

CROP INSURANCE

Payout ratio jumps after Centre's prodding

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STEPS TAKEN BY the Centre to improve fiduciary compliance by insurers and close-fisted state governments under its flagship crop insurance scheme seem to be paying off. From an abysmally low 5% in May and 60% in mid-July, the payout ratio (claims paid versus those made by farmers) under the Pradhan Mantri Fasal Bima Yojana (PMFBY) for kharif-2017 rose to an impressive 96% last week.

According to official data reviewed by *FE*, state-run and private-sector insurers paid ₹15,181 crore to farmers for kharif 2017 crop losses by October 8, against estimated claims of ₹15,896 crore.

This compared well with the payout ratio of over 99% for the previous summer

PAYOUT RATIO



All figures are in %



crop (payment of ₹10,425 crore against claims of ₹10,505 crore). The ratio was 91% for rabi 2016 crop (₹5,465 crore paid against ₹5,992 claimed).

Continued on Page 16

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What has resulted in a sudden improvement in compliance by insurance companies and encouraged state governments to pay their shares of premiums is the Centre's decision to virtually fine them for lapses.

As per new rules under PMFBY, the farmers need to be paid 12% interest by insurance companies for any delay in settlement of claims beyond two months of the prescribed cut-off date, while states will have to

pay 12% interest for the delay in release of their share of premium beyond three months. This penalty provisions came into effect from October 1 and will be applicable for all seasons in the future. "We have been making changes as required to ensure the benefits to farmers and the committee's recommendations will be implemented immediately," an official said. The funding of PMFBY is being done largely by the government. While farmers pay around a fifth of the premium, the balance amount is paid by the Centre and state government concerned. As per official data, the farmers' share in the gross premium was 18% in kharif 2016, which fell to 16% in kharif 2017. However, for rabi 2016 season, the farmers' share in the gross premium was about 22%. Pertinently, the claims ratio — claims against premium

— which was a feasible 65% for kharif 2016 rose to a worrisome 83% for kharif 2017. For rabi 2016 crop, this ratio was an unworkable 101%.

The Centre is considering a number of steps to achieve "rationalisation" of actuarial premium rates charged by the insurance companies, officials said. "States have already done clustering of areas and districts according to the risk factor to moderate the premium rate," the official quoted earlier said. Insurance companies will also get an upfront payment of the government's share of the premium, which will be 40% of the corresponding previous season.