CHAPTER 6: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

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6.1. Findings of the study:

- Many crop insurance schemes were announced by the GOI since 1972 and subsequently modified owing to poor financial performance in terms of high claim settlement ratio. Claim ratio can be reduced only when the large number of farmers are covered by the schemes which helps to share limited risks by huge premium contribution. Total of 2,10,125 farmers were covered in Kharif 2012 season, which is considered to be highest coverage in the State, constituting only 2.7% of total number of farmers. WBCIS. Thus it is evident that Crop insurance market is yet to open up in the State of Karnataka.

- Apart from poor financial performance of Crop insurance companies, Crop insurance schemes in general failed due to poor quality of implementation. Lack of awareness among farmers about the scheme, inadequate coverage of crops and high premium amount are some of the major reasons for failure of crop insurance scheme implementation. Insurance companies have not pushed the scheme as they consider investing huge money on awareness/promotion campaign as non-productive cost.

  According to primary data, around 61% of farmers who opted for WBCIS for more than one season are unaware of the details of scheme. 92% of the respondents in Haveri district are unhappy with coverage of crops under WBCIS. 75% of the respondents find the premium as costly. WBCIS covers very limited notified crops as against farmers’ expectation that all the crops should be covered under one scheme.

- Farmers can’t take informed decision. Farmers do not have access to historical whether index and unaware of basis for rate making technology and premium payments, phases of deficit/excess rainfall cover, etc. Around 72% of respondents are unaware of technical aspects of WBCIS operation. Banks and Financial institutions being face of insurance companies, none of the Bank officers are free to explain about any scheme, as they are always tied up with full workload during the notification period. Many a time, officers at Bank branch
collect all copies of required document and fill proposal forms and ask the farmers to sign.

➢ 42% of farmers buy crop insurance as it is mandatory norm for availing loan and they always expect high return out of their contribution without knowing fundamental principle of insurance.

➢ 67% of Farmers are unaware of premium paid by them as the premium is directly deducted from their loan account.

➢ The scheme pay out structure is designed in such a way that farmers will get claim benefit, but claim amount is found to be very meagre even during the worst of crop seasons. This may be due to deficiency in the design of the scheme where the sum insured and maximum probability of loss calculation are based on weather parameter. Under the scheme if a farmer loses entire crop during a particular growth stage, the sum assured is not fully paid and only the proportion of the sum insured commensurate to the weightage attributed to the each stage is paid. This is a lacuna in the scheme design. Around 67% of the farmers are unaware about claim settlement process and around 85% of respondents expressed that they are not satisfied with the claim amount received and coverage of claim during crop loss.

➢ Private insurance companies are providing competitive edge to the scheme and their contribution in simplifying the application and distribution process, reduction of administration cost, maintenance and management of data etc. are noteworthy. However they have not reached farmers in terms of crops and area coverage as they are very cautious and selective in their approach. There is a significant difference in coverage of farmers through WBCIS by Private Insurance Company and Government Owned Insurance Company i.e. AIC.

➢ The level of awareness among educated farmers is higher and hence there is a significant difference between level of awareness and educational qualification. Similarly large land holders have more awareness than small and marginal
farmers. Similarly there is a significant difference between size of land holding and awareness level.

- During the primary survey it is observed that Satisfaction level of respondents who have availed the scheme is very low with regard to various parameters of the scheme. 75%, 49%, 92%, 40%, 65% and 85% of the respondents expressed that they are not satisfied with Premium charges, total amount of sum assured, coverage of crops, transparency in administration and crop loss covered under the scheme respectively. There is no significant difference in satisfaction level between loanee farmers and Non-loanee farmers who availed the scheme voluntarily.

- In February 2016, Government of India announced the scheme as Restructured Weather Based Crop Insurance Scheme and since then the scheme is modified to a great extent. With the restructure, premium charges are capped to 5%, promotional campaigns are organized on a large scale and application forms are made online and they are considered to be very significant move in the agriculture sector of the country. From Kharif 2016 onwards premium charges levied on farmers are reduced drastically from 27% to 5% of sum assured.

- Average Claim ratio of insurance companies in Karnataka varies from 50% to 280%. There are serious up and down in the percentage of claim ratio and there is no set pattern. However Insurance companies such as ICICI Lombard, Tata AIG and Universal sompo have incurred loss during Kharif seasons in Karnataka due to high claim ratio. Similarly AIC, HDFC ERGO and MS Cholamandalam insurance companies have incurred loss during Rabi seasons in Karnataka. It is appreciated that the large number of private insurance companies have come forward for participating in WBCIS, but there is no sustainable penetration. The insurance companies are hesitant to participate in bidding process of WBCIS.

- It is critical to test and authenticate weather Data Provided by RMS. It has been observed by a few insurance companies that when RMS is accessible to people they tend to pouring water into it, hoping such inaccurate data may result in higher claim.
In 2015 though Government of Karnataka notified WBCIS, none of the insurance companies participated in the bidding process and hence scheme was not implemented in the entire State for any crops either in Kharif season or in Rabi season.

6.2. Recommendations:

1. Premium has to be reduced to make it more attractive. Currently with the introduction of PMFBY, which protects crop yield and claims are settled based on CCE, farmers are opting for only PMFBY. There are no takers in many taluks for WBCIS as it covers limited perils and premium amount at par with PMFBY. Farmers are finding no value proposition for WBCIS. Once technology such as weather data, weather monitoring stations etc. are set up, the operational and administration costs involved in WBCIS are reduced drastically compared to that of PMFBY, and hence premium charges should be lesser than PMFBY. The farmer should be given option to choose between WBCIS/PMFBY. The observed dissatisfaction among the farmers are due to hygiene factors which can be eliminated by reducing the premium amount, ensuring high financial security.

2. Arrangement should be made not to deduct Premium from the Loan account of the farmers. As insurance is compulsory for loanee borrowers, the premium is deductible directly from the loan account and there is no provision to seek permission by the customer. Premium should be preferably deducted from savings account of the customer so that farmers could be aware of premium amount paid by them for the season.

3. All farmers who are covered under any insurance scheme should be given insurance policy document with all the necessary information about the scheme such as name of the insurance company, premium charges, sum assured, RMS, perils covered, grievance cell, threshold triggers, notified insured area etc.

4. Robust awareness program and campaign has to be taken up by all Insurance companies, lending Banks and Government to create more demand, to ensure larger relevance of the scheme and to increase penetration.
5. One of the private insurance companies has expressed loopholes in the control process of WBCIS. There must be regulatory body to authenticate farmers’ details as shared by the financial institutions and co-operative societies. The provisions related to underwriting and process control, need to be reviewed rigorously and tightened which may be best carried out only by a specialized regulator.

6. RMS should not be accessible to any individual.

7. Farmers should be trained to apply risk mitigating strategy suited to their agricultural income. Higher emphasis and encouragement to be given on multi crop farming, diversifying the crop, cultivation of crops which protects drought or flood, changing the crop as per weather forecast and market requirement, proper employment of labour, engaging into non-agriculture based activities etc.

8. Farmers should be encouraged to cultivate more perennial crops and in this regard lot of research emphasis is recommended on converting seasonal crops to perennial crops.

9. Higher subsidy to be given to marginal and small farmers since their loss bearing capacity is very low when compared to medium and large farmers. The State Government is giving additional subsidy to SC/ST. State should consider additional premium subsidy based on the land holding rather than based on caste system, which will reduce administrative cost and processing time for implementing agencies in verifying the caste certificate.

10. Any insurance scheme would flourish when it reaches maximum population where risk is shared in terms of space and time. When large area is covered with more varieties of crops and more number of farmers, then claim ratio will reduce substantially. Efforts should be made to publicise and popularize the scheme among eligible farmers.

11. Unlike life insurance the period of coverage of insurance in any crop insurance scheme is only a year and hence farmers are expected to opt for the scheme every year. Benefits such as no claim bonus, loyalty bonus etc. cannot be offered to the farmers by insurance companies though the same company is implementing for
the subsequent years. It is advisable to have crop insurance tenure ranging from five to ten years for a farmer and for a specific land holding. When a farmer changes crop, the premium can be corrected based on the crop and size of the cultivating land. However, Term sheet for a crop and area for the fixed number of tenure should remain the same.

12. In case of WBCIS, sum assured is based on total cost of cultivation which is not equal to the loan amount. Hence, banks can’t recover full amount of money from insurance companies and they have to recover from other assets/income from other sources of the borrower. Sum assured in case of WBCIS should be equal to the amount of crop loan borrowed for the season.

13. Feedback from insured farmers need to be collected by Insurance Companies in order to improvise the scheme on continuous basis.

14. A Single scheme should cover all crops that a farmer cultivates in a season. Farmers expect to have a comprehensive relief-cum-insurance scheme that is universal in its coverage (all farmers, all crops and all forms of damage and at every stage of crop cycle). Farmer should be able to avail comprehensive insurance package which provides coverage against wide range of perils for various category of agriculture assets such as tractor, pump sets, cart, agriculture equipment etc. Under such single coverage umbrella farmers should be given options to choose one or more sections available under the policy. Such comprehensive scheme should be affordable for the farmers, should offer adequate amount of compensation and should quickly assess crop damage using simple methods. At the same time, scheme should be free from hassles in the delivery of the insurance amount.

15. A handbook in local language covering all relevant information on the notified crop insurance scheme can be printed and issued to all gram panchayat offices for the perusal of insured farmers. The soft copy of the same can be circulated through Whatsapp message or SMS to the farmers who opt for crop insurance cover.
16. Agriculture Insurance agents are to be appointed by insurance company to ensure more enrolment. These agents can spread awareness about the product among non-loanee farmers also.

17. Government should promote the development of a centralized data centre which will help insurance company, Government and research scholars in accessing reliable data. There were some inconsistencies, inadequate and incorrect data observed, while collecting secondary data from Agriculture department and insurance companies, especially data collected from HDFC ERGO, MS Cholamandalam General insurance company and Department of agriculture for Kharif 2013 season. So having a central data warehouse which validates and authenticates data of all States is very important for research and development purpose. Data specifically related to sum assured, threshold yield data should be published in the public domain.

18. ‘No free meal’ should be the Mantra of policy makers. Enough infrastructure facility such as bore wells, pump sets, agriculture equipment, quality seeds and pesticides are to be provided by the Government at a subsidized price. Availing crop insurance should be made compulsory for all the cultivating farmers. Financial security in terms of Input subsidy, Loan waive off, relief fund etc. are to be given only to those farmers who have availed crop insurance. To encourage farmers to participate in the scheme, the premium should be fixed as low as 1% to 2% of sum insured depending on crop, area and season.

6.3. Conclusion

Karnataka state has a challenging environment to implement crop insurance program since the small and marginal holdings farmers are more in the State and their number is increasing. It makes difficult to expand the reach of a program to all farmers, including those who are most vulnerable to extreme poverty in the event of a catastrophic yield loss. Frequent droughts increase the importance of crop insurance, while compounding the difficulties of designing a crop insurance system that is financially viable for the government yet affordable for farmers.
Crop insurance is unlikely to gain widespread penetration among farmers in Karnataka to the point of displacing the need for disaster relief in the event of serious drought. With a few farmers accessing formal credit and opting crop insurance, the base is not strong enough for the program to become central to the agricultural risk management agenda. Moreover, as subsidies for small and marginal farmers are reduced and premiums rise, the higher cost of crop insurance will continue to limit demand, especially if the government shifts to actuarial determination of food crop and oilseed premiums. Even without the premium increase, higher participation rates would only add to the fiscal burden of the scheme.

In addition to covering crop insurance claims, the government provides disaster-relief measures such as food aid, employment, reduced interest on crop loans, and seed and fertilizer subsidies to encourage farmers to grow during the next cropping cycle. In the aftermath of the 2002 drought, the Karnataka government (and those of other affected states), had to petition the central government ad hoc for allocations from the National Calamity Contingency Fund in order to finance disaster relief. One of the motivations for the government to support crop insurance, apart from the risk management benefit, is to cap government expenses after a disaster. At present, no capping occurs at either state or national level. The low coverage of crop loans and insured farmers, the flaws in premium ratings, and severe and frequent droughts have imposed a substantial burden on state and national finances following droughts.

Crop insurance may be less effective than disaster relief for coping with very infrequent but severe events and may best be utilized as a complement to other existing risk management instruments. WBCIS is a best insurance scheme as the scheme is highly transparent with no scope for manipulation of data and low cost of administration. Government should address the flaw in technical design identified as disincentives to farmer’s participation in the WBCIS, while taking measures to improve its operational effectiveness and financial performance.