Report I

Implications of the PMFBY operational guidelines on the implementation of crop insurance scheme in Karnataka

Centre for Budget and Policy Studies, Bangalore

September 2018

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Objectives

- Analyze the implementation of crop insurance scheme in Karnataka vis-à-vis the Pradhan Mantri Fasal Bima Yojana (PMFBY) operational guidelines across the four stages of Pre-Notification, Notification, Enrolment and Claims
- Analyze the revised PMFBY operational guidelines proposed by the Government of India along with the response to the same provided by the Government of Karnataka. This would help in understanding the potential implications of these new guidelines on the functioning of the scheme.

Introduction

The Pradhan Mantri Fasal Bima Yojana (PMFBY) is a multi-peril national level crop insurance scheme that was launched by the Government of India on 13th January 2016. It was subsequently rolled out in June 2016. PMFBY is a successor to earlier schemes such as the National Agricultural Insurance Scheme (NAIS) and the more recent Modified Agricultural Insurance Scheme (MNAIS). Through PMFBY, the Government of India aims to incorporate the best features from all the previous crop insurance schemes while also addressing their shortcomings. PMFBY aims at supporting sustainable production in the agriculture sector by way of:

- Providing financial support to farmers suffering crop loss/damage arising out of unforeseen events
- Stabilizing the income of farmers to ensure their continuance in farming
- Encouraging farmers to adopt innovative and modern agricultural practices
- Ensuring flow of credit to the agriculture sector; which will contribute to food security, crop diversification and enhancing growth and competitiveness of agriculture sector besides protecting farmers from production risks.

PMFBY operates on an 'Area Approach basis' i.e., defined areas for each notified crop for widespread calamities with the assumption that all the insured farmers, within a Unit of Insurance, to be defined as notified area for a crop, face similar risk exposures, incur to a large extent, identical cost of production per hectare, earn comparable farm income per hectare, and experience similar extent of crop loss due to the occurrence of an insured peril[1]. The scheme is primarily aimed at providing small farmers coverage against multiple risks, many of them

[1] PMFBY Operational Guidelines, Government of India, Ministry of Agriculture and Farmer's Welfare, 2016

weather related. Some of the features that distinguish this scheme from the earlier schemes are:

- Nationwide participation of private insurance companies.
- Leveraging remote sensing and mobile phone technologies for conducting Crop Cutting Experiments (CCE's) to estimate actual yields.
- Introduction of an online portal for both enrollment as well as overall data management.
- Greater integration of weather and yield data to better assess losses faced by farmers
- Capping of premium rates.

Till date, the PMFBY scheme has completed two years and two cycles (Kharif and Rabi) and now the scheme is in its third year. However, several issues have been raised across the nation regarding the effectiveness and efficiency of this scheme. One of the main issues raised has been the role and influence of private insurance companies. One of the reports[2] has mentioned that insurance companies had collected huge premiums, played a minimal role in creating awareness, delayed the settlement of claims and made massive profits. Another report from the Comptroller and Auditor General of India[3] also highlighted that there has been no concerted efforts by the insurance companies to either increase awareness (especially among non-loanee farmers) or to provide for an effective grievance redressal mechanism. Another key issue has been the conduct of CCE's and the role of technology to assess actual crop yield and associated losses for different crops across different seasons. It is not yet fully clear if the usage of technology (either in the form of insurance portal for overall data management, CCE smartphone app or remote sensing) has led to an improvement in the quality and timeliness of claims settlement. A recent report[4] also highlighted that there have been significant delays in the payment of premium subsidy and also timely submission of actual yield data by the state governments to the respective insurance companies which in turn led to a further delay in the disbursal of claim amount to farmers.

The Government of Karnataka has been a pioneer in the introduction of various technology innovations into the scheme. The state introduced *Samrakhane* - an online crop insurance portal (which is used right from the issue of crop notification till the payment of the claims), as an alternative to the portal launched by the Government of India. Compared to the national portal, the *Samrakshane* portal has been integrated with *Bhoomi* - A Government of Karnataka initiative to digitize land records. The integration of *Bhoomi* data along with enrolment data and

[2] Pradhan Mantri Fasal Bima Yojana – An Assessment, Centre for Science and Environment, 2017
[3] Performance Audit of Agriculture Crop Insurance Schemes, CAG Report, 2017
[4] Crop Insurance in India: Key Issues and Way Forward, ICRIER Report, 2018

the creation of a dedicated state portal, has led to a more efficient implementation of the scheme and faster disbursal of claims when compared to other states. Karnataka is also one of the first few states to have gone ahead and made the usage of smart phones compulsory while conducting CCE's.

Background

The implementation of the crop insurance scheme can be divided into three stages - 1) Pre - notification and notification, 2) Enrollment and 3) Claims. During the Kharif 2017 season, Centre for Budget and Policy Studies (CBPS), Bangalore conducted a detailed process evaluation[5] of the PMFBY scheme in Karnataka. The following section describes some of the key activities that occur at each stage, especially with a focus on the role of insurance companies, the portal (*Samarakshane*) and CCE's. In addition, the main findings from our process evaluation for each stage have also been described. This will serve as a context to the current study. Finally, after describing the processes to be followed at each stage and the actual experience of the scheme, we shall discuss the proposed changes in the guidelines and it's implication on the implementation.

Pre-notification and Notification Stage

The process begins with the State Level Coordination Committee on Crop Insurance (SLCCCI) meeting. In SLCCCI meetings the following points are discussed:

- Calendar of activities for implementation of PMFBY scheme
- Notified areas and crops
- Clustering of Districts
- Bidding process and selection of Insurance companies
- Scale of Finance and Indemnity Levels
- Threshold yield calculation and consideration of calamity years
- Innovative Technologies and it's usage

In order to diversify the risk and cover high/medium/low risk district areas equally, the State Government groups the districts in such a way that each group (called cluster) contains a mix of districts with different risk profiles. For each cluster, the insurance companies quote actuarial

[5] Understanding the potential of crop insurance in India: A study of the Pradhan Mantri Fasal Bima Yojana Scheme, CBPS, 2017.

premium rates (APR's) for all district- notified crop combination for their bids to be evaluated. To aid in the preparation of the bids, The Department of Agriculture provides information to the insurance companies on 1) Insurance Unit (IU) wise and crop wise yield data for last 10 years 2) IU and crop wise sown area for last four years 3) Expected sown and insurance sum for current year 4) District wise and crop wise claims data for the past 5 years 5) list of calamity ridden taluks 6) crop wise sum insured, indemnity levels, sowing and harvesting windows, staggered dates of enrolment and cutoff dates for prevented sowing.

Based on the district-wise and crop-wise actuarial premium rates (APR) quoted by the empaneled insurance companies, the total premium amount and weighted average premium rates for each of the clusters will be worked out to arrive at L1 (Lowest weighted premium rate) Bidder. The L1 bidder is selected to act as the "Implementing Agency" for that concerned cluster. The sum insured for each hectare is based on the scale of finance. At the first stage the L1 bidders are paid 50% of the premium subsidy. Box 1.1 illustrates the bidding and rebidding process as observed in the state of Karnataka.

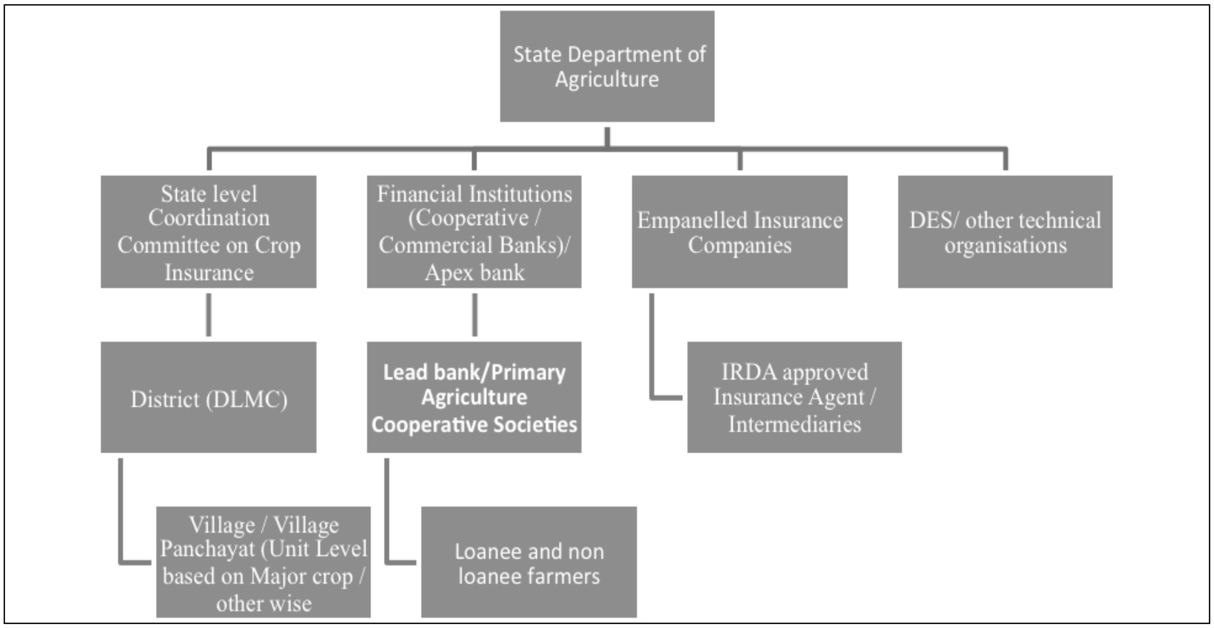
Box 1.1: The Bidding Process in Karnataka

The bidding process was observed for Kharif 2017 season. The first round of financial bids was submitted by only 3 insurance companies for the 4 district clusters. The share of premium subsidy to be borne by the state government came up to INR 5500 crores. However, as per Karnataka's state budget only INR 845.11 crores was allocated towards the implementation of PMFBY. The state subsequently went in for two more rounds of re-clustering and re-bidding. Finally, the 30 districts were split into 10 clusters and the final premium subsidy outgo reduced to 881 crores which was much closer to the allocated budget and hence was approved by the SLCCCI.

Enrolment Stage

Once the crops are notified and the insurance companies / APR's are finalized, the enrollment stage begins. Various institutions at the state, district and taluk level play a role in the enrollment process. Figure 1.1 illustrates the various institutions involved in the process of enrollment. As per the operational guidelines, insurance companies are expected to raise awareness about the scheme along with the state as well as independently at the grassroots level. Initially, a clause in the financial bid document stated that insurance companies must set up centres or Raitha Samparka Kendras (RSKs) to increase the enrollment especially of non- loanee farmers and insurance companies were expected to bear the infrastructure and operational costs for running these centres. However, this clause was later removed because it would most likely lead to insurance companies factoring these costs by quoting higher actuarial premium rates. Hence, instead of RSKs, Community Service Centres (CSC's) were roped in to facilitate enrolment during 2017. Our study showed that this led to a significant increase in costs in terms of manpower and time for the State Government.

Figure 1.1: Actors in the insurance process



On-field observations and interactions with local officials, conducted as part of our study across four taluks (Haliyal, Shirahatti, Naragund and Sindhanur) also suggested that insurance companies were mostly inactive. We also conducted a household survey of 700 farmers across these four taluks. Table 1.1 below shows the source of information for the farmers about PMFBY. It is evident from table 1.1 that insurance companies played little or no role in raising awareness among the farmers surveyed.

Table 1.1: Sources of Information regarding PMFBY scheme

Haliyal		**Sindhanur**		**Shirahatti**		**Naragund**	
Source	**Percent**	**Source**	**Percent**	**Source**	**Percent**	**Source**	**Percent**
Neighbours / Other Farmers	29%	Bank Agents	69%	Panchayat / Taluk Officials	30%	Bank agents	46%
PACS	22%	Panchayat / Taluk officials	13%	Bank agents	25%	Panchayat / Taluk Officials	30%
Bank Agents	20%	Neighbours / Other Farmers	10%	Neighbours / Other Farmers	22%		
Relatives/ Other friends	13%						

In Haliyal taluk, PAC's instead of insurance companies played the role of facilitators. They collected the necessary documents and entered the data online. The data entry costs were borne by the respective DCC banks. Further, the PAC’s were also instrumental in enrolling several non- loanee farmers. When farmers were not keen on taking up a seasonal loan and hence mandatorily enrolling in insurance, they were advised to enroll as non- loanee farmers. In the other taluks, the Gram Panchayat (GP) office and local banks were the primary sources of information. The GP office assigned their own staff to assist farmers in enrolling for the scheme. The GP officials entered information on the area insured and the premium to be paid. At the end of the process, farmers were given an acknowledgement slip that marked the successful submission of the insurance proposal. In 2017, The State Government made it mandatory for insurance companies to pay a service fee of INR 5 to Gram panchayats.

The acknowledgement of the the insurance proposal by the insurance company is the final step in the enrolment process. However, prior to this step, three other steps remain:

1) Verification of the proposal by bank manager

2) Forwarding of the proposal by the bank manager to the insurance company

3) Confirmation of the receipt of the proposal by the insurance company.

In theory, the farmers are to be informed at each step of the enrolment process. In practice, however, farmers are unaware of these steps post the acknowledgement provided to them either by the local bank or GP. There is a false assumption among farmers that the enrollment process is complete based on the acknowledgement slip that they receive at the time of proposal submission. In our study, we also tracked the number of days for the entire enrolment process to be completed. It was found that it takes an average of 30 days from the date of proposal submission by the farmer till the final acknowledgment by the insurance company. The proposal can be rejected at any of the stage. A lack of awareness about the various aspects of the scheme coupled with the fact that the proposals are usually submitted at the last minute, and a process that takes 30 days does not give room for resubmission in case of a rejection. Most farmers do not know whether they have been finally enrolled in the insurance scheme or not. Farmers often find out that they have not been enrolled in the insurance during the claims stage, which in turn leads to mistrust in the product.

Claims stage

The lack of information among farmers has led to mistrust in the product. Farmers have often paid the premium amount for insurance but are unaware about the status of their claims. In many cases it was found that farmers visit the Department of Agriculture (DoA) local banks and PACs to seek information about the claim settlement.

The complete lack of engagement from insurance companies has resulted in a vacuum of information. Our researcher located in the DoA found that a significant number of farmers travel from distant villages to Bengaluru to find out if they are eligible for claims. Farmers are not aware of the "area approach" and hence they expect to receive claims when others in nearby villages may have received claims. They are also not aware of the overall accountability structure of the insurance scheme and assume that DoA is accountable for the entire process. Box 1.2 highlights the major reasons for the delay in the claims settlement as observed during our process evaluation study of the claims stage of Kharif-2016.

Box 1.2: Issues that delayed the claims settlement in Kharif 2016

Multi- picking issue

Certain crops such as Cotton, Red Chillis, Beans, Brinjal and Castor are harvested or picked a multiple number of times within the same season. Therefore, to estimate the actual yield of these crops, a multiple number of CCE's need to be conducted. The insurance companies had raised the following 3 main objections with regard to assessing the actual yield of multipicking crops:

1. In CCE's that were conducted using the mobile app, the primary workers who were responsible for conducting the CCE's have selected the single picking option and entered data for only a single picking
2. Even when the multi picking option was selected in the mobile app, the actual yield across the different pickings didn't tally with the total yield entered.
3. Another issue while selecting the multi picking option was that many primary workers had recorded the actual yield only for one or two pickings.
4. Several meetings were held to resolve this issue but it led to additional delay in the settlement of claims. *(Agriculture Department Proceedings, Government of Karnataka, 4/5/2017, 19/5/2017, 30/5/2017 and 5/6/2017*). The agriculture department is of the view that the insurance companies had full freedom to witness these CCE's and raise any queries at the time of conducting these CCE's. Instead, they chose to raise objections only after the claims payable was computed.

Paddy-Rice issue

The 10 year paddy historical yield data provided to the insurance companies at the time of bidding consisted of 9 years of rice yield and one year of paddy yield. The crop cutting experiments (CCE) that were subsequently performed provided the Actual Yield (AY) for paddy. Hence, 6 years of historical yield data [up to 2014-15] that was provided in rice terms was re-converted into paddy by applying a conversion factor of 3/2 along with 1 year of paddy data [2015-16] and this was used to generate the Threshold Yield (TY). This rice re-converted paddy TY and the CCE provided paddy AY were then used to calculate the shortfall in yield and claims were initiated based on this. However, the insurance companies disputed this since they had considered the historical yield data that was provided to them at the time of bidding (9 years of rice yield + 1 year of paddy yield) to quote their actuarial premium rates and refused to initiate the settlement of claims since the data being used to generate TY varies from the data provided to them at the time of bidding. This issue led to severe delay in the settlement of claims.

CCE Mobile App data entry issues

Primary workers erroneously entered the incorrect plot dimensions (10*5 instead of 5*5) while conducting CCE's for crops such as cotton, castor, sunflower and Tur. This issue was contested by insurance companies, since this had artificially led to lower actual yields which in turn would mean a higher shortfall in yield.

Two hobli problem

It was found in Kharif 2016 that often a gram panchayat would fall in two hoblis. At this point it would be difficult to calculate yields. It was difficult to conduct CCE's for minor crops in the GP. Therefore, it was decided that a weighted average of crops will be followed.

Area Discrepancy issue:

Bidar was the first district for which claims were initiated in Karnataka. During this first round of claims initiation, it was observed that for a few IU's in Bidar district the crop insured area was higher than the crop sown area, leading to "over" insurance (area discrepancy). For insurance units with an area discrepancy, the DES was asked to verify the respective crop sown areas. Wherever area discrepancy was confirmed, the crop insured area was compared with the highest crop sown area from the past three years, and the difference was treated as excess insurance coverage. Hence, the sum insured was scaled down in the ratio of the highest of last three years actual crop sown area to the insured area for the given crop. Subsequently, the claims were re-initiated based on the scaled down sum insured.

Data Entry and Bank related issues:

The incorrect entries of data in the online application such as farmer's name, bank account number and selection of notified crops [minor crop instead of major crop] have also resulted in the delay of claims settlement. The banks have been instructed to manually verify and provide all the required information for these claims to be processed.

A detailed review of the bid documents since the scheme's inception in Kharif 2016, also gives an insight into the evolution of the regulations for engagement with insurance companies on the implementation of PMFBY in Karnataka (Table 1.2)

Table 1.2: Evolution of the regulations for engagement with insurance companies on the implementation of PMFBY in Karnataka

Timelines → Phase ↓	April-May 2016 (Kharif Season)	Sept-Oct 2016 (Rabi Season)	April-May 2017 (Kharif Season)	Sept-Oct 2017 (Rabi Season)
Pre-notification & Notification	**Acreage Coverage Target** : Not specifically elaborated	**Acreage Coverage Target** : Not specifically elaborated	**Acreage Coverage Target:** The probable acreage coverage is provided only for the purpose of calculating the weighted premium rates. The state govt. gives no guarantee to insurance companies that the final acreage coverage would be as per the numbers given in the bid document. Insurance companies are bound to honor the final coverage irrespective of whether it is higher or lower when compared with the probable figures.	**Acreage Coverage Target:** Retained as is from Kharif 2017

Enrollment	**Cut off dates for Enrollment**: A fixed cut off date for both Loanee and Non Loanee farmers **Cut off date for Invoking Prevented Sowing**: A fixed Cutoff date for declaration of prevented sowing (15-7-2016). **Cut-off date for data entry, approval and forwarding of proposals from Banks to insurance companies**: 15 days for loanee farmers and 7 days for non-loanee farmers. This is keeping in mind that number of loanee farmer registrations would be more than non-loanee farmers. **Enrollment only through *Samarakshane* web portal:** Not	**Cut off dates for Enrollment**: A fixed cut off date for both Loanee and Non Loanee farmers **Cut off date for Invoking Prevented Sowing**: A fixed Cutoff date for declaration of prevented sowing (15-12-2016). **Cut-off date for data entry, approval and forwarding of proposals from Banks to insurance companies :** Retained as is from Kharif 2016 **Enrollment only through *Samarakshane* web portal:** Not	**Cut off dates for Enrollment**: Staggered cut off dates of Enrollment depending upon the crop and the district – to prevent adverse selection and last minute rush for enrollment. **Cut off date for Invoking Prevented Sowing**: The last date for invoking Prevented sowing will be 15 days after the end of the sowing period (which is based on crops & districts). **Cut-off date for data entry, approval and forwarding of proposals from Banks to insurance companies :** Retained as is from Rabi 2016 **Enrollment only through *Samarakshane* web portal:** If any	**Cut off dates for Enrollment**: Retained as is from Kharif 2017 **Cut off date for Invoking Prevented Sowing**: Retained as is from Kharif 2017 **Cut-off date for data entry, approval and forwarding of proposals from Banks to insurance companies:** For PMFBY**,** Karnataka has had a larger proportion of non-loanee farmers enrolling for crop insurance than loanee farmers. Hence, a uniform time period of 15 days is fixed for both loanee and non-loanee farmers. **Enrollment only through *Samarakshane* web portal:** Retained as

	specifically elaborated.	specifically elaborated.	insurance proposal is registered bypassing the portal, the state government will not be responsible for settling of claims for these proposals.	is from Kharif 2017
	Availability of Insurance proposal forms: Distribution of proposal forms to banks/financial institution branches.	**Availability of Insurance proposal forms:** Distribution of proposal forms to banks/financial institution branches.	**Availability of Insurance proposal forms:** Within 1 week of receiving the work order, the insurance companies are required to supply the proposal forms to all the bank branches in their allocated clusters. If they fail to print the required amount of forms, the same would be printed by the district deputy commissioners and charges incurred will be borne by the insurance companies	**Availability of Insurance proposal forms:** Retained as is from Kharif 2017
	Use of Common Service Centers (CSC) for enrollment: Not specifically mentioned	**Use of Common Service Centers (CSC) for enrollment:** Not specifically mentioned	**Use of Common Service Centers (CSC) for enrollment:** CSC's to be specifically used for the enrollment of non-loanee farmers and have to be paid Rs 30/- per proposal entry.	**Use of Common Service Centers (CSC) for enrollment:** Retained as is from Kharif 2017

Claims	**Claim liability:** The claim should be settled within 3 weeks of receipt of yield and area sown data from the Government, failing which claim should be paid to farmers with applicable savings bank interest rate. **Timelines for Document Verification and Audit:** Not specifically mentioned **Timelines for acknowledgement of Proposals:** Not specifically mentioned	**Claim liability:** Retained as is from Kharif 2016 **Timelines for Document Verification and Audit:** Not specifically mentioned **Timelines for acknowledgement of Proposals:** Not specifically mentioned	**Claim liability:** Retained as is from Kharif 2016 **Timelines for Document Verification and Audit:** Insurance companies can verify insurance proposals/docs by visiting the respective bank branches. **Timelines for acknowledgement of Proposals:** Not specifically mentioned	**Claim liability:** Retained as is from Kharif 2016 **Timelines for Document Verification and Audit:** Insurance companies can audit select bank branches within their clusters. The auditing should be completed within a maximum time period of 1 month from the enrollment cut-off date. Any dispute between banks and Insurance companies arising due to this would be resolved by the Dispute Resolution Authority as designated by the State Govt and its decision would be final and binding. **Timelines for acknowledgement of Proposals:** The insurance companies should acknowledge the proposals within 15 days of receipt of

				the premium or within 45 days for proposals received from bank branches that have been selected for auditing.
	Timelines to witness and object CCE's: Insurance companies are allowed to co-observe and witness CCEs and also permitted to access various records (including Form-2) at grass root / district / state level used to document CCE's.	**Timelines to witness and object CCE's:** Retained as is from Kharif 2016	**Timelines to witness and object CCE's:** Following additions made – The CCE schedule as well as results will be made available to the Insurance companies through the portal for all notified crops and IU's.	**Timelines to witness and object CCE's:** Following additions made – For CCE's witnessed by insurance companies, the primary worker will record the yield data in the mobile app, and before pushing the data to the central server the yield data needs to be authenticated by the representative using an OTP. In case of any dispute the representative needs to raise objection through the mobile app itself. If the representative hasn't witnessed the CCE, the objections could be raised on the portal within 3 days of completion of CCE. If not, the CCE data is considered as accepted by the insurance company.

	Timelines to reject proposals: Not specifically mentioned **Threshold Yield for claims payout:** The threshold yield based on which claims are to be calculated will be informed separately after the notification (By also considering previous yield data of Kharif 2015). **Handling Area Discrepancy:** Not specifically mentioned	**Timelines to reject proposals:** Not specifically mentioned **Threshold Yield for claims payout:** Retained as is from Kharif 2016. **Handling Area Discrepancy:** Not specifically mentioned	**Timelines to reject proposals:** Not specifically mentioned **Threshold Yield for claims payout:** The IU wise, crop wise yield data from Kharif 2010 to 2016 has to be considered for final Threshold Yield calculations and claims settlement. **Handling Area Discrepancy:** A mobile app has been developed for insured crop verification. Insurance companies will use this app to verify minimum 5% of the	**Timelines to reject proposals:** Insurance companies are also required to return the premium of all the rejected proposals before the start date of claims settlement, if not they will have to settle the claims of all such farmers. The insurance company cannot take a stand later that these cases had been rejected and therefore their claims cannot be settled. **Threshold Yield for claims payout:** Retained as is from Kharif 2017. **Handling Area Discrepancy:** The clause is modified to verify minimum 10% of the crop sown area to minimize issues with regard to area discrepancy.

			crop sown area to minimize issues with regard to area discrepancy.	
	Grievance Redressal mechanism: Provide a toll free number for farmers to intimate regarding localized calamity, seek information on coverage etc.	**Grievance Redressal mechanism:** Retained as is from Kharif 2016	**Grievance Redressal mechanism:** The State government would set up a call center for the purpose of crop insurance. The cost for running this call centre would be shared by the insurance companies on a pro rata basis. This call center will be used by farmers for intimating claims in case of localized calamity, seek information on coverage, etc	**Grievance Redressal mechanism:** Following additions made - Insurance companies shall deploy required resources within their allocated district and taluk (A functional office in each Taluk and an agent at the Hobli level) These resources should be deployed within one week of signing the work order.

To summarize, it was found that the insurance companies did not play a major role in either raising awareness, processing of applications or in providing information to farmers about the claims process.

First revision of PMFBY Operational Guidelines (September 2017)

In September 2017, the Department of Agriculture, Government of India prepared a revised set of PMFBY operational guidelines[6]. Subsequently, they shared the draft with all the respective State Governments to solicit their feedback on the same. The key additions and amendments that were made to the 2016 PMFBY operational guidelines were:

<u>Advancing of cut-off dates for drafting tender documents & finalization of insurance companies</u>
To finalize the notification of crops and areas, indemnity levels and Scale of Finance for drafting the Tender documents by 15th November (for upcoming Kharif season) and 1st June (for upcoming Rabi season). To also finalize the tender and award the work to selected insurance companies by 31st Dec (for upcoming Kharif season) and 15th July (for upcoming Rabi season).

<u>Mandatory Submission of UID (AADHAAR) by farmer</u>
To make Aadhaar mandatory for availing Crop insurance from Kharif 2017 season onwards. Therefore, all banks have been advised to obtain Aadhaar number of the farmers and the same also applies for non-loanee farmers enrolled through banks/Insurance companies/insurance intermediaries.

<u>Common Service Centres (CSC's) and Intermediaries for coverage of Non-Loanee Farmers:</u>
CSC's have been engaged to enroll non-loanee farmers., The Insurance Companies are compulsorily required to enter into a separate agreement with CSC and service charges of INR 30/- + applicable tax per farmer per village per season shall be payable per crop insurance application by the Insurer to the CSC.

<u>Budget for Administrative Expenses & Setting up of Technical Support Units (TSU)</u>
At least 2% of the total budget for PMFBY needs to be earmarked for administrative expenses, publicity, yield/loss assessment expenses, purchase of smart phones, adoption of new technology, setting up of State Technical Support Unit (STSU), travel and contingency fund. All States/UTs implementing schemes should also create a separate TSU/PMU at State HQ level with sufficient technical experts/staffs to ensure proper implementation of schemes. STSU may also opt for members on contractual/temporary basis or take services of other

[6] Draft of Revised PMFBY Operational Guidelines, Sept 2017, Government of India

organizations/research institutes etc as deemed fit. However a separate budget has to be allocated for running the STSU.

Yield Data and Conversion Factor

While notifying the crop(s) where a specific conversion factor is being used for reporting of yield such as Rice/paddy etc, due care should be taken by the State Nodal Department to use the specific nomenclature for disclosure of Average Yield, Threshold Yield and Actual Yield while releasing the Tender Document, submission of Yield data and CCE data for calculation of admissible claims to Insurance Company.

Detailed Seasonality Discipline

Additional cut-off dates have been added for - selection of insurance companies, release of 50% upfront govt. subsidy, declaration of prevented sowing, raising objections on CCE's and release of the balance govt. subsidy.

Prevented Sowing

Declaration of prevented sowing would be strictly within 15 days from the cut-off date for enrolment of farmers i.e. 31st July for Kharif and 31st Dec for Rabi.

CCE Protocol

To bring in more transparency and confidence in the recorded yield data, the States are required to mandatorily ensure that all the CCE's are conducted using only the mobile app developed by the Government of India. No other app or process shall be used for conducting the CCEs. The plots for conducting CCE's shall be chosen randomly or preferably using RST wherever possible (smart sampling). Secrecy of the selected plot should be maintained until the CCE is actually conducted in order to rule out any moral hazard.

Evaluation of Efficiency of Nodal Department of the State

The efficiency evaluation of the State Nodal Department shall also be closely monitored by the Government of in India on an annual basis through ascertaining the State's efficiency and execution / implementation of the Scheme. For this purpose, a detailed evaluation matrix containing the key performance indicators has also been formulated. States/UT's that are evaluated as poor, shall cease to receive the central subsidy assistance from the Government of India.

Based on the experience gained since Kharif 2016, the Department of Agriculture, Karnataka also responded with several recommendations to the revised operational guidelines[7]. The summary of these recommendations are as follows:

a) The proposed cut-off dates for drafting the tender documents are too early and it would not be possible to provide all data within that timeframe. 1st March (Kharif) and 1st Sept (Rabi) should be the cut-off dates to provide all data that is required by Insurance companies for bidding. The finalization of insurance companies should be made within 15 days of commencement of the cropping season. This would also avoid possible issues that could arise while awarding tenders for the next financial year (Esp. for the Kharif season) during the current financial year.
b) Stricter rules and regulations for engagement with private Insurance companies – Cut-off dates for completing the bank audits, CCE plan generation, raising objections on CCE's especially through the mobile app, actual crop sowing area and release of the balance govt. subsidy to be based on the proposals acknowledged by insurance companies.
c) Acknowledgement that state portals such as *Samrakhane* can substitute the national portal. However, it is expected that the data from the portal should be integrated with the national portal. States are also allowed to develop their own mobile app for collating and transmitting CCE data to the insurance portal. States should be given more discretion in providing their own end to end solutions for both crop insurance data management and conduct of CCE's.
d) Declaration of Prevented Sowing: The percentage of sowing cannot be decided until the sowing period is over. Therefore, the cutoff date for declaration of prevented sowing should be relative to the sowing end date.
e) Threshold yield for the immediate previous year cannot be given at the time of bidding as the yield data is isn't reconciled by then.
f) To establish as detailed CCE Protocol - Acknowledgement that state developed CCE mobile apps can substitute the mobile app developed by Government of India. Also, even if the plots are randomly selected, the primary worker needs to visit the selected pots in advance to confirm if the notified crop has been sown, suitability of the plot for conducting CCE and record the probable harvest date. These details have to be also shared with Insurance Companies also for co-witnessing. Hence, secrecy cannot be maintained till the last minute. Also, the farmer needs to be

[7] Response Document to the draft of revised operational guidelines, Jan 2018, Government of Karnataka

intimated at least few days in advance to ensure that the farmer doesn't harvest the crop before the CCE date. Only the exact location (5 x 5 or 10 x 5) within the selected CCE plot is not known till the last minute. This is sufficient to mitigate the risks involved due to moral hazard.

g) Assessment of Loss / Shortfall in Yield – Technology can be used for smart sampling of the CCE plots but not for dispute resolution by insurance companies. The Insurance Company should co-witness CCE and raise any objections using the mobile app immediately after the conduct of CCE. If the IC has not co-witnessed the CCE, then the objection should be raised using the web portal within 3 days from the date of conduct of CCE.

h) Dispute Resolution Mechanism – All disputes should be resolved at the district level itself. There is a need to come up with a standard operating procedure for resolving disputes especially regarding actual yield data, CCE measurements and assessment of crop loss. The same should become a part of the tender document that insurance companies are expected to abide by.

i) Estimated crop area coverage, sum insured and reinsurance - The State Govt./ UT's shall provide the estimated area coverage and sum insured and based on this the Insurance companies prepare their bids. However, this is only an estimate and do not guarantee the actual coverage area for the upcoming season. The coverage could be higher or lower than the estimated area provided at the time of bidding. The IC's shall be responsible for coverage of insurance for all the enrolled farmers in the allotted districts and crops. The IC's shall accordingly make their reinsurance arrangements and responsible to settle all the eligible claims even if they aren't adequately covered under reinsurance for the excess area insured over and above estimate area coverage provided by the State/ UT's at the time of bidding.

j) Certain performance indicators in the evaluation matrix of nodal department of state such as insurance folio distribution by the banks to the farmers is not acceptable since this is the sole responsibility of insurance companies / banks.

From the above summary of recommendations, it can be deduced that most of these falls under the following 3 categories – 1) Engagement with Insurance companies 2) Discretion to use state insurance portal / mobile app developed by State/UT's 3) Need for establishing a detailed CCE protocol.

Engagement with Insurance companies

It was suggested that the state government be allowed to create one help desk. However, the costs of any additional infrastructure or man power is to be borne by insurance companies. It is clearly specified in the revised guidelines that IC's are supposed to extend full corporation and support for creating awareness and publicity. A list containing information about the loanee and non- loanee farmers is supposed to be provided by Insurance Companies.

The insurance companies are now entitled to Govt. subsidies only if the farmers applications have been acknowledged. Training is to be provided to bankers and the CSC's. IC's are required to arrange the required man power for the same. To increase the speed of processing claims, one of the modes recommended is that wherever facility is available, the claims should be calculated only through the portal.

As box 1.1 indicated, that the process of choosing the companies for each of the clusters can be long drawn out. The guidelines appear to take this into account and have suggested the following revisions with regards to the L1 bidder or more generally insurance companies. It is now clearly stated in the revised guidelines that during the notification stage the L1 bidder is only allowed two days to submit their acceptance. In case the L1 bidder cannot implement the scheme in its cluster, it has two days to indicate this to the respective state government or Union territory. The State government is then. expected to convey this information to the Union Government. Then Government of India shall decide on the next course of action. It is also specified that the information provided to insurance companies at the time of bidding are only indicative and cannot be taken as guarantees of coverage area under the scheme. It is the insurance company's responsibility to settle all eligible claims and find reinsurance if necessary. The state and central governments will not be responsible to cover the excess losses that an insurance company may face.

In the initial guidelines, seasonality discipline was not specified for insurance companies. However, due to delays in claims settlements, now insurance companies are also required to adhere to the seasonality discipline. A time line has also been established for raising objection about CCE's.

Insurance companies should have received the premium amount from either bank, channel partner or insurance intermediary. If there is any loss in transit, the institutions mentioned above will be held responsible. However, the revised guidelines state that IC's should make efforts to reconcile proposals to the premium amount received. The bankers are expected to pay savings bank interest for delayed payment of premium.

Insurance companies are now expected to take care of transactions costs that are incurred in operating the payment gateway. It seems that CSC’s will continue acknowledging proposals, however the insurance companies will now have to reimburse the costs to the government. In addition, they will be subsidized only for proposals that are acknowledged and not all proposals that were generated.

There is also a timeline specified for the settlement of claims. The claims need to be settled within seven days once they have been approved and they need to be settled completely and not partially. If it is found that only a partial amount of these claims has been settled, the IC is expected to pay an interest rate of 18% per annum, for the remaining claim amount.

Need for establishing a detailed CCE protocol.

Several additional factors need to be considered to improve the transparency and trust in the data recorded from CCE’s. The CCE plan for the season needs to consider both homogeneity and heterogeneity of crops. Even in the case of prevented sowing, CCE's need to be conducted in the remainder areas of the insurance unit that have not faced prevented sowing. In case of multi-picking crops such as cotton and castor, if yield data of one picking is missing, then those CCE’s need to be invalidated.

Second Revision of PMFBY Operational Guidelines (May 2018)

In May 2018, the Government of India came out with a second revision and shared it with the State authorities. Key additions / amendments made were:

<u>Add-on coverage for crop loss due to attack by wild animals</u>
States may consider providing add-on coverage for crop loss due to attack by wild animals wherever the risk is perceived to be substantial and is identifiable. Detailed protocol will be issued separately by GOI in consultation with Ministry of Environment and Forest, GIC Re and AIC. The add-on coverage will be optional for the farmers and applicable notional premium will be borne by the farmer, however the Govts. will consider providing additional subsidy on this coverage, wherever notified. The actuarial premium rates for add-on coverage should be sought in the bid itself from the Insurance Companies, however the add-on actuarial premium rate will be considered separately and shall not form part of evaluation of L1.

Definition of Major Crop

For defining a crop as a major crop for deciding the Insurance Unit level, the sown area of that crop should be at least 25% of Gross Cropped Area in a district/ Taluka or equivalent level.

Standard Operation Procedure (SOP) for dispute resolution regarding Yield Data/Crop loss

The Government of India has established SOP's to adhere to whenever a dispute arises between the State government and Insurance companies regarding – 1) Less number of CCE's conducted 2) CCE plots not randomly selected 3) Abnormally low or high yield when compared with actual crop conditions 4) Multi-picking crops 5) Paddy / Rice yield conversion factor.

It was also observed that very few of the recommendations made by the Department of Agriculture, Karnataka were incorporated in the second revision. The second revision clearly stated that States must use only the national portal and the CCE mobile app developed by the Government of India. Also, very few recommendations that could help regulate private insurance companies were considered in the second revision.

Conclusion

From the completion of the two cycles of the PMFBY, it can be inferred that the various innovations introduced require both practice and iterations for it to be implemented smoothly. The reality is that for a majority of states, the claims from Kharif 2016 are yet to be fully settled. Private insurance companies, whose goal is to reduce the claims ratio, raised various objections regarding the quality of yield data which eventually led to a delay in the processing of claims and also effective implementation of the scheme. The quality of the data collected is largely attributed to inefficient and ineffective use of key innovations such as the insurance portal and the mobile app for Crop Cutting Experiments (CCE's).

The use of technology either in the form of the portal or the CCE mobile app requires training and ownership by different stakeholders in order to achieve their potential of reducing the time taken for claims settlement. States individually have the ability to innovate to suit local context as evidenced by the creation of the *Samrakshane* portal. Private insurance companies have raised several issues that have led to a delay in the processing of claims. However, with experience these issues have been resolved through enforcing tighter regulations. Regulations such as insurance companies co-witnessing CCE’s and raising objections within a definite time period as practiced by the Department of Agriculture, Karnataka led to a more effective implementation of the scheme. The implementation of the scheme in Kharif 2017 has been far more effective than the implementation of Kharif 2016.

Observations from the past 2 years indicate that the ability to continuously evolve the regulations with insurance companies, build technology as per local context as well as greater involvement of various stakeholders are key factors for the effective implementation of the PMFBY scheme. The Department of Agriculture (DoA) Karnataka has evolved many such processes and tools in order to implement the scheme effectively in the state. Many of the recommendations made by DoA, Karnataka state to the revised PMFBY guidelines are based on the experience gained by them. Their recommendations need to be seriously considered and suitably incorporated in the PMFBY guidelines in order for the scheme to reach its full potential.