the defined area are deemed to have suffered shortfall in their yield. The Scheme seeks to provide coverage against such contingency. 'Indemnity' is calculated as per the following formula:

Yield Shortfall	X Sum insured for the farmer
Threshold Yield	

Shortfall = Threshold Yield - 'Actual Yield' for the Defined Area

Suggestion of SCF: Threshold yield should be based on preceding normal 3-5 years instead of immediate past 3-5 years;

Government's Reply / Action : A Joint Group has been set up to study the improvements required in the existing Crop Insurance Scheme i.e. NAIS. The Group will consider various suggestions including the suggestion given by the Committee.

Recommendation of JSG: Threshold/guaranteed yield proposed is to be based on best 5 years out of preceding 7 years yield data.

xiii) Loss Assessment

Loss assessment and modified indemnity procedures in case of occurrence of localised perils, such as hailstorm, landslide, cyclone and flood where settlement of claims are on individual basis, are formulated by implementing agency in coordination with state / UT Government. The loss assessment of localised risks on individual basis will be experimented in limited areas, initially and is extended in the light of operational experience gained. The district revenue administration assist the implementing agency in assessing the extent of loss.

xiii) Loss Assessment in Case of Localised Calamities

Loss assessment of localised risks, viz., hailstorm, landslide, cyclone and floods on individual basis experimented in two districts are extended to other areas in the light of operational experience. Crop losses due to occurrence of these localised perils are given immediate notice to the financial institution / notified office of implementing agency and in any case within 48 hours along with particulars of crop insured and extent and cause of damage. On receipt of loss intimation, implementing agency deputes loss assessors to the area for assessment of crop loss. The district revenue administration assists implementing agency in assessing the extent of crop loss. Implementing agency also develops loss adjusters cadre and for this purpose few officers are trained in loss adjustment procedures. The services of unemployed Agri- Graduates and retired Agri-Department Officials are also utilised for loss assessment after initial training.

Recommendation of JSG: Post-harvest losses on account of cyclone are to be covered in coastal areas for a period of two weeks from harvesting provided the harvested crop is lying in the field.

An individual assessment of claims should be carried out in case of specified localised calamities viz. hailstorm, landslide and damage due to wild animals.

xiv) Estimation of Crop Yield

The claim assessment procedure and conditions involved in estimation of claims is same for loanee and non-loanee farmers as also for food crops / oilseeds and annual commercial/annual horticultural crops. The State Department plans and conducts requisite number of Crop Cutting Experiments (CCEs) for all notified crops in the notified insurance units in order to assess the crop yield. The State Government notifies the crops where requisite minimum number of CCEs are conducted in accordance with the sliding scale given below:

1.	Taluka/tehsil/block	16
2.	Mandal/Fhirka/any other smaller unit area comprising 8-10 villages	10
3.	Gram Panchayat comprising	4-5 villages

The State Government / UT administration maintains a single series of CCEs for both crop production and crop insurance. The yield data are furnished to the implementing agency by the State Government/UT in accordance with the cut-off dates fixed for all crops and areas notified, based on the total No. of CCEs conducted. The standard procedures for assessing the yield in respect of range of crops are prepared by implementing agency in consultation with the National Sample Survey Organisation(NSSO) and circulated among implementing States. A Committee comprising representatives of State /UT Government National Sample Survey Organisation (NSSO) and implementing agency is set up at the State level to monitor / supervise and advise in matters relating to adequacy and quality of CCE's. A Technical Advisory Committee (TAC) comprising representatives from NSSO, Ministry of Agriculture(MoA) and implementing agency constituted at National level to decide the sample six of CCEs and also technical matters pertaining to Threshold Yield / Actual Yield etc.

Suggestion of SCF: As per estimation of the Agriculture Insurance Company, the expenditure for conducting Crop Cutting Experiments (CCEs) at Gram Panchayat level came to about Rs. 180 crore for all the crops in the whole country. Accordingly, the Committee felt that it may not be difficult for the Government of India to provide financial assistance to State Governments which might otherwise strain their finances and show reluctance to conduct CCEs.

Government's Reply / Action: The Joint Group set up to study the improvement required in NAIS will look into all possibilities.

Suggestion of SCF: The advanced technology i.e. Remote Sensing technology provided greater credibility and unbiased objective independent data to cross check and supplement other field information inputs for crop insurance. Therefore, this advanced technology should be used to assess the reliable crop yield. This would help to check the unbridled inflated claims.

Recommendation of JSG: The existing infrastructure of weather stations need upgradation and automation to effectively feed data for weather insurance. Using the services of third party weather data providers should also be explored.

Government's Reply / Action: Agriculture Insurance Company of India Ltd. (AICL) is already implementing a pilot project using Remote Sensing Technology (RST) in three districts, one each in the States of Andhra Pradesh (Anantapur district), Maharashtra (Ahmednagar district) and Gujarat (Rajkot district) for average estimation, crop health report and yield estimation during kharif 2004. On the basis of findings of the pilot project, expansion of the project will be considered.

Recommendation of JSG: AIC should take up a pilot project on use of remote sensing applications in crop insurance, covering – crop health, crop acreage, yield estimation and reduction of sample size of CCEs etc.

xv) Procedure for Settlement of Claims and Approval of Claims

Once the yield data are received from the State Government as per the cut-off dates decided, the claims are worked out as per declarations received from financial institutions for each notified area and approval is obtained. The funds needed for payment of claims beyond the risk sharing limits of implementing agency are provided by the Governments to effect payment. The claim cheques along with claim particulars are released to individual Nodal points. The financial institution at the grassroots level in turn credits the accounts of the individual farmers and displays the particulars of beneficiaries in the notice board. Loss assessment and modified indemnity procedures in case of occurrence of localised perils, such as hailstorm, landslide, cyclone and flood where settlement of claims is on individual basis are formulated by implementing agency in consultation with State / UT Government. Claims are approved by implementing agency only, however, the Government may at their option, scrutinise / examine a claim falling within their risk liability. Doubtful claims / unsatisfactory claims, if any are referred to a Committee consisting of representatives of Ministry of Agriculture (GoI), concerned State Government and the implementing agency. Settlement / release of claims in the States, which exceed set risk sharing limits of implementing agency are subject to receipt of funds from the Government.

Recommendation /Suggestion : Since the 'claim' was the main area which invites complaints from the farmers, the Committee desired that the data entry and processing of insurance claims might be computerised and the claims might be settled and disbursed within the stipulated time. In case of disputes, the matter might be referred to the 'Redressal Cell' for settlement. While referring the case to such a Cell, all the facts and documents might be submitted to it in one go so that the disputes could be resolved expeditiously.

Government's Reply / Action: The Government is already aware about the need for timely payment of the admissible insurance claims. Currently, all the operations of AIC are computerised but the delay in settlement of claim is mainly due to time lag involved in submission of yield data and release of matching funds by the State Governments. The Joint Group recently constituted to study the improvements required in the existing Crop Insurance Schemes will deliberate and suggest appropriate mechanism for monitoring and disbursal of timely insurance claims.

Recommendation of JSG: On account payment of claims is to be made during the season on the basis of weather data or satellite imagery so as to make timely payment of claims.

xvi) Financial Support Towards Administration & Operating(A&O) Expenses

The A&O expenses are shared equally by the Central Government and the respective State Government on sundown basis [100 per cent in the first year, 80 per cent in the second year, 60 per cent in the third year, 40 per cent in the fourth year, 20 per cent in the fifth year and zero afterwards].

xvii) Corpus Fund

To meet calamitous losses, a Corpus Fund has been created with contributions from the Government of India and State / UT, on 50:50 basis. A portion of Calamity Relief Fund (CRF) is also used for contribution to the Corpus Fund. The Corpus Fund is managed by the implementing agency.

Recommendation /Suggestion: Government of India and State Governments should set up the National Agriculture Credit Relief Fund for giving relief to farmers affected by consecutive crop failures.

Government's Reply / Action: To help the farmers affected by consecutive crop failures due to natural calamities, Calamity Relief Fund (CRF)/ National Calamity and Contingency Fund (NCCF) are available. Besides this, National Agricultural Insurance Scheme (NAIS) is in vogue since rabi 1990-2000. The scheme envisages coverage of all farmers (loanee and non-loanee) irrespective of their size of holdings, more crops (including annual/horticultural/commercial crops) and more risks. To broad-base the scope of its coverage and to make it more comprehensive a review process has already been initiated. In view of the above, setting up of the National Agriculture Credit Relief Fund is not required.

xviii) Management of the Scheme, Monitoring and Review

In respect of loanee farmers, banks play the same role as CCIS. In respect of non-loanee farmers, banks collect the premium along with the declarations and send it to the implementing agency within the prescribed time limits. However, in areas where implementing agency has requisite infrastructure, a non-loanee farmer has the option to send premium along with declaration, directly to implementing agency within the time limit. Selection of the banks is on the basis of Service Area Approach (SAA), RBI or at the option of the banks (where cooperative banks have good network). The Department of Agriculture, Agricultural Statistics, Directorate of Cooperation, Revenue Department of the State Government are vigorously involved in smooth implementation of the Scheme. The Scheme is implemented in accordance with the operational modalities as worked out by implementing agency in consultation with Department of Agriculture & Cooperation. During each crop season, the agricultural situation is closely monitored in the implementing States / Union Territories. The State / UT Department of Agriculture and district administration set up a District Level Monitoring Committee (DLMC), which provides reports of agricultural situation with details of area sown, seasonal weather conditions, pest incidence, stage of crop failure {if any} etc. on fortnightly basis.

Recommendation of JSG: Private sector shoul be encouraged to provide competitive enviror ment and better service to farmers.

xix) Role of Financial Institutions / Noda Banks / Loan Disbursing Points

1. Financial institutions submit Crop Insur ance Declarations to the implementin agency on monthly basis, where sum in sured is on the basis of amount of loa disbursed and within one month tim from cut-off date for receipt of propos als, where sum insured is on any othe basis.
2. Claims received by the Nodal points, ar remitted to individual branches/PAC wit all particulars within seven days and thes branches/DCCB in turn credit the ac counts of beneficiary farmers withi seven days. The list of beneficiary farm ers with claim amounts are displayed b the branch/DCCB.

Recommendation of JSG: Banks should displa the list of all insured farmers at the villag panchayat office. Further, banks should also display the list of benefited farmers together wit claim amount soon after the claims are receive from implementing agency.

3. The implementing agency has the access to all relevant records/ledgers at the Nodal point/Branch/DCCB at all times.
4. The implementing agency is provided with all the norms/guidelines relating to crop loan disbursements as formulated by RBI/NABARD. Any amendments/simplification of procedures/norms from time to time are made available to implementing agency by the concerned institutions. In the absence of such communication, implementing agency shall be free to not take cognisance of such modifications.
5. Farmers deprived of any benefit under the Scheme due to errors / omissions / commissions of the Nodal Bank/Branch/ PACS, the concerned institutions only shall make good all such losses. If the

farmer is adopting mixed cropping, the sum insured of a crop should be on the basis of its proportionate area in the mixed cropping.

Recommendation /Suggestions: Banking industry had been one of the main beneficiaries of the scheme. Their huge network might be utilised for popularising the scheme. At the same time it was important that they should create friendly environment and extend helping hand to the illiterate farming community. The documentation should be made less cumbersome and procedure should be made simple so that the farmers might feel free to avail of the institutional financial help. Proper receipt and other documents should be given to the loanee farmers so that they might claim the amount of insurance in case of failure of their crops.

Government's Reply / Action: The Crop Insurance Programme is conceived in such a way that not only the existing infrastructure of banks, but also the framework and guidelines of Seasonal Agricultural Operations (SAO) loans are being used in the effective implementation of the scheme. Crop loan taken by the farmers for growing insurable crops is automatically covered under NAIS. The claims, if any, at the end of the crop season are adjusted against the loan taken by the farmer. Therefore, simplification in lending procedures help in the coverage of loanee farmers and also making timely payment of insurance claims. RBI & NABARD have issued guidelines, from time to time, for effective implementation of the scheme. The Banks are also paid service charge @ 2.5 per cent of premium for the services rendered by them under the scheme.

xx) Role of State Government / Union Territory Administration

1. The State Government/UT give notice on crop-wise notified areas and premium rates as applicable (in case of commercial/horticultural crops) well in advance of each crop season.
2. The State Government/ UT administration also provide to the implementing agency, Unit Area-wise yield data of immediate past 10 years for all crops notified under the Scheme.
3. The State Government/UT administration also notify smaller defined areas for various crops considering the consistency of the small area reflective of all crop losses, including localised perils like hailstorm, landslide etc.
4. The State Government issues requisite Notification and communicates to all participating FIs during every crop season containing the information such as (a). Crops and defined areas notified in various districts. (b). Premium rates and subsidy, if and as applicable for various groups of farmers and crops. (c). The cut-off dates for collection of proposals and remittance of premium with Crop Insurance Declarations to the implementing agency.
5. The State/UT administration release its contribution to Corpus Fund as per the scale and dates fixed by MoA .
6. The State/UT administration ensure that Crop Estimation Surveys(CES) in general, and estimation procedures in case of multiple picking crops in particular be strengthened in order to furnish accurate estimates of yield. Further, the State/UT administration assist implementing agency in assessing the extent of crop loss of individual insured farmers due to operation of localised perils.
7. The State/ UT setup various monitoring committees as required.
8. The final yield data in the standard format for all Unit Areas for notified crops for the crop season are furnished to implementing agency within the stipulated date.
9. In case, the State/UT administration fail to furnish yield data based on requisite number of CCEs or fail to furnish yield data within the stipulated date, responsibility of such claims, if any arising out of such data totally rest with State/UTs.

10. The implementing agency have unrestricted access to records of CCEs at grassroots/district/State level.
11. State Government/UTs set up District Level Monitoring Committee(DLMC), headed by the District Magistrate. The members are District Agriculture Officer, DCCB, Lead Bank representative and implementing agency. The Committee monitors implementation of Scheme by providing fortnightly crop condition reports and periodical reports on seasonal weather conditions, loans disbursed, extent of area cultivated, etc. The DLMC is also monitoring conduct of CCEs in the district.
12. As the Scheme is optional to non-loanee farmers, adequate publicity are provided to ensure maximum coverage of farmers through all means available at the disposal of State / UT administration.

Recommendation of JSG: State should be permitted to take up small experimental and innovative crop insurance products including weather insurance and insurance for horticulture and plantation crops in collaboration with AIC and other insurance companies.

xxi) Role of the Implementing Agency

1. It implements the scheme.
2. The implementing agency opens separate accounts to deal with Corpus Fund and also premiums received under the Scheme.
3. Building up crop yield database and preparation of actuarial premium rates through a professional agency.
4. Underwriting and claims finalisation.
5. Responsibility for claims to the extent mentioned in the Scheme.
6. Negotiating Re-insurance arrangement in the international market.
7. Coordination in organising training, awareness, publicity programmes.
8. Providing returns/ statistics to the Government of India.

Recommendation/ Suggestion : A prope redressal mechanism should be evolved withi the AIC for the redressal of farmers' grievance where maximum period for resolving the dis putes should be prescribed.

Government's Reply / Action : The Governmen is already aware about the need for timely pay ment of the admissible insurance claims. Cur rently, all the operations of AIC are compute ised but the delay in settlement of claim is mainl due to time lag involved in submission of yiel data and release of matching funds by the Stat Governments.

xxii) Farmers' Role and Conduct

1. As the Scheme is compulsory for al loanee farmers availing of SAO loanee fo notified crops, it is mandatory for al loanee farmers to insist on coverage o all eligible loans(as per the scheme provisions) under the Scheme.
2. If the farmers adopt mixed cropping, the proportion of different crops in a mixec cropping should be compulsorily declared.
3. In respect of non-loanee farmers, the proposals are accepted only up to the stipulated cut-off date, which is decided in consultation with State Government/UTs. In respect of non-loanee farmers the farmer desiring coverage should have an account in the branch of the designated bank .The farmer must approach the designated branch / DCCBs and submit the proposal form in the prescribed format. The farmer must provide documentary evidence in regard to the possession of cultivable land (copy of the passbook, land extract or land revenue receipt should be enclosed).The farmer must furnish area sown confirmation certificate if necessary.

Conclusion

Issues emerging from the Insurance Companies are :

i). Low volume ii). Small transactions, iii). Vast area of operation etc. In case of Crop Insurance, very high Probability of Claims to insurance unlike death/ accident/ theft claims and in case of drought / flood, all the insured in the area prefer claim. Crop Insurance Claims far exceed the total premium collected and in case of livestock insurance also claim rate is high, for livestocks, claim rate is increasing from 5 per cent in 1996 to 88 per cent in 2001 iv).Insurance Companies are unable to increase the premium rate as it is governed by the regulations of the Government. v). Social Welfare Scheme vi). Rate fixed by Government and more Government support by way of premium subsidy.

Comprehensive Crop Insurance Scheme (CCIS) launched in 1985 and the Experimental Farm Income Insurance Programme (FIIP) introduced in 2003-04, to the present NAIS regime, the initiative of rural insurance has made remarkable progress in our country. However, the entire policy structure vis-à-vis rural insurance facility appears to have been evolved not in a commercially sustainable method in view of the diversified nature of the cropping pattern according to monsoon conditions. The CCIS suffered from a severe limitation as it was confined to the farmers who availed of short term finance from banking institutions against specified crops. The experimental FIIP also failed to reach the vast majority of the rural households. The landless agricultural labourers, who do not possess land and therefore, do not have farm income to be eligible to avail of benefit under FIIP. The governance structure vis-à-vis insurance initiative need to be studied with a view to exploring the possibilities of revamping the same so as to touch at least the needy among the rural households. We can also follow the farm risk management techniques followed in developed countries. Canada and Australia introduced farm income stabilisation schemes. Europe is encouraging farm risk management practices. Strategies of foreign countries for arm Risk Management are Risk Transfer / Risk Spread through insurance, price contracts for input / output, marketing contract and use of financial derivatives, farm risk management – reducing the cost of production, specialisation in crop production, Multiple Peril Insurance Scheme, Wider Coverage Protection against losses from natural disasters, excess moisture, loss due to insects and diseases, Loss determined at Market Price Easy Settlement.

Farmers / labourers take insurance policies and pay premium for one or two instalments and unable to pay second or third due to crop failure / lack of adequate income. If the premia are not paid for three continued terms, the policy gets lapsed and can be revived within five years but in case of lapse many poor people are unable to mobilise arrears with interest and hence automatic linking of premium amount deduction at the time of granting crop loan at the banks level or a separate mechanism feasible for the cropping community should have to be devised. During the time of acute distress, they cannot get back the surrender value because surrender value is Nil. Even if the premium are paid for longer period and the policy is in force, many people discontinue due to some reason and they do not even apply for surrender value – due to ignorance or lack of knowledge. To avoid such loss, Insurance Companies may provide some relaxation in norms, banks may also extend a helping hand. Banks can pay the premium amount to the debit of the loan account and recover it later in instalments. The policy can be assigned to the banks under farmer / artisan credit card facility with revolving limit, farmers / artisans can pay using the card within their overall limit.

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