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PUBLIC SECTOR BANKS IN AGRICULTURE I NSURANCE: AN OBSERVATION

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ABSTRACT

Agricultural insurance is normally undertaken as a market-based activity by public or state sector insurance companies, often with support measures from government. Public Sector run crop yield insurance scheme, procurement at minimum support prices and calamity. The major issues being used to Indian famer for agricultural insurance in public sector. There is increased interest in risk management and insurance to promote agricultural investment and access to credit, and to provide financial stability to farmers and other actors in the agri-value chain. Sustainable, large scale, affordable agricultural insurance programs require innovation and action from the public sectors Banks. Involvement of the public sector is critical to ensure that agriculture insurance programs meet the needs of small-scale farmers while ensuring the sustainability of financial providers. However, in recent years, there has been a tendency to overestimate the role of the Public sector Banks in agriculture insurance, especially in developing countries. Given their importance, the roles of the public sector banks need to be clearly defined. A secondary source of literature available on the subject has been consulted for the development of the concept.

In this paper an attempt has been made to suggest some measures for the providing the best possible service to farmers through crop insurance.

Keywords: Agricultural Insurance, Public Sector, Large Scale, Financial Stability etc.

I. INTRODUCTION

Agricultural production faces a myriad of risks. Nevertheless, two major risks are of concern to the agricultural sector price risk caused by potential volatility in prices and production risk resulting from uncertainty about the levels of production that primary producers can achieve from their current activities. It is likely that these major risks will increase in the future price risk due to liberalization of trade and production risk caused by the effects of climate change. The trend towards agricultural specialization is likely to continue which will increase these risks as producers rely on the production of a smaller range of crops and consequently cannot diversify risks as effectively.

Agricultural risks not only affect farmers, they also affect the whole agribusiness value chain. Each of the participants along the supply chain, from the suppliers of inputs to the end consumer, are subject to these risks. As the interconnections between the participants in the value chain are becoming more close and complex, the possibilities of adverse events being transmitted between participants are increasing.

II. DEFINITION

Crop insurance is purchased by agricultural producers, including farmers, ranchers, and other to protect themselves against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss revenue due to declines in the prices of agricultural commodities. The two general categories of crop insurance are called crop-yield insurance and crop-revenue insurance.

III. OBJECTIVES OF THE STUDY:

An overview aimed to cover the following objectives:

1. To study the role public Sector banks in Agriculture Insurance.
2. To identify the Need and Importance of Agriculture Insurance.

IV. RESEARCH METHODOLOGY

The Research is exploratory in nature; it focus on Literature review, Newspaper, Journals, Websites and Other reliable sources.

What is agricultural insurance?

In general, insurance is a form of risk management used to hedge against a contingent loss. The conventional definition is the equitable transfer of a risk of loss from one entity to another in exchange for a premium or a guaranteed and quantifiable small loss to prevent a large and possibly devastating loss. Agricultural insurance is a special line of property insurance applied to agricultural firms. In recognition of the specialized nature of this type of insurance, insurance companies operating in the market either have dedicated agribusiness units or outsource the underwriting to agencies that specialize in it. Agricultural insurance is not limited to crop insurance, it also applies to livestock, bloodstock, forestry, aquaculture, and greenhouses.

V. TYPES OF CROP INSURANCE

Crop insurance is a type of insurance coverage that is purchased by crop farmers in order to insure against losses. There are several different types of crop insurance that a farmer can purchase. Here are some of the different types of crop insurance that is available.

1. MPCI

MPCI stands for multiple peril crop insurance. This is a type of crop insurance that is designed to cover the crops against several different types of loss. This type of coverage will protect the farmer against any weather related losses, such as a tornado or a hail storm. In addition, this policy covers things like low yields, late planting, prevented planting and replanting costs.

2. APH

This term stands for actual production history. This type of insurance is based on the production history of a farm, over a certain number of years. In most cases, a policy will base the actual production history on a period of somewhere between four and 10 years. The average production will be calculated over that time period, and then a certain percentage of the yield will be paid if a loss occurs.

This type of policy provides coverage for a wide variety of perils. For example, the farmer could file a claim due to drought, wind damage, hail, frost, insects, disease or excessive moisture. If the yield of a crop is less than the predetermined covered amount, the farmer will receive a check for the difference between the two percentages. This is the most common type of crop insurance that is available in the market today. It has been used in the farming industry for many years.

3. GRP

GRP stands for group risk plan. This is a type of crop insurance that is based on the yield of a group of farmers from a particular county. This is not a type of policy that is based on an individual farmers yield, like APH. With this type of policy, you could be paid for an insurance settlement regardless of the actual yield of your farm. Your farm could do fine, but if the average yield of the entire county decreased below a certain amount, you could still receive a payment. This type of coverage allows you to choose the yield level that you want to be covered against, when calculated with the average of all of the farms in the county.

4. CRC

CRC is a term that stands for crop revenue coverage. Instead of being based only on the yield of the farm, this coverage is based on the total amount of revenue that is generated from a crop. With this type of coverage, you will also get protection against drops in prices for the crop instead of just protection against losses. This is a comprehensive type of coverage that is designed to look at the bottom line instead of only looking at how much you were able to harvest from a particular farm for the year.

Overview of the role of public sector in agricultural insurance

While agricultural insurance is essentially a commercial activity, it is, nevertheless, common to see governments playing a role in the industry. Governments have an interest from the perspective of maintaining productivity for the economy and safeguarding the wellbeing of the rural community. Government presence in the market fills a void left by the private sector which is sometimes reluctant to enter this market segment due to high startup costs, high distribution and administrative costs and a lack of capacity caused by difficulties in obtaining reinsurance.

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Where governments choose to intervene in agricultural insurance markets, they may adopt different approaches. According to a recent World Bank survey on public intervention in agricultural insurance performed in 65 countries, the most common mechanisms for public sector involvement in agricultural insurance markets are:

Premium subsidies - the survey revealed that the most common type of public sector support to agricultural insurance is through premium subsidies; 63 percent of the surveyed countries use this mechanism to support crop insurance and 35 percent to support livestock insurance.

- Investment in product research and development (R&D), training and information gathering—41 percent and 37 percent of the countries in the survey reported public sector investment in R & D, training and information gathering for crop insurance and livestock insurance, respectively
- Agricultural insurance legislation—the study showed that the development of specific agricultural insurance legislation is also an important form of support to agricultural insurance, special legislation for crop and livestock insurance was evident in 51 percent and 33 percent of the surveyed countries respectively.
- Public sector reinsurance - 32 percent and 26 percent of the countries in the survey reported public sector reinsurance programs for crop insurance and livestock insurance respectively.

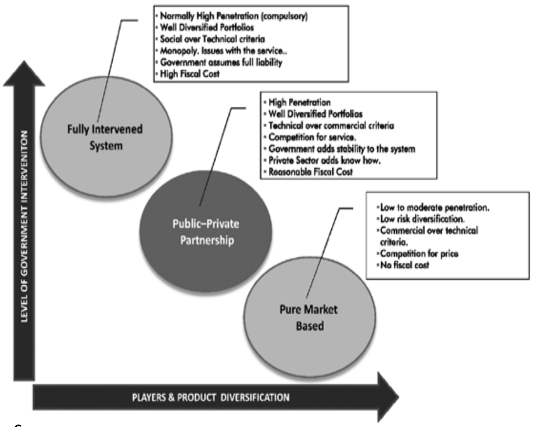
.Administration cost subsidies -the study also revealed that public sector support through crop and livestock insurance administration cost subsidies is a less common practice, with only 16 percent and 11 percent of the surveyed countries providing administration cost subsidies for crop insurance and livestock insurance respectively.

There appears to be a correlation between the level of public sector support and the penetration of agricultural insurance. Public sector support is high in the United States and Canada and these countries account for 70 percent of the written premium in the market. The governments of many European countries provide support and Europe writes 17 percent of the premium. In Africa and countries such as Australia and New Zealand where there is little or no public sector involvement, the levels of written premiums are very low.

Three models for the delivery of agricultural insurance can be identified: *State controlled* systems (often referred to as fully intervened systems), *public-private partnerships* and *pure market* systems. Fully intervened systems are characterized by a high level of Government support and the existence of one single insurance product which is usually commercialized by a state owned insurance monopoly. Pure market systems are characterized by low or nonexistent government support for agricultural insurance and several insurance companies commercializing different types of products. Public-Private Partnership systems are the most balanced systems, both in terms of government support and product availability. The main features, as well as the advantages and disadvantages of each of these agricultural insurance delivery models, are summarized in Figure 9 shown below.

Public-private partnerships are the preferred model for a successful agricultural insurance market. The current high administration and transaction costs translate into high premium levels which makes insurance unaffordable for many small providers. Public sector participation in supporting agricultural insurance is a key to developing and scaling up agricultural insurance programs, while the participation of the private sector brings skills, expertise, and innovation into the market.

Figure 9: Models of Government Intervention in



Source:

Pradhan Mantri Fasal Bima Yojana

The *Pradhan Mantri Fasal Bima Yojana* (Prime Minister's Crop Insurance Scheme) was launched by Prime Minister of India Narendra Modi on 18 February 2016. It envisages a uniform premium of only 2 per cent to be paid by farmers for Kharif crops, and 1.5 per cent for Rabi crops. The premium for annual commercial and horticultural crops will be 5 per cent. Prime Minister Narendra Modi has asked for integration .

This scheme is dedicated to bring in more than 50% of the farmers under its wing within the next 2–3 years. Around 25% of the claims will be sent to the farmer’s direct account. Also, the scheme will remain as it is. This means that there will be no cap on coverage. Also there won’t be any cap on the reduction in the insured sum.

This insurance scheme, unlike the previous ones, covers local calamities too, such as landslide, hailstorm, inundation, etc. inundation was not covered by the previous schemes.

The government has proposed that there will only be one insurance company for the entire state. Mostly the private as well as the national agricultural insurance companies will be approached to implement it.

Previous Scheme:

Comprehensive Crop Insurance Scheme(CCIS)

The Comprehensive Insurance Scheme (CIS) covered 15 states and 2 union territories. Participation in the scheme was voluntary. Around 5 million farmers and between 8-9 million hectares were annually covered by this scheme. If the actual yield in any area covered by the scheme fell short of the guaranteed yield, the farmers were entitled to an indemnity on compensation to the extent of the shortfall in yield. The General Insurance Corporation of India administered the scheme on behalf of the Ministry of Agriculture, Government of India.

A major drawback of the scheme could be seen from the fact that out of all the all-India claims of □16.23 billion (US$250 million), Gujarat alone received □7.92 billion(US$120 million) for one single crop, groundnut.

Experimental Crop Insurance

An experimental crop insurance scheme was introduced in 1997-98, covering non-loanee small and marginal farmers growing specified crops in selected districts. The premium was subsidized. The premium collected was about □3 crore (US$470,000) and the claims amounted to Rs. □40 crore (US$6.2 million).

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Farm Income Insurance Scheme

The Central Government formulated the Farm Income Insurance Scheme (FIIS) during 2003-04. The two critical components of a farmer's income are yield and price. FIIS targeted these two components through a single insurance policy so that the insured farmer could get a guaranteed income.

The scheme provided income protection to the farmers by insuring production and market risks. The insured farmers were ensured minimum guaranteed income (that is, average yield multiplied by the minimum support price). If the actual income was less than the guaranteed income, the insured would be compensated to the extent of the shortfall by the Agriculture Insurance Company of India. Initially, the scheme would cover only wheat and rice and would be compulsory for farmers availing crop loans. NAIS (explained in the section below) would be withdrawn for the crops covered under FIIS, but would continue to be applicable for other crops.

VI. NATIONAL AGRICULTURE INSURANCE SCHEME (NAIS)

The Government of India experimented with a comprehensive crop insurance scheme which failed. The Government then introduced in 1999-2000, a new scheme titled "National Agricultural Insurance Scheme" (NAIS) or "Rashtriya Krishi Bima Yojana" (RKBY). NAIS envisages coverage of all food crops (cereals and pulses), oilseeds, horticultural and commercial crops. It covers all farmers, both loanees and non-loanees, under the scheme.

The premium rates vary from 1.5 percent to 3.5 percent of sum assured for food crops. In the case of horticultural and commercial crops, actuarial rates are charged. Small and marginal farmers are entitled to a subsidy of 50 percent of the premium charged- the subsidy is shared equally between the Government of India and the States. The subsidy is to be phased out over a period of 5 years.

NAIS operates on the basis of

1. Area approach- defined areas for each notified crop for widespread calamities.
2. On individual basis- for localized calamities such as hailstorms, landslides, cyclones and floods.

Under the scheme, each state is required to reach the level Gram Panchayat as the unit of insurance in a maximum period of 3 years. Agriculture Insurance Corporation of India is implementing the scheme.

VII. NEED AND IMPORTANCE

In India, agriculture is dependent on nature and plays a significant role in indian economy.

In indian farmers have to suffer a huge loss during natural calamities such as floods, drought or earthquake.

In agriculture better truth is that one Indian farmer attempts suicide every day due to less income and poverty.

In insurance is one of the best ways to protect the farmers is one of the best ways to protect the farmers from such as damages.

In india crop insurance was introduce in the year 1985 when the seventh five year plan was announced. Commercialization of agricultural products has increased in india.

In agriculture insurance of crop production provides a relief to the farmers when the crop is damaged by attack of pests floods drought or any other means.

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VIII. FINDINDS

1. The Public Sector Banks Play Vital role in Agriculture Insurance .It will Help to the Farmers Decreases risk Uncertains of Weathers and also other Barriers .Government of India also bringing lot schemes for Farmers to protect their Crops i.e. National Agriculture Insurance Scheme (NAIS)

Pradhan Mantri Fasal Bima Yojana

Comprehensive Crop Insurance Scheme(CCIS)

Experimental Crop Insurance

Farm Income Insurance Scheme

2. There is need for famers for agriculture Insurance .In insurance is one of the best ways to protect the farmers is one of the best ways to protect the farmers from such as damages. In agriculture insurance of crop production provides a relief to the farmers when the crop is damaged by attack of pests floods drought or any other means.

3. According R & D of India .Premium Subsidies to the Agriculture Sector i.e. 63 percent of the surveyed countries use this mechanism to support crop insurance and 35 percent to support live stock insurance.

IX. SUGGESTIONS

1. Agricultural insurance is essentially a commercial activity, it is, nevertheless, common to see governments playing a role in the industry Governments have an interest from the perspective of maintaining productivity for the economy and safeguarding the wellbeing of the rural community.
2. Public-private partnerships are the preferred model for a successful agricultural insurance market. The current high administration and transaction costs translate into high premium levels which makes insurance unaffordable for many small providers.
3. Public sector participation in supporting agricultural insurance is a key to developing and scaling up agricultural insurance programs, while the participation of the private sector brings skills, expertise, and innovation into the market.

X. CONCLUSION

Conclusion In order to respond to market inefficiencies, large scale agricultural insurance programs require governments to play a key leadership role. The key areas of involvement range from the provision of data to developing an enabling legal and regulatory environment for the private sector to foster innovation and achieve penetration. Governments can combine interventions in various areas to help reduce the cost and improve the quality of insurance both for insurance companies and for customers.

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