INTRODUCTION

Farmers face floods, drought, pests, disease, and a plethora of other natural disasters. The weather is their greatest adversary, something that can never be controlled by man. Yet, farming has been in existence since the caveman turned his spear in for a hoe. Farming has come a long way since then; nevertheless, farmers are still at the mercy of the heavens. Crop insurance is a risk management tool that farmers can use in today's agricultural world. For a premium, farmers can pass their weather-related risk onto a third party. Farmers in India have been subjected to publicly administered insurance schemes since 1972. Every scheme has been flawed, yet the government of India is still attempting to strengthen agriculture by protecting its farmers from the weather.

India's failure at providing public crop insurance does not stand alone. In both the developing and developed world, governments' crop insurance schemes have run at huge losses while not delivering an effective product. The inadequacy of such schemes is a well-established fact. On the other hand, private insurance does exist in situations where it is feasible and no subsidized insurance is offered. The farmers stand to benefit even more from private insurance when there are several competitors.

THE SUICIDES OF ANDHRA PRADESH (INDIA)

The tragedy of farmers suicides in Andhra Pradesh has been occurring regularly since 1998, hardly a sudden phenomenon. In the past few months, however, farmers of the region have been ending their lives at an alarming rate (six to 10 suicides per day), even after the inauguration of the new State Chief Minister, YSR Reddy, with promises of prosperity and free power for the agricultural sector. Inter alia, the main causes of alarming suicides in the State are as follows:

- Production costs of paddy, groundnut, and cotton in the state are much higher than those of other states, making its farmers uncompetitive in the national market. Although it is commonly agreed that the cost of the seed should never exceed 10 percent of total cost of cultivation, the average groundnut seed costs the farmer almost 40 percent of total cultivation. With little relief from provided government subsidies, this kind of high production cost leaves the average annual income of a farming family in AP at a mere Rs 10,000.

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1 According to a survey conducted by ‘The Andhra Press’, a regional daily newspaper in Andhra Pradesh to find out the reasons of agricultural suicides.
Because farmers cannot procure seeds, social unrest has been on the rise. Reports of violence against agricultural officials surfaced this past June because of a poor groundnut seed supply in the region of Rayalseema. The farmers of Rayalseema have been dependent on groundnut crops since the 80s when the government had restricted edible oil imports and subsidised the seeds. Now that import restrictions have been lifted, groundnut prices have crashed and although the government has attempted to supply farmers with enough seeds, there remains a deficit. Also, the government only subsidises 38 percent of seed cost and most indebted farmers cannot even afford the remaining majority. Farmers are left with no choice but to buy the seeds from private traders and large farmers on credit, paying exorbitant interest rates.

While subsidies may provide limited assistance to some farmers, growers of cotton and chilli do not enjoy any government subsidies. These farmers buy highly priced seeds and pesticides from private suppliers and, if the seeds fail to germinate, they rarely get compensation.

Though YSR Reddy’s administration has attempted to reverse the damage caused by Chandrababu Naidu’s negligent and anti-poor economic reforms, the state’s suicide crisis will only worsen as long as government officials refuse to recognise the harm caused by the industrial farming models which have penetrated the state. These intensive agricultural methods and their focus on cash crops has played a severely detrimental role on the sustainable livelihoods of AP’s farmers.

GOVERNMENT’S ATTEMPTS

Comprehensive Crop Insurance Scheme (CCIS)

As elsewhere in the world, policy makers in India have also been concerned about the risk and uncertainty prevalent in agriculture. A number of models of crop insurance were considered for feasibility 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). The CCIS was implemented for 15 years, from Kharif 1985 to Kharif 1999. Though this scheme lasted for many years but it had various lacunas in it so it was replaced by a new and so-called improved scheme, NAIS.

National Agricultural Insurance Scheme (NAIS)

A new crop insurance, called Rashtriya Krishi Bima Yoana (RKBY) or National Agricultural Insurance Scheme (NAIS)², was launched by the Prime Minister on June 23,
Participation in RKBY was compulsory for farmers growing notified crops and availing of crop loans from formal credit institutions. However, non-borrower farmers growing notified crops were also eligible to opt for the scheme on a voluntary basis. In case of loanee farmers 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 government's most current crop insurance scheme, the National Agriculture Insurance Scheme, has only been implemented since the Rabi season of 1999-2000. Within five years the NAIS is supposed to become financially sustainable, charging farmers premiums based on actuarial rates and administrative costs. However, shortcomings of previous crop insurance schemes, general trends of agricultural insurance in other countries, and inherent theoretical flaws in the NAIS all point towards disaster.

**MAIN FLAWS OF NAIS**

The main flaws of the NAIS can be summarized as follows with brief analysis of each:

- Lofty goal of financial viability
- Mandatory for loanee farmers
- Premiums do not equal Risk level
- Adverse selection, in the case of non-loanee farmers
- The area approach

1. **Financial viability**

Farmers growing commercial or horticultural crops covered under the NAIS are supposed to pay actuarial rates. For all crops, the NAIS is supposed to become financially viable within five years, with yearly increases in premiums based on administrative costs and actuarial rates. If the NAIS becomes financially viable, private crop insurance would also be feasible. The effect of the opening of insurance markets in India is still to be seen. However, if the government stays in the crop insurance market private companies will be discouraged from entry, especially considering the state controls on almost every aspect of agriculture. Government controls range from setting input prices to output prices, all of which distort agricultural production.

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3 The NAIS covers the most number of farmers in the world. Overall, it covers over 30 crops during the kharif season and over 25 crops during the rabi season. Since its inception the scheme has offered coverage to 46.21 million farmers. The total sum insured for the year came to Rs.40,298 crores, with premiums worth Rs.1,243 crores earned. The claims settled that year amounted to Rs.4,991 crores.
Therefore, any reform in crop insurance will be most effective when accompanied by overall reform in the agricultural sector.

2. Mandatory for loanee farmers

The CCIS was mandatory for loanee farmers growing covered crops and insured 100% of the crop loan. The NAIS is also mandatory for loanee farmers growing covered crops in implementing states. The indemnity is based upon the value of the threshold level for each crop grown in a set area. The threshold yield is based upon a moving average of the yield over past five years. Anyone remotely familiar with agriculture would understand that five years yield data does not accurately represent complex weather patterns. Additionally, non-loanee farmers are allowed to participate in the NAIS, but up to this point very few, except in Maharashtra, have chosen to do so.

3. Crop insurance or bank insurance?

The CCIS was often criticized as being "bank insurance," and the NAIS is no better on this count. Producers taking out loans have no choice--if the state authorities decide to implement the NAIS the producer must purchase insurance. Insurance is not the only risk-management tool available to farmers in India. Requiring loanee farmers to prove their ability to manage risk is good business; forcing one option upon them is not. Farmers with adequate risk management capabilities should not be forced to purchase crop insurance in order to receive a loan.

Only 23 are participating in the NAIS. Punjab and Haryana are two of the leading agricultural states, but have yet to participate in the CCIS or NAIS. Three levels of indemnity do exist within the NAIS, but three risk levels can in no way address the diverse climate and agriculture in India. If premiums were based upon true risk levels, farmers in any agricultural system could avail of crop insurance if it fit their risk-management needs. If a farmer faces such high risks that he cannot survive without subsidized insurance the cropping system is not sustainable.

4. Premiums

The CCIS only charged premiums of 1-2% percent, while claims made were approximately 9% of the sum insured. Factoring in administrative costs, participating farmers as a whole would have had to pay approximately 15% of the sum insured without the subsidy. The NAIS has premiums of 1.5 to 3.5, varying from crop to crop. Although premiums are higher than those of previous schemes, based on past experience, they are still not high enough to cover claims.

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4 Diversification, fragmented land holding, off-farm employment, and savings are just of few of the options.
5 It is said that agriculture in Punjab and Haryana is less risky than that of other states. However, one cannot assume that no demand exists for crop insurance in these states, as no cropping system is without risk.
5. Adverse selection

Adverse selection can be observed when a group of farmers is offered crop insurance at the same premium, as is often the case in government administered/subsidized crop insurance. The worst farmers will avail of the insurance, making claims unreasonably high. Publicly administered crop insurance schemes worldwide have been largely unsuccessful partially due to adverse selection.

In India adverse selection can clearly be seen at the state level, as Punjab and Haryana do not participate in the NAIS. If adverse selection were unavoidable, the entire insurance sector would not exist. History tells us that private insurance has been better able to address the problem of adverse selection. The NAIS makes insurance mandatory for loanee farmers, so adverse selection is more apparent at the state level. Non-loanee farmers have no obligation to purchase crop insurance and will most likely follow the pattern of adverse selection. If the NAIS can become financially viable, premiums would have to continually rise due to adverse selection.

6. Area approach

Farmers insured under the NAIS are not guaranteed indemnity for their yield losses. The uncertainty that even insured farmers face is due to claims/indemnity being based upon the 'area approach.' The area approach was considered the only feasible way to administer the CCIS. As expressed in a Ministry of Agriculture publication an 'individual' crop insurance scheme is not possible in India for several reasons, including "prohibitive costs due to huge requirement of men and material" and "disputes over fixing guaranteed yield and loss assessment." The NAIS is being operated under the area-approach currently.  

The "area approach" is operated under the results of crop-cutting experiments. Each year a set number of plots with the insured crops for a certain "area" are used as the indicators of an individual farmer’s losses within that area. The unit area can be as large as a Block/Taluka or as small as 4-5 villages (Gram Panchayat level). 

The states implementing the NAIS are expected to reach the Gram Panchayat level of implementation within three years. Insured farmers receive indemnity based upon the difference between the threshold yield and the yield of the crop-cutting experiments in their area. Crop yields naturally vary even over small areas and very localized natural calamities could occur. Situations easily exist in which farmers would not be compensated for their loss under the NAIS or farmers without insurable losses would

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6 In a few selected districts the "individual" approach is being implemented on an experimental basis. Considering past experience, the individual approach is not likely to suddenly become a feasible option.

7 Currently, each State has its own way of measuring land units and these variations, along with sociological factors, have been taken into account now. The unit of insurance in Andhra Pradesh, for instance, is a mandal or a group of mandals. In Assam, it is a circle, or a group of circles. In Chhattisgarh, it is the tehsil, and in Goa, it is the taluk. In Pondicherry, it is the commune panchayat. In Karnataka, it may be the tehsil or the hobli. But in Bihar, the unit is the block, for paddy and the district, for maize. In Uttarakhand, there are different units for the hills and the plains.
receive payments anyway. Loanee farmers forced to purchase crop insurance may not receive payments for crop losses. The only attractive feature of the area approach is that it reduces moral hazard. Moral hazard occurs when an individual farmer purposely allows his yield to be less in order to collect insurance premiums. The prevention of moral hazard does not redeem the area approach from its inefficiency.

**VARSHA BIMA 2005**

Agricultural insurance is an industry that is still in its teething stages in this country. However, there have been constant efforts to improve upon the kind of insurance cover offered to farmers. Earlier this year, the Agricultural Insurance Company of India Limited (AIC) launched the Varsha Bima 2005, a scheme to insure farmers against the vagaries of the monsoon promises to mitigate rural distress by compensating farmers for financial losses incurred owing to crop losses, as a result of adverse rainfall.8

- **Advantages of the scheme**

  According to the AIC, rainfall insurance has inherent advantages over traditional crop insurance:

  1. The reason for the failure of the crop can be independently recognised and verified.
  2. The insurance claims will be settled faster.
  3. The premium for insurance is flexible, making it easier for people in rural areas to seek coverage.
  4. The administrative costs for the rainfall-based insurance scheme are lower.
  5. The scheme is also suitable for areas that are entirely rain-fed.
  6. Group insurance; The scheme gives farmers the option of group insurance, so that a group of cultivators can opt for Varsha Bima or SSK by submitting a single crop-wise proposal, followed by a summary sheet containing details of each insured individual.

- **Disadvantages**

  Under Varsha Bima there is one caveat. Farmers who buy Varsha Bima cannot simultaneously take other crop insurance schemes for the same crop in the same area, and

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8 As early as in 1976 the National Commission on Agriculture (1976) had estimated that rainfall variations accounted for 50% of the variability in agricultural yields, being as high as 90% for cotton and groundnut, 47% for wheat and 45% for barley and jowar. This causal analysis of crop yield losses will necessarily have a direct bearing on any scheme of insurance whose main purpose is to protect insureds against acts of God.
for the same time period. It implies that farmers can only cover their risk against rainfall and not other risks as well, if they opt for Varsh Bima Yojana.

- **Implementing states**

The AIC introduced Varsha Bima during the 2004 kharif season as a pilot project in 20 raingauge station areas, across four States. Based on the experience, the scheme was designed and fine-tuned before being launched as Varsha Bima 2005. The scheme is being implemented in 10 States initially, in areas that correspond to 140 Indian Meteorological Department (IMD) raingauge stations. The States selected for implementation are Andhra Pradesh, Chhattisgarh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttaranchal and Uttar Pradesh.

- **Premiums**

Under this scheme, the sum insured is pre-specified, which lies between the cost of production and the value of production. Varsha Bima also takes into account the fact that there is very little connection between rainfall predictions made on an all-India basis and the actual rainfall in different regions. Therefore, premium rates also vary according to local rainfall distribution and based on crop sensitivity to rainfall and are between 4 and 7 per cent.

**SOOKHA SURAKSHA KAVACH (SSK)**

Besides this, the AIC has offered the Sookha Suraksha Kavach (SSK) an exclusive product for Rajasthan, an exceptionally drought-prone State. The SSK is being made available in 23 districts of Rajasthan, and it covers major crops such as bajra, jowar, maize, guar, soybean and groundnut. The sum insured will be roughly equal to the cost of production and there will be a flexible premium rate, ranging from 4 to 8 per cent.

**ROLE OF AGRICULTURAL INSURANCE COMPANY OF INDIA LIMITED (AIC)**

GRADUALLY, the government saw the need for more evolved forms of crop insurance in the country and the need for a specialised entity to plan and implement such schemes. With this need in sight, the AIC was set up in December 2002. The newly formed company took over crop insurance activities from the GIC, in April 2003.

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9 The AIC is promoted by the GIC, which holds 35 per cent, the National Bank for Agriculture and Rural Development (NABARD), which holds 30 per cent, and four public sector general insurance companies, which hold 8.75 per cent each. The AIC has an authorised share capital of Rs. 1, 500 crores, and an initial paid-up capital of Rs. 200 crores.

10 The number of farmers it has insured has gone up from 12 million during 2002-03 to 18 million during 2004-05, an increase of 50 per cent.
ATTEMPTS OF PRIVATE PLAYERS

The only major private player in the insurance industry to offer agricultural insurance is ICICI Lombard, which is believed to have insured about one-lakh farmers against crop failure.

Index-based contracts

The value of crop insurance, private or subsidized, is much debated by academics and policy makers. The concept of index-based contracts for natural disasters in place of crop insurance has been recently introduced. Farmers would purchase a contract and be compensated when a certain event or natural disaster occurs. But index based contracts are introduced mainly by the private players and generally farmers, specially in India, do not believe in the companies or privatization of policies instead they have a blind faith on the government i.e. if any crop insurance scheme is formulated by the government then they will have more trust on it. Moreover such index based contracts are also not so popular and well advertised so one more slap is also hit on the face of the poor farmers due to their unawareness.

Rainfall contracts

Rain is relatively simple to monitor and the history of rainfall in most areas is well known. Farmers would be compensated if the rainfall in an area would go below a set level, with varying levels of payment depending upon the level of rainfall. The faults of this approach lie in its similarity to the area approach. However, the benefits are significant, including reduction of moral hazard, adverse selection, and transaction costs. This alternate model could be adopted as an improvement over the NAIS but would still deter the private sector from entry into crop insurance.

Private crop insurance can be observed worldwide, even though it is not highly developed. Private crop insurance has tended to cover more specific risks and not cover management-related risks. These insurance policies offered must fit needs of farmers and be beneficial--otherwise they would not exist. This is not necessarily the case with government sponsored crop insurance. Private insurance works in a wide range of countries for a wide range of agricultural activities.

THE RURAL SCENARIO - THEIR NEEDS AND WANTS

To understand the prospects for insurance companies in rural India, it is very important to understand the requirements of India's villagers. Therefore, we need to study their daily lives, their peculiar needs and their occupational structures.

Our villagers are farmers, craftsmen, milkmen, weavers, casual labourers, construction workers and shopkeepers and so on. More often than not, they are into more than profession… they have side-businesses or auxiliary sources of income - the man in the family might work in the field while his wife may rear poultry at home.
Let us take a peep into the life of one of them… say, a typical farmer. Though many of his brethren in other parts of India will have access to an assured and regular source of water, he will be totally at the mercy of the monsoons. His source of livelihood (i.e. farming) will be totally at the mercy of the nature. What would happen if there were to be floods or drought? What would he do if there were to be pestilence? And what about a crop failure or a crash in prices? For a marginal farmer subsisting on a small piece of land, the consequences of these factors would be catastrophic. How would the farmer repay his loans? With the WTO regulations all set to be enforced, what would be the fate of a small farmer left to the mercy of global market forces? The situation is compounded by the absence of civic amenities and proper guidance by the concerned authorities.

There exists, thus, a great deal of uncertainty in his profession. This translates to an immense amount of risk. The loss is always majorly financial. And this is present in every profession that we can think of. Think about what a cattle rearer would do if there were to be an epidemic or death or theft of the animals.

This is where insurance has a great role to play.

**HISTORY'S LESSONS**

Economists have proven that farmers stand to benefit from crop insurance, even unsubsidized crop insurance. However, private markets for crop insurance worldwide are not highly developed, except for in a few cases. Skees (2000) documents several reasons for the underdevelopment of private crop insurance. Subsidized crop insurance crowds out private insurers and stifles innovation. Farmers are considered to know their risks better than the government or the private sector, so knowledge of agriculture is essential for insurers. The need for information increases the cost of insurance. Agricultural risk is unique--natural disasters can be widespread and are neither completely independent nor correlated. Studies have indicated that farmers/decision makers tend to underestimate the risk of damage by natural causes.

**United States of America**

In the United States crop insurance is subsidized by the government but administered through private companies. Hail insurance is not subsidized, so most insurers offer hail insurance along with the subsidized government policies. Rates are based upon the history of crop losses due to hail in the county and competition also plays a factor in keeping rates low. Adverse selection is not an issue because companies set rates higher for high-risk areas. Moral hazard is also less of a problem, as hail is a natural event. The multiple-peril insurance subsidized by the government is considered to be too expensive if offered without subsidies. A crop insurance agent from Midwest estimated that over half of the farmers who purchase subsidized multi-peril crop insurance also purchase hail insurance. The model used for hail insurance can also be used for other natural disasters, like drought, flood, and wind. The current subsidized insurance program administered through private companies is relatively new. This program is considered to be a significant improvement over the previous unpopular programs administered by the...
government, although it is not flawless. An option for the Indian government is to administer its crop insurance program through private companies and gradually phase out the subsidy. This option could best be used for a "transition" period. Initially subsidizing premium rates for crop insurance offered through private companies would give the private sector incentive to enter the agricultural sector and time to gain experience before the withdrawal of subsidies.

**South Africa**

Crop insurance in South Africa was started in 1929 when a group of farmers started a pool scheme. Subsidized multi-peril insurance was offered for some time, but for the past fifteen years no subsidies have been given. Hail is the main peril covered and many other perils are also covered. Historical data and past claims play a role in determining the premiums and damage assessment is the biggest challenge for crop insurers. Crops at different stages are affected differently by hail, making knowledge essential for insurers. There are several players and new ones are continuously targeting this market. Several crops are covered, including maize, wheat, sunflowers, and citrus fruits. The South Africa case illustrates how private individuals can offer crop insurance that is beneficial to farmers and how crop insurance can still exist after subsidies are withdrawn.

**Canada**

In Canada crop insurance was administered through an area approach, similar to that of India. Research from 1995 by Turvey and Islam indicated that the area approach was not only inequitable but also inefficient. The empirical research from 537 farms confirmed the belief that individual crop insurance is better in terms of risk reduction, but premiums would also be higher. The area approach in Canada was concluded to be inequitable, as benefits were not fairly distributed. The most benefits to be accrued would be by the farmers with yields closest to the average. The crop insurance in Canada was voluntary at this time, unlike the NAIS. Adverse selection would be less of a problem at the individual level when insurance is mandatory. Cross-subsidization would be more of a problem, because the better farmers having to purchase insurance would indirectly subsidize the worse farmers.

**Sakurai and Reardon study, 1997**

A 1997 study by Sakurai and Reardon indicated that there was an unmet demand for formal drought insurance in Burkina Faso. Burkina Faso is a part of the West African Semi-Arid Tropics (WASAT) and experiences frequent drought. Much of the farmland in India is in the semi-arid tropics. The demand for drought insurance was found to decrease in households with higher overall incomes or more self-insurance. The authors suggest that crop insurance alone is not sufficient; that policy and programs that supports self-insurance, such as micro credit or increase of off-farm employment, are also important. Perhaps in India public funds and government policy would be better aimed at strengthening self-insurance mechanisms, while leaving crop insurance to the private sector.
SUGGESTIONS

AFTER A DEEP RESEARCH AND ANALYSIS PERTAINING TO VARIOUS CROP INSURANCE SCHEMES, PARTICULARLY NAIS, FOLLOWING FINDINGS AND RECOMMENDATIONS ARE FORWARDED:

**Investment in agricultural infrastructure/research** would be more equitable as opposed to subsidies to crop insurance and may yield more long-term benefits. Farmers deserve the chance to farm on their own. They know the weather better than anyone—it is their greatest foe and their greatest friend.

The government has admitted that it lacks the resources to administer a proper insurance scheme at the individual level. For various reasons a second-rate scheme is deemed as necessary. A better option would be an income guarantee not based upon yield, crop grown, or farm size. Considering the various subsidies that are given to farmers through various means--fertilizers, seed, price supports, etc.--an **income guarantee should not be an unfeasible option**. Farmers need to be able to respond to market forces and develop their own risk-management tools.

Insurance is not the only risk-management tool available to farmers in India. **Diversification, fragmented land holding, off-farm employment, and savings** are just of few of the options. Farmers with adequate risk management capabilities should not be forced to purchase crop insurance in order to receive a loan.

In the event of crop failure or damage, the farmer receives indemnity payment only for the difference between threshold yield and the average yield and that too for the loan amount. It would be more prudent if the expected revenue from the crop is insured (as in USA). This would help the farmers to manage their consumption needs in the event of crop failure.

Agriculture crop insurance itself cannot increase productivity or be a source of financing but it can certainly play a role in enhancing both. Agricultural insurance schemes are more complex than other types of insurance. There are some limitations and inherent constraints that prevent a rapid growth of insurance business in rural areas. Therefore to transform Agri-insurance business into a successful and fruitful business to insurers as well as to the farmers its **concept should be clear with easy-to-understand clauses favoring farmers**.

The rural markets are still virgin territories to a great extent and offer exciting opportunities for insurance companies. The surest path to success is to judge and measure the requirements of the people correctly and offer a **scheme that they would be able to afford**.

There is also an urgent need to enter into tie-ups or understandings with government agencies to ensure the success of the schemes. The need of the hour is to have innovative policies that have explicit benefits for the people to observe, understand and measure.
However, all of these have to be supported by **appropriate policy measures at the ground level.** Also, the entry of foreign companies should ideally lead to enhanced competition and result in better days for the customers.

The present level of risk is accentuated by the inadequacies in the system of rural credit prevalent in India. The element of unpredictability the farmers suffer from can be eliminated to a large extent by **prudent agri-credit policies** that are easy on the farmer. The farmers then, would not only enjoy more comfortable policies but would also be free from the clutches of unscrupulous elements. It would provide them the badly needed comfort zone to give them more security and assurance in life.

**Insurance needs to be packaged in such a form that it appears as an acceptable investment to the rural people.** In the near future, when we’ll see more innovations in agriculture in the form of corporatisation or a more professional approach from the farmers’ side, insurance will definitely be one option that the rural Indian is going to accept.

Farmers could be given an income guarantee not based on yield, price, or area planted. Even now an income insurance scheme is being considered in India.

**Awareness campaign** to induce non-borrowers to buy insurance covers for major/notified crops.

**CONCLUSION**

The entire system of crop insurance in rural India is bizarre in the extreme. The farmer is not compensated for individual crop loss, but has to be treated as one of the entire group in the area, and the unit for calculation is taken to be the block of the district(mandal). There is wide variation in soil types, cultivation conditions and even rainfall within such blocks, and so the average disguises a large range of crop output. Some farmers may lose their entire crop even when the average for the block is normal.

In these circumstances, linking compensation payments to the average crop performance of the block (mandal) is extremely unfair. It is akin to linking payments of life insurance claims to the average death rate in a particular area, rather than the death of the individual who has taken out the policy.

What explains this extraordinary system, which adds to the burden on farmers without providing any compensation to so many genuine cases? The answer lies in the way in which the system of crop insurance was introduced, and the inflexible manner in which it is currently being pursued.

Some well-meaning policy-makers at the Centre decided some years ago that anyone taking a crop loan from an institutional source should also take on crop insurance. And so the public insurance companies were instructed to provide crop insurance - which could be linked to the loans - to farmers. This was an excellent idea, except that the insurance
companies were not provided with the additional staff that is necessary to supervise and implement the provision of crop loans. In fact, they were encouraged instead to "downsize" and reduce staff in order to cut costs, even when serving rural areas.

As a consequence, because of shortage of staff, the public insurance companies are simply not in a position to undertake the examination of fields which would be required to provide an individual insurance policy and deal with individual claims along the lines of other insurance products. So they have fallen back on a system of averages, and that too, of a relatively large area, and linked individual payments to the average performance of the area.

The crop insurance has therefore become no more than a loan insurance, which insures the lenders at the cost of the farmers who have to pay the premium. The unfair system, which is in sharp contrast to the other schemes of insurance available in other sectors and for individuals, provides yet another example of how so many systems in our economy are weighted against cultivators.