7 CONCLUSIONS AND RECOMMENDATIONS

7.1 KEY FINDINGS AND SUGGESTIONS

The objectives of NAIS have been:

- To provide insurance coverage and financial support to the farmers, in the event of failure of any of the notified crops as a result of natural calamities, pest and diseases
- To encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in Agriculture
- To help stabilize farm incomes, particularly in disaster years.

The Government of India has reviewed the NAIS with the objective of making the scheme more attractive to farmers so as to increase the crop insurance penetration and to place the scheme on actuarial regime supported by up-front subsidies. But, the limited expansion in the scope and content of crop insurance did not measure up to the expectations of the farming community. With the analysis of primary and secondary data,
interviews with the farmers and interaction with the stakeholder’s the researcher has made some observations and derived some conclusions while carrying out the research work. These observations are summarized below in the form of findings and suggestions.

7.1.1 **REDUCTION OF INSURANCE UNIT TO VILLAGE PANCHAYAT LEVEL**

As of now, the National Agricultural Insurance Scheme is implemented on the basis of "homogeneous area" approach, and the area (insurance unit) at present is the Mandal / Taluka / Block or equivalent unit, in most instances. These are large administrative units with considerable variations in yields and impact of natural calamities. For the scheme to become more popular, the unit for determining claim should be reduced to the level of ‘village’ in the case of large villages and to ‘cluster of villages’ in the case of small villages. Ideally, "Individual approach" would reflect crop losses on a realistic basis, and has been regarded most desirable (Dandekar, 1985). However, under the Indian conditions, implementing a crop insurance scheme at the "individual farm unit level" is beset with problems, such as:
• Non-availability of the past records of land surveys, ownerships, tenancy and yields at individual farm level

• Small size of farm holdings

• Remoteness of hamlets and inaccessibility of some farmholdings

• A large variety of crops, varied agro-climatic conditions and package of practices, and inadequate infrastructure.

The researcher felt that lowering of the insurance unit to the Gram Panchayat (GP) level would reflect yield losses at a reasonably represented level. However, data being the lifeline of insurance, the actuarial rating of the product at GP level would be possible only if the historical yield data at that level (GP) is available for a reasonably long period. In real terms, such data at the GP level is not available and therefore it would be difficult for the insurer to work out premium rates on sound actuarial principles (Planning Commission, 2007).

The possible approach could be:

a) While the Insurance Unit (IU) could be lowered to GP, the actuarial premium would be charged based on the yield data of existing unit (tehsil / block / circle etc) and the difference
in claims, if any, between the existing unit and the GP level (on the basis of the yield estimates consolidated both at GP and existing unit) would be transferred to the Government.

It may continue for 3 to 5 years.

b) Based on the experience of 3 to 5 years, a ‘correction factor’ could be worked out, and thereafter the actuarial premium could be charged at GP level with full claims liability being borne by insurer.

c) Alternatively, in order to avoid open-ended liability for the government in the first 3 to 5 years, a ‘corpus fund’ could be created for refinancing residual claims (difference between claims of existing unit and GP) based on a fair estimate and the fund would be maintained by insurer on behalf of the government. The fund would be adjusted finally at the end of 3 or 5 years period and the balance to be settled.

d) Decreasing the size of the IU will increase the number of CCEs required to maintain the same level of accuracy in area-yield estimates. Increasing the number of IUs will also increase the indemnity payments under NAIS.
7.1.2 GUARANTEED YIELD

NAIS presently uses a three-year’ moving average for rice and wheat and a five-year average for all other crops to calculate the area-average threshold yield. It’s universally accepted principle that ignoring a few good or bad years will go against the established principles of insurance, though this would not win the confidence of the reinsurance market.

Keeping in mind that an area-yield estimate is intended to reflect what farmers in the area can normally be expected to produce, the inclusion of a few best or recent years of production records into an averaging time series methodology is not likely a good indicator of expected production in the future.

_A longer time series of 10 years, therefore, should be used in fixing Guaranteed Yield. This would serve to reduce yearly coverage fluctuations, reduce the potential for adverse selection (i.e., farmers may adversely select against the insurance programme by participating when coverage is high or not insuring when coverage is low), and avoid decline in farmers’ satisfaction relating to inadequate coverage._
7.1.3 INDEMNITY LIMITS

At present, the levels of indemnity are 60% (high risk), 80% (medium risk) or 90% (low risk) corresponding to high, medium & low risk areas. It is supposed that the 60% indemnity level, does not adequately cover risk, especially in the case of small / medium intensity adversities, as losses get covered only if and when, the loss exceeds 40%. The level of coverage is restricted by crop and Insurance Unit within the insurance program to provide a level of equity in government support among regions.

Risk areas used to define the indemnity limit should be reconsidered based on the actuarially-sound premium rates in order to generate a homogeneous set of premium rates. Actuarially-sound premium rates associated with a 90 percent indemnity limit should be compared among crops and IUs and then adjusted through changes in the indemnity limit. This method would ensure more equity among farmers, as subsidized premium rates of food crops and oilseeds are capped.
7.1.4 TIMELY PAYMENT OF CLAIMS

NAIS has difficulty adhering to timely claims payments and is perhaps one of the most critical issues. Several factors are responsible for delay in claims, including: delays in receipt of crop yield estimates from the State, verification of yield data by AICIL, access to government funds to cover losses in excess of premium and payment of claims to farmers through the banking network.

Many farmers incurring a loss of income may not have the financial strength to withstand a delay in payment and may as a result, become defaulters on any loans they may have taken from banks. Timely indemnity payments are vital for farmers since they provide cash at the time when it is needed most. Given the lack of adequate access to formal finance, this could prevent farmers from falling into a debt trap or having to pay high interest rates on moneylender loans.

Delays in receipt of yield estimates from the state, is one of the key underlying reasons for delays in claim settlement. It currently takes state government around two months from the raw CCE data collection to submit the crop yield estimates to AICIL.
Government could institute measures to minimize these delays and the role of technology and data consolidation techniques in this regard.

The Government could facilitate prompt payment of final claims by contributing to up-front premium subsidies based on the suggested premium rates. The Government could pay the difference between the suggested actuarially-based rates and the capped (subsidized) premium rates, to be released to AICIL at the beginning of the crop season. These up-front payments would allow AICIL to facilitate prompt payment of final claims, thus making the NAIS more attractive to Indian farmers. This would also make a significant impact on the acceptability and popularity of the scheme. By doing that, delays in claim settlement are expected to be reduced by four to five months, thereby reducing the settlement time by as much as about 50 percent.

Advanced indemnity payments could be made based on weather and/or remote sensing indices. This approach will enable reaping the benefits drawn from combining the best features of both area-yield (e.g., more accurate loss estimates) and weather-based insurance (e.g., faster claim settlement).
7.1.5 FIXATION OF CUT-OFF DATES FOR COVERAGE

Under the NAIS programme, farmers can purchase crop insurance well into the growing season. Banks provide loans to farmers in a similar time frame and with the mandatory crop insurance intention, may automatically sign a farmer for crop insurance when production results are already known. If weather conditions appear to be impacting crop development, farmers could select adversely against crop insurance by participating in crop insurance or increasing the insured coverage. In order to protect loan positions, banks could actively promote this behavior within the current system leading to moral hazard.

To reduce the impact of adverse selection, farmers should know their cropping intentions prior to the growing season and should also know if they require loan for agriculture inputs to commence the agricultural operation viz sowing, transplanting etc. Insurance deadlines should be well known in the farming community and, if banks require insurance to provide a cash credit facility, they could make that decision known to the farmer in advance of the growing season.
A purchase deadline for crop insurance could be fixed in advance of the crop season. To encourage an earlier insurance sign-up, AICIL could introduce a premium discount within a certain period well in advance of the growing season. This discount could extend to state and central governments in order to encourage their early premium payment to match the farmers’ premium. On the other hand, because premium discounts must be offset with a load to an actuarially-sound premium rate, government and farmer could instead be surcharged a premium penalty for late sign-up and late payment. At some point, sign-up to the crop insurance programme would have to be curtailed even with a premium surcharge. These initiatives could be used to ensure “up-front” premium contributions by all parties.

7.1.6 PREVENTED / FAILED SOWING / RE-PLANTING / RE-SEEDING (RE-SOWING)

Farmers are required to seed crops within a recognized “time window” to ensure that the likelihood of losses at harvest are not increased. The normal growing season is known by farmers and local agriculture experts. Seeding crops beyond this window places an adverse selection risk on the insurance
programme. The existing scheme covers risks only from sowing to harvesting. When sowing/planting is prevented due to adverse seasonal conditions, farmers usually lose their initial capital but also the opportunity value of the crop they will not be able to sell.

This concern exists in an area-yield design and CCE procedures should ensure that only crops that are sown within an acceptable time window are included in the yield estimation process. The Government may want to investigate the feasibility of seeding deadlines by risk area and crop.

Pre-sowing risk particularly prevented / failed sowing / reseeding on account of adverse seasonal conditions could be covered, wherein up to 25% of sum insured could be paid as compensation covering the input cost incurred till that stage.

If a crop is damaged and can be readily reseeded within a set time as per the normal crop cycle of that particular crop, that would ensure a successful maturation of the crop, a reseeding claim could be paid. However, if the damage occurs later in the year, perhaps a percent of coverage (staged indemnity) could be paid under the insurance scheme in the local area. This would only be done if a portion of the IU was
damaged and that amount would likely not impact the outcome of the area-yield estimate. The amount to be paid for different crops to cover the re-seeding function. Different crops have different seed costs and the amounts of compensation would have to be determined in advance of the crop year.

Whether the re-seeding benefit (or any other special feature) would be automatically included within the basic NAIS or if it would be offered as option those farmers could choose to purchase for extra (subsidized) premium.

This should apply to farmers who have signed up before the loss event (for example, based on historical onset of the monsoon season for Kharif / Rabi crops). Coverage could be used as an incentive for early sign-up. Alternately, coverage could be contingent upon participation in the previous year.

7.1.7 POST-HARVEST LOSSES

In some districts of Maharashtra crops like Paddy is left in the fields for drying after harvest. Quite often, especially in the coastal areas, ‘cut & spread’ crop is damaged by cyclones, floods etc. Also pulses being rich in proteins also encounter insect-pests
damage during storage. Since the existing scheme covers risk only upto harvesting, these post-harvest risks are outside the purview of insurance.

After examining the genuineness of the cover and difficulties in assessing such losses at individual level, the researcher recommends that the insurance cover may be made available to such post harvest losses also, but it should be restricted only for those crops in coastal areas, which are allowed to dry in the field after harvesting and should be against cyclonic rains only. Further the coverage should be available only upto a maximum period of two weeks from harvesting. It is also recommended that in such cases the assessment of damage would be on individual basis. Researcher also felt that a mass awareness programme to educate farmers on scientific storage alongwith distribution of seed storage bins can check the post-harvest losses and increase the shelf life of pulses.

7.1.8 ON-ACCOUNT SETTLEMENT OF CLAIMS

Claims’ processing in NAIS begins only after the harvest of the crop. Further, claim payments have to wait for the results of CCEs and also for the release of requisite funds from the
Central and State Government. Consequently, there is a gap of 8-10 months, between the occurrence of loss and actual claim payment.

To expedite the settlement of claims in case of adverse seasonal conditions, and to ensure that at least part of the likely claims receivable are paid to the farmer, before the end of the season, researcher recommends that ‘on-account’ settlement of claims be done, without waiting for receipt of yield data, to an extent of 50 percent of likely claims, subject to adjustment against the claims assessed on a yield basis.

If this is implemented, it would perhaps be a major benefit to farmers. Effectively, it would, make a scheme far more acceptable. It would require insurers to work out a fair and reasonable parameter to assess and release 50% of likely claims, using proxy indicators like weather, acreage damaged, satellite imagery, etc.

Banks should display the list of all insured farmers at the village panchayat office. Further, the banks shall also display the list of benefitted farmers together with claim amount soon after the claims are received from implementing agency. In addition to ensuring transparency, the proposed measure will
help contain legal litigation to a large extent. This will also empower village panchayat and will induce them to own up the responsibility of proper implementation of the scheme.

7.1.9 LOCALIZED CALAMITIES

Localized risks like hailstorm, landslide, and damage by wild animals to be assessed and settled on ‘individual’ basis.

It may be prudent to avoid covering losses by wild animals, which magnitude is often not considerable. However, it can be covered on merit basis on payment of additional premium.

7.1.10 UNIFORM SEASONALITY / SIGN-UP DATES

Uniform cut-off dates / sign-up dates for both Loanee and Non-loanee farmers ranging between 15th June to 15th July for Kharif and 30th November / 31st December for Rabi seasons. In case of Kharif crops, the cut-off dates are to be fixed in coincidence with the favourable weather conditions for the agricultural operation and to match with historical onset / covering by SW Monsoon.
Non-loanee farmers can avail insurance before sowing, on the basis of the crop which the farmer intends to sow. In case of change in the crop or other exigencies, the farmer should communicate to the Bank / institution, where the proposal was submitted originally, accompanied by a certificate of sowing of the alternate crop from the village administration.

For loanee farmers, coverage is provided on the basis of the loan amount sanctioned / Maximum Borrowing Limit (MBL), by the credit agency. The basis of sanction of the loan is the total landholding, the nature of crops grown and the scale of finance. This would help to minimize intertemporal adverse selection problems (i.e. farmers buy insurance only when they may face large crop yield losses). Researcher also felt to charge differential premia, for different sign up dates.

7.1.11 COVERAGE OF PERENNIAL HORTICULTURAL CROPS

The improvement of production and productivity, of fruits & vegetables is a priority area as the cultivated area under these crops is steadily increasing. These perennial horticultural crops are presently not covered by NAIS, and there is a strong
demand from farmers for inclusion of these crops under the scheme.

Perennial horticultural / fruit crops have two economic components viz. the tree and the yield. The farmer needs insurance against losses in both, hence the yield based NAIS, cannot provide the required protection. For many of these, past yield data is not available for fixing premium rates and threshold yields. There are also problems like typical non-bearing periods, in the first 3-4 years, cyclical nature of production and different age groups of orchards within a unit, with varied productivity levels, etc.

In view of the peculiarities and complexities involved in designing an insurance scheme for perennial horticultural crops and vegetables, the researcher suggests designing a separate pilot scheme for providing insurance cover to perennial horticultural crops and vegetables.

The researcher also suggests an insurance approach based on - (i) ‘individual approach’ and (ii) weather insurance model, taking into account the peculiarities of perennial horticultural crops and plantation crops. Crops with clear weather influence could be brought under the purview of
weather insurance (subject to availability historical weather data), and other crops, particularly high value crops with significant acreage density, could be covered under the individual approach. The researcher learnt that AICIL and a few other insurers, have already started both weather insurance and traditional insurance (based on individual approach), on a small scale. It is therefore recommended that the support of the government, to rapidly expand the pilots into full-fledged insurance products.

7.1.12 NON-LOANEE PARTICIPATION AND ADVERSE SELECTION

The participation of non-loanee farmers’ in the NAIS, is mostly guided by the nature of the season. This has resulted in poor participation during normal seasons and high participation during adverse seasons. Further, the non-loanee farmers’ participation has come, from those areas and crops which were most likely to report high crop losses. Their participation was predictably the highest, during adverse seasons.

Obviously, “Individual approach” would reflect crop losses on realistic basis and hence, most desirable, but, in Indian
conditions, implementing a Crop Insurance scheme at “individual farm unit level” is beset with many problems, which include:

a. **Non availability of past record of land surveys, ownership, tenancy and yields**: Majority of Indian farmers is illiterate and hardly any farm record of yield is maintained. Also great majority of farmers is engaged in **subsistence farming**.

b. **Large number of farm holdings**: Which are small and fragmented with average farm holding size of mere 1.5 hectares. The total small & marginal farmers constitute approximately 53% of total and own only 47% of the farm area.

c. **Inaccessibility of farm-holdings**: Some of the Indian villages are still to be connected by roads and most of those connected face the danger of being cut-off from the rest, during most of the monsoon period. Farms in most of these villages are not easily accessible for assessment of crop losses.

d. **Large variety of crops, varied agro-climatic conditions and package of practices**: Maharashtra has large size and varied topography. The rainfall in the state varies from
500 mm in Eastern Maharashtra dry zone to 4000 mm in Ghat zone. Temperature though does not vary much is not limiting factor for crop production so also solar radiation. Soils also vary from laterites in coastal region red or light brown in the high areas to heavy black soils of varying depths in plateaus. Maharashtra has been divided into nine agro climatic zones on the basis of annual rainfall, soil types, vegetation and cropping pattern using varying levels of farm technology.

e. **Moral hazard:** Considering the heterogeneity in terms of geography, style and process of cultivation, impact of micro, macro weather phenomenon and inadequate means for assessment of crop yield, moral hazard is a serious problem in crop insurance and is tend to assume high proportions in ‘individual based’ crop insurance, since the insured can single handedly influence the outcome.

f. **Collection of small amount of premium from large number of farmers:** It requires massive effort to collect small amounts of premium from large number of farmers who are far away and scattered.
Premium rates for food and oilseeds crops need to be rationalised and move towards actuarial regime. It is suggested to charge 50% of actuarial premium rate or the existing flat rate whichever is higher as against the existing flat rates of premium. Rates of premium may be fixed. This will generate more premium income and government liability would be reduced.

g. Simultaneous harvesting of crops all over the state:
Most of the crops grown in the state are ready for harvest during October-November and April-May and it’s nearly impossible to mobilize technical workforce to assess losses in so many farms, spread across length & breadth of the country. Mixed cropping may further complicate loss assessment.

h. Prohibitive cost of manpower and infrastructure: For any organisation to administer a Scheme of this magnitude, covering farmers as individuals will require very huge infrastructure and manpower and its administrative cost is likely to be highly prohibitive.
7.1.13 SERVICE TAX

The insurance product being of the nature of ‘safety net’ to the farmers in migrating production risks, it is suggested that all insurance products of the insurer related to crop insurance could be exempted from service tax.

7.1.14 SERVICE TO NON-LOANEE FARMERS

The awareness of the scheme is poor, partly due to lack of adequate localized servicing and substantially awareness campaigns. For loanee farmers, where premium being deducted at the time of disbursement of loan and settlement of claim being credited to the farmer’s loan account, the illiterate or poorly educated farmer is hardly aware of the provisions and benefits of the scheme. The same situation attribute to the sub-optimal participation of non-loanee farmers.

NAIS being a multi-agency approach, the implementing agency presently has no presence, except in state capital. The scheme is marketed to non-loanee farmers, through rural credit agencies. These farmers are not familiar and comfortable, going to distantly located credit agencies. Dedicated rural agents, who
could provide service, supported by effective communication and training programs, would be a needed initiative.

_The researcher felt that a dedicated network of the implementing insurer agency, at the District / Taluka level, is essential, particularly while servicing non-loanee farmers. The need to complement service spread with effective awareness building campaigns, to ensure cost effectiveness and better penetration, even in non adverse years, is strongly perceived._

_Though the endeavour of the present government is to extend the credit facilities to all farmers, large numbers of farmers are still left out of the coverage of the financial institutions. Such non-loanee farmers constitute the majority of the farming community (approximately 62%, 2010), which needs to be brought in the insurance fold to realize reasonable penetration. Marketing, particularly to Non-loanee farmers, has to improve substantially by utilizing services of rural agents, micro insurance agents, bima seva sansthas and to develop alternate distribution channels to be able to provide insurance coverage at least at the village level if not at the doorstep of the farmer. Implementing Agency is required to step-up efforts in improving delivery of insurance. However, in order to expand_
the reach and services of implementing agency, focus should be placed on outsourcing of the services without creating permanent establishment.

### 7.1.15 PREMIUM SHARING BY FINANCIAL INSTITUTIONS (FIs)

Crop Insurance claims are paid for adverse seasons, the loan availed of which in any case could not have been repaid by the farmer. The claim amount is automatically adjusted against the outstanding crop loan, leading to recovery of dues for FIs, and giving the farmer eligibility for fresh loan. In other words, Crop Insurance helps the flow of credit to crop production.

Considering the overall benefits of Crop Insurance and its direct and indirect protection to lending activities, it is felt that the burden of high premium rates of Crop Insurance may be partly shared by the FIs.

*Keeping in mind the collateral security provided by insurance, the researcher recommends that 25% of farmers’ premium subject to a maximum of 1.00 percentage points be borne by the FIs, in respect of loanee farmers.*
Risks of banks in crop loan recovery are hedged to a large extent by crop insurance instrument. The crop insurance claims when paid are first adjusted against outstanding loan, i.e. the Banks have first lien on the claims. Considering this, it is recommended that 25 percent of premium payable by loanee farmer subject to a maximum of 1.00 percentage point of premium be borne by the Banks.

The scheme could be made voluntary for farmers; however, keeping in mind on one hand the low awareness level and public interest involved of the large number of farmers, and on the other significant improvements suggested which should make the scheme more farmer friendly the scheme should continue to be compulsory for loanee farmers.

7.1.16 CROP CUTTING EXPERIMENTS (CCEs)

Overall, the methods used to choose a sample location, seem to be sound and Government needs to be complimented on the degree to which its methodology is designed for non-bias. However, its current implementation may be hampered by technical and moral hazard problems like lack of knowledge of aims and objectives of crop inspection; rigidity in doing actual
verification of crops on the fields; not knowing its importance related to revenue recovery; not knowing its subsidiary objectives are perhaps as critical to address as improving the actuarial design of the overall crop insurance programme.

The CCE process is managed separately by each State participating in NAIS, resulting in several operational issues which have a direct bearing on the accuracy of the CCE process in estimating area yields appropriate for use in the NAIS programme. Maharashtra alone conducts 85000 CCEs.

An integrated data management network is crucial to the development of new initiatives under the NAIS. At the same time, a consistent understanding of insurance principles and program objectives is integral among insurance functions and personnel to compile an appropriate data set. A consistent and national data set could help to:

- assess agro-climatic risk areas and build credibility for PYs and premium rates to recognize smaller IUs with precision;
- correlate yield data with weather and/or remote sensing information when introducing advanced payments to the area-yield-based NAIS;
• correlate yield data and remote sensing information to incorporate operating efficiencies in the CCE network for an increased number of IUs;
• accurately assess the impact of yield trending methods across zones and crops;
• introduce an accurate pooling of premium or an equitable assessment of risk attachment by state to a national Corpus Fund;
• effectively research and design enhancements to NAIS that will be attractive to farmers and increase participation; and
• utilize the crop insurance program as an efficient base on which to build social transfer policies to the rural poor in catastrophic situations.

Researcher found significant delays in paying claims to farmers after loss years. Part of this delay was attributable to the completion of local CCEs and the subsequent reporting of yield records to AICIL for approval and claims processing. However, significant delays can still occur and, if State is to expand the CCEs and ensure that appropriate field work and reporting is completed accurately and on time, a more streamlined process will be required. In doing this, the process
to select villages or fields randomly should not detract from the speed of the sampling process. Presumably, local officials know which fields have been seeded by crop and are available to be part of the CCE network. Consequently, villages could be selected for sampling first and then fields randomly chosen from those available soon after planting.

At present, Government employs individuals at the state and local level to conduct CCEs which produce a single source of data for both policy development and crop insurance throughout the country. The utilization of the single-source yield database is efficient but, since it is designed to gather basic yield information, the process may be biased with respect to an insurance concept.

AICIL should engage in continuous review of the CCE procedures to ensure a consistent application across State and among loss adjusters. In addition, AICIL could consider an ongoing and “formalized” monitoring process to ensure consistency in interpretation and implementation. A single-source CCE process with distinctions noted between insurance and policy development data series may provide greater accuracy for the insurance programme.
Crops grown only under farm management conditions that are normal for an area and an objective view of the crop life cycle should be considered as eligibility criterion to contribute to the area-yield-based estimate for insurance purposes.

7.2 CONCLUSION

India has historically focused on crop insurance as a planned mechanism to mitigate the risks of natural perils in farm production and has been evolving and improving its crop insurance program over the years. Its recent policy commitment to move forward with significant enhancements to NAIS is a step in the right direction. This chapter summarizes the key outcomes and conclusions on the review of the operations processes implemented under the existing area-yield crop insurance program NAIS. It builds on the sound, overall area-based approach of the NAIS and aims at providing suggestions, based on international best practice, that AICIL could consider to make the scheme more attractive to farmers so as to increase the crop insurance penetration levels and to place the scheme on actuarial regime.
Despite various schemes launched from time to time in the country agriculture insurance has served very limited purpose. The coverage in terms of area, number of farmers and value of agricultural output is very small, payment of indemnity based on area approach miss affected farmers outside the compensated area, and most of the schemes are not viable. Expanding the coverage of crop insurance would therefore increase government costs considerably. Unless the programme is restructured carefully to make it viable, the prospects of its future expansion to include and impact more farmers are remote. This requires renewed efforts by Government in terms of designing appropriate mechanisms and providing financial support for agricultural insurance. Providing similar help to private sector insurers would help in increasing insurance coverage and in improving viability of the insurance schemes over time. With the improved integration of rural countryside and communication network, the unit area of insurance could be brought down to a village panchayat level. Insurance products for the rural areas should be simple in design and presentation so that they are easily understood. There is lot of interest in private sector to invest in general insurance business. This opportunity
can be used to allot some target to various general insurance companies to cover agriculture.

Insurance business normally operates on the principle of law of large numbers. Hence, there is a need for effective distribution channels to increase the penetration levels of agriculture insurance. Designing effective insurance services requires accurate and timely information. Large-scale usage of technology for timely settlement of claims, introduction of new distribution channels like post offices and micro insurance agencies, creation of a nationally-consistent database are some of the agriculture insurance support services required for effective implementation of the scheme.

7.3 PROSPECTS OF AGRICULTURAL INSURANCE

The farming community in India consists of about 121 million farmers of which only about 20 per cent avail crop loans from financial institutions and only three fourth of those are insured. The remaining 80 per cent (96 millions) are either self-financing or depend upon informal sources for their financial requirements. Most of the farmers are illiterate and do not understand the procedural and other requirements of formal financial institutions and, therefore, shy away from them.
Therefore, while the institutional loanees are insured compulsorily under the NAIS, only about 6 per cent of the non-loanee farmers avail insurance cover voluntarily. This is quite indicative of the enormous insurance potential that exists for addressing the needs of the farming community and enhancing the overall efficiencies as also the competitiveness of the agriculture sector. This also signifies the tremendous potential of agriculture insurance in the country as a concept, which can mitigate the adverse impacts that such uncertainties would have on the individual farmers.