

Govt plans to revamp crop cover scheme PMFBY to woo more insurers and rationalise premium

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Amid reports of some insurance companies making profits in the government's flagship crop cover scheme PMFBY, the Centre is planning to revamp the programme to rationalise premium rate and encourage participation of more insurers. The likely key changes to the scheme will be implemented from 2023-24 crop year (July-June) after the cabinet approval, according to sources.

The Pradhan Mantri Fasal Bima Yojana (PMFBY), launched in February 2016, aims to provide financial support to farmers suffering crop loss/damage arising out of natural calamities.

Under this scheme, maximum premium payable by farmers is 2 per cent for all food and oilseeds crops grown in the kharif (summer) season, 1.5 per cent for same crops grown in rabi (winter) season and 5 per cent for commercial and horticulture crops. The difference between premium and the rate of insurance charges payable by farmers is shared equally by the Centre and states.

The scheme was last revamped in 2020 to enable voluntary participation of farmers and make way for reporting crop loss within 72 hours of occurrence of any event. According to official sources, the need to further revamp the scheme was felt because exposure of insurance companies in the PMFBY was on declining mode. This led to lack of competition forcing the existing insurers to charge high premium rate.

As per the policy, insurance companies are empanelled for three crop years via a tender process. Around 18 insurers were empanelled for a period from 2019-20 till 2022-23. However, eight of them exited and 10 companies are participating in the scheme now.

The eight firms had exited in 2021-22 crop year, including four each from government and private sector, due to heavy losses following high claim ratio, sources said.

However in the absence of competition, insurance firms which were left in fray fixed higher premium. As a result, some companies made huge profit during the last crop year as the claims for crop losses were less.

This made few state governments believe that the PMFBY was benefiting only insurance companies and not the farmers, sources added. To tackle this problem, sources said a working group — constituted in 2021 by the agriculture ministry — examined the whole issue and submitted a detail report.

Sources said the working group has recommended two approaches for implementing the PMFBY. One is the “risk transfer approach”, being followed currently, wherein complete risk is transferred to implementing insurance companies. This will involve bearing entire claim liability by the insurance company.

Second is the “risk participation approach”, under which three alternative models are recommended to states for adoption wherein the claims as well as surplus premium amount (earned after clearing the claim) is shared between implementing states and insurer as per the mutually agreed formula.

The three models are: profit and loss sharing model; cup and cap model (60:130); and cup and cap model (80-110). Under the profit and loss sharing model, sources said a state specific risk band would be created to share the profit and loss between insurance companies and government. For instance, the band for Bihar will be different from Maharashtra.

Under the cup and cap model (60:130), the insurance companies would pay if the claims are between 60 and 130 per cent of the gross premium. Suppose the claims are below 60 per cent of the gross premium, it will be refunded by the government, and if claims are above 130 per cent of the gross premium then the government will pay claims via insurance companies.

The third model suggested is the cup and cap model (80:110) which is same as above but insurance companies would clear claims if it is between 80 and 110 per cent of the gross premium, sources said, adding that this model is currently being implemented in Maharashtra and Madhya Pradesh.

According to sources, the working group has also suggested use of latest technology like drone for quick assessment of crop loss and early payment of claims to the farmers.

According to official data, the claim ratio in 2020-21 stood at 62.3 per cent of the gross premium. The reported claims were Rs 19,022 crore, out of which 17,676 crore has been paid till date.

During the 2022-23 crop year, the claims under PMFBY were at Rs 9,867 crore, out of which Rs 8793 crore has been cleared so far, the data showed.

Source: <https://www.financialexpress.com/economy/govt-plans-to-revamp-crop-cover-scheme-pmfby-to-woo-more-insurers-and-rationalise-premiumnbs/2651983/>