# Insurance sector beset with its own problems

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Undoubtedly 2019 will be a testing year for Pradhan Mantri Fasal Bima Yojana (PMFBY), the flagship crop insurance scheme launched by Narendra Modi-led NDA government in 2016. After a run of three relatively good years, insurance firms are staring at a bad year — in fact, a situation where claims can far exceed premiums collected.

The heavy rains in the last leg of the monsoon season were extremely unkind, leading to floods, particularly in the central and western parts of the country, resulting in huge crop losses. Many kharif crops in Gujarat, Maharashtra and Madhya Pradesh suffered massive losses. "A month back we had been expecting a profitable situation, but it has all gone now," says Rajeshwari Singh, GM, State-owned Agricultural Insurance Corporation of India, which accounts for nearly half of the PMFBY pie.

Insurance firms that operate clusters in these States are particularly hit hard. With the increasing frequency of weather events such as droughts, floods and hailstorms, crop insurance is no longer a profitable venture, says an industry insider.

A public-private partnership scheme, PMFBY was rather different from the crop insurance schemes that India had gone for in the past. Under the scheme, a farmer has to pay only 1.5 to 5 per cent of policy amount as premium, with the State and Central governments equally sharing the rest. As per cent provisional figures released by the government, in 2018-19, the total premium collected was ₹29,035 crore, with farmers contributing ₹4,889 crore. As many as 5.64 crore enrolled for the scheme, covering the gross cropped area of 30 per cent. According to a senior government official, in the 2019 kharif season, the number of farmers enrolling for PMFBY is expected to be 3.7 crore, a sizeable number of them non-loanee farmers.

Since its inception, the scheme has had its share of controversies. While a number of farmer organisations argued that it has been designed to benefit private insurance companies, the insurance firms have had their own set of grouses. The farmers have been suspicious of intentions of the private companies and arguing that they have been making a windfall at the behest of farmers. They point out that while gross premium collected in 2016-17 was ₹22,008 crore, the claims payout was ₹16,617 crore and in 2017-18 as against premium collection of ₹25,481 crore, the insurance firms paid out ₹21,705 crore. In 2018-19, they collected ₹29,035 crore and ₹14,246 crore has been paid in claims so far. But these numbers are not final as there are a large number of outstanding claims, whose payouts are pending mostly because a number of State governments have to pay their share of premium subsidy.

Singh of AIC says the non-receipt of premium subsidy from the State government was a double whammy for the firms. "Only if the State government did, the Centre would release the matching subsidy. We were supposed to get 50 per cent subsidy upfront, but hardly receive the funds in time," she says, adding that this often delays the claim settlements. In October 2018, the Centre decided to revise PMFBY operational guidelines, bringing in, among other things, a provision to impose penalties on delayed financial translations by any of the stakeholders.

According to Ashish Bhutani, CEO of PMFBY, and Joint Secretary at the Ministry of Agriculture and Farmers' Welfare, the percentage of farmers enrolled for PMFBY through non-loanee route has gone up from 5 per cent at the inception to a good 42 per cent now.

The compulsory enrolment of all farmers availing crop loans for PMFBY, as is the practice currently in most States barring a few like Maharashtra which has made it voluntary for farmers to decide, has been a sore point among farmers. The Central government has been holding consultations with the State governments to make the scheme voluntary. "Maharashtra is a classic case. The maximum number of non-loanee farmers enrolled for PMFBY was from Maharashtra, where the scheme is voluntary. The farmers still enrolled because of their risk perception," says an industry insider.

The major pain point of the PMFBY scheme is crop cutting experiments (CCEs). As many as 70 lakh CCEs need to be carried out in a short span of 2 to 3 weeks across the country to assess the crop yield, which is then used to calculate insurance claims. "It is a logistical nightmare," said Bhutani, while addressing a seminar at FICCI about two months ago. Disputes relating to not conducting CCEs in a proper manner has been one of the major reasons for inordinate delays in claim settlements.

### Status of implementation of PMFBY

| Season | No. of farmers insured (in lakhs) | Total sum insured | Total farmers' share in premium | Total gross premium | Total claim paid | Total No. of farmers against paid claims (in lakhs) |
|---|---|---|---|---|---|---|
| | | (in ₹ crore) | | | | |
| Kharif 2016 | 405.4 | 1,31,699 | 2,909 | 16,026 | 10,548 | 107.9 |
| Rabi 2016-17 | 175.1 | 73,046 | 1,318 | 5,983 | 6,069 | 40.6 |
| **2016-17** | **580.5** | **2,04,744** | **4,227** | **22,008** | **16,617** | **148.4** |
| Kharif 2017 | 350.2 | 1,27,931 | 2,964 | 18,993 | 17,878 | 145.7 |
| Rabi 2017-18 | 175.3 | 78,252 | 1,466 | 6,487 | 3,827 | 25.3 |
| **2017-18** | **525.6** | **2,06,183** | **4,431** | **25,481** | **21,705** | **171.0** |
| Kharif 2018* | 341.0 | 1,36,970 | 3,195 | 20,795 | 12,715 | 104.9 |
| Rabi 2018-19** | 223.4 | 97,993 | 1,694 | 8,240 | 1,531 | 17.6 |
| **2018-19** | **564.4** | **2,34,964** | **4,889** | **29,035** | **14,246** | **122.5** |

*Kharif 2018 claims are currently under process **Rabi 2018-19 enrolment and claims statistics are provisional
• 30% of Gross Cropped Area (GCA) insured • Voluntary coverage at 36% of total coverage

#### Charge of data fudging

Bhutani maintains that local officials often collude with farmers to inform them about the plots chosen for CCEs 50-60 days in advance. The farmers then deliberately avoid taking care of the field, leading to a poor crop. "It is commonly seen that while the plot where CCE is conducted has a poor crop, all surrounding fields are lush green," he says.

But such fudging of data is not helping anybody. "With the increase in claim payouts, premium rates are going up," says an agriculture ministry official. There are a number of districts where several crops have a premium rate of around 50 per cent and above. Cotton crop in Porbandar and groundnut in Rajkot in Gujarat and bajra in Barmer district of Rajasthan are examples.

Says Vijoo Krishnan, a farmer leader affiliated to the All India Kisan Sabha: "Farmers in most States are unhappy with the fact that the governments have made PMFBY compulsory for availing crop loans. As a result, they have been forced to take an insurance policy even when they do not want it."

Farmers' activist Devinder Sharma argues: "The process of awarding a cluster to an insurance company on the basis of bids does not lead to competition driving down the premium. On the contrary, cartelisation across clusters leads to high premiums even as threshold yields are manipulated."

The Centre has identified around 40 districts around the country that account for nearly 50 per cent of the total claims in the country. The Centre is exploring the possibility of taking the high premium crops out of PMFBY and putting them under other crop insurance schemes. However, Singh of AIC feels that the high claim rates in these districts are quite explainable as most of these districts fall in arid zones.

*With inputs from Vishwanath Kulkarni*

# Reinsurance terms, a challenge for the industry

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When Pradhan Mantri Fasal Bima Yojana was rolled out three years ago, insurers were excited and made a beeline to offer it.

But now, most private insurers are going back to the drawing board as stress under the portfolio has been mounting.

According to industry sources, at least two players have lined up their exit from the segment while more are in wait and watch mode for any intervention from the Government or Insurance Regulatory and Development Authority of India (IRDAI).

#### Basic concerns

Many fundamental issues have not been addressed since the beginning. Even in the pre-PMFBY era, delay in providing data of Crop Cutting Experiments (CCE) by States to insurance companies was a serious problem which delayed claim settlements. This has not been addressed adequately after the launch of PMFBY, say insurers.

#### Pricing

Increasing issues with monsoon and steadily expanding reach of the scheme where distress is more is making pricing untenable. "If the scheme is not expanding in areas where there is less distress and fast spreading in those districts where distress is regular, then offering crop insurance is not viable because it it bound to result in losses," says the Chief of Underwriting and claim settlement of a private insurer.

Bhargav Dasgupta, MD and CEO of ICICI Lombard, recently ascribed the trouble to pricing of reinsurance. "Reinsurance terms have turned adverse for insurance companies, so it doesn't make sense. Rates on the ground are more aggressive," he pointed out. "With foreign players taking a big pie of reinsurance of crop cover, we have no control on pricing of re-insurance which is calculated on changing data and perceptions of risk," he said.

In a way, the situation is similar to heavy losses incurred by the insurers on motor pool which became a major concern during 2011-13. IRDAI chipped in by ending the commercial third party motor pool and brought in a declined pool in 2013.

"While one cannot straightaway compare declined pool with crop insurance modalities today, various options are being examined to come out with a viable solution," said a senior official. PMFBY is market-led when it comes to discovery of premium rates. While the insurance companies charge the Actuarial Priced Premium Rate (APR), a farmer has to pay a maximum of 2 per cent for Kharif, 1.5 per cent for Rabi and 5 per cent for commercial and horticultural crops. The difference between APR and what is being paid by the farmers is treated as Rate of Normal Premium Subsidy, which shall be equally borne by the Centre and States. The problem here is delay in payments as well as 'aggressive' pricing by insurers initially.