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Link Crop Insurance To How Much It Rained

With weather risks rife in agriculture, farmers need crop insurance that does not run up against the problem of quantifying lost production. An insurance cover linked to the rainfall index is a simple, straightforward alternative to the traditional ones dependent on crop-cutting and measuring that get mired in red tape. A trigger measurement—cumulative millimetres of rainfall at a defined weather station in a given time period, say, the period of sowing—is set. And if the actual rainfall proves outside the specified range, the payout is triggered. This would eliminate scope for manipulation. All policyholders within a defined area will receive payouts based on the same contract and measurement at the same station, eliminating the need for in-field assessment. This will help lower costs. The data can be always be corroborated with rainfall data from the IMD.

The flagship Pradhan Mantri Fasal Bima Yojana requires states to carry out crop-cutting experiments in every village panchayat for each crop and give the data to insurance companies. Given the scale of the exercise, doubts have been raised on the quality of data used to estimate yields and farmers' losses. But states have the leeway to use other triggers. A rainfall index-based insurance makes sense as a risk-mitigation tool. It would also enable insurers to gauge actuarial outcomes better.

States will have to install many tamper-proof rain gauges, and keep them secure. The premium must be realistic to ensure commercial viability for insurers and reinsurers. Pest and pestilence will call for top-up covers. Higher productivity via stepped up investment in the farm sector is the only way to make farming lucrative, and even to make commercial insurance viable for farmers. Excessive subsidy kills investment.