SOUMIK KAR

NEED COVER. CAN'T GET IT

Crop insurance could have saved many farmers from the drought. But, in its current form, it isn't reaching those who need it the most.

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INSURANCE. IT'S AN INSTRUMENT THAT people, companies and even governments use to protect something they value against an uncertain but real risk. Given this, one would expect Indian farmers to be at the forefront of those seeking insurance. Consider the facts: they take loans to buy seeds, fertilisers, land and the like. They also use much of their own money to cultivate their crops. Most are entirely dependent on rainfall, and when there is a drought—as there is in many parts of the country now—everything comes a cropper. So, insurance makes perfect sense for them. Sadly, only a miniscule number actually avail it.

Data from the Agriculture Insurance Company of India (AICI) shows that around 11.55 crore farmers, with an acreage of 184 crore hectares, have been covered. That number is big, but only because that's the total number of farmers who have taken insurance since 1999. In terms of area covered, the insured farmers represent only 17% of farm holdings.

Even that number would be much lower had the government not made it mandatory for farm loans disbursed by commercial banks to include crop insurance under a state-subsidised scheme. In some states, the coverage is abysmal. According to the Indian Society of Agribusiness Professionals, only 3% of farmers have agri insurance in Bihar. Of them, less than 1% make claims. And of those, only 4% get compensated. When claims are paid, it takes the farmer over a year to get the money, when, in fact, he needs it immediately to sow the next crop. That sums up crop insurance in India today.

"Crop insurance has not reached the desired level of penetration for a variety of compelling reasons," says M Parshad, Chairman and Managing Director, AICI, in the company's annual report for 2007-08. He could not be reached for comment, but it's not hard to figure out what the compelling reasons are. For starters, unlike other forms of insurance, farm insurance hasn't evolved at all. It simply does not meet the farmer's needs.

The main instrument of cover is the National Agricultural Insurance Scheme (NAIS)—a one-size-for-all government plan that was launched in 1999. Under it, those who have availed loans have to pay premiums ranging from 1.5-3% of the loan amount. Those who haven't taken loans are charged according to slabs calculated for a particular crop in a particular area. For instance, sugarcane farmers in Dharmapuri, Tamil Nadu, have to pay Rs 960 per acre as premium. The crop is estimated to be worth Rs 20,000.

The scheme is administered by AICI. On paper, it is available to all farmers. In reality, says a senior official in a general insurance company, "only rich farmers, with access to farm loans, avail it". Even they do so only because it is compulsory, as the additional cost can pinch. A premium of 2% on a loan of Rs 2 lakh adds Rs 4,000 to a farmer's interest payout.

"Farmers are not inclined to take the cover. We have to forcefully sell it to them," says an official at a PSU bank. He believes AICI should market insurance products on its own, with its own field staff. "They are riding on the bank's infrastructure without making an effort to reach farmers directly," he adds.

However, developing a rural distribution network won't be easy. While 37% of India's urban population lives in 23 cities, 37% of the rural populace lives in 100,000 villages, according to data compiled by ICICI Lombard General Insurance. There is also a mindblock among farmers. They see it as an additional expense rather than protection. Thus, even though NAIS covers farmers' non-loan investments, they prefer not to buy cover to save the premium. As a result, only farm loans, mostly availed by the rich, are insured. Those who need the loans and the insurance simply don't benefit.