Project Report

Evaluation of Crop Insurance Product in Karnataka,
(Rural Insurance Service Programme, GIZ, India)

Prepared for: GIZ

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Glossary of terms:

GDP Gross Domestic Product
IRM Integrated Risk Management
PMFBY Pradhan Mantri Fasal BimaYojana
NSSO National Sample Survey Organization
GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit
DFS Department of Financial Services
RISP Rural Insurance Services Programme
AICI Agriculture Insurance Company of India
NABARD National Bank for Agriculture and Rural Development
IRDA Insurance Regulatory and Development Authority
KSDA Karnataka State Department of Agriculture
DoH Department of Horticulture
FPO Farmer Producer Organization
Executive Summary

Only a minority of rural households in India have access to insurance services that meet their demand for mitigating agricultural and other livelihood risks (core problem). This situation has been caused by a variety of reasons, i.e. high distribution costs, inadequate infrastructure, lacking information and experience of insurance companies, low reliance on technological solutions, and the low financial literacy of rural households. According to the Agriculture Insurance Company of India (AIC) less than 25% of all small and marginal farmers are covered by agricultural insurance. This estimate reduces to almost 5% in the case of farmers who do not avail agricultural loans from financial institutions across the formal sector. The Government of India in its bid to increase crop insurance coverage across the sector; recently launched Pradhan Mantri Fasal Bima Yojana (PMFBY) While the new scheme PMFBY seeks to build on the experience of its predecessors, it attempts to safeguard farmers and growers from traditional risks by taking a broader area based approach. Given the diversity of agro-climatic zones and specific risks associated with variety of crops, there is need to develop localised approaches to crop insurance implementation.

Against this background, the Risk Reduction through Rural Insurance Services Programme (RISP) has tried to build such localised approaches to crop insurance. The programme has been co-operating with the Agriculture Insurance Company of India (AICI) over the last 18 months and has piloted innovative crop insurance products for mango and grape implemented in association with the Karnataka State Department of Agriculture and Horticulture. These initiatives introduced new approaches and methodologies which include risk profiling of farmers to prevent moral hazard and antiselection (assessment prior to assuming risk), and loss data recording and localised assessment. The program has also made use of innovative technologies such as geo fencing/tagging for fraud prevention, mobile applications for data capture and online systems for farmer information management as part of its implementation strategy.

The subsequent sections of this report evaluates the experience of the Risk Reduction through Rural Insurance Services Programme RISP in implementing this pilot projects in Karnataka over the past 18 months.

Surveying and interviewing a range of stakeholders, the report observes that, despite the limited scale of these pilots, the feedback from the various stakeholders is largely positive. There is overall satisfaction across interviewed beneficiaries as regards the product design, crops covered, pilot execution, risks covered and premium charged. Beneficiaries have also expressed satisfaction with the training and capacity building measures conducted, as part of the enrolment process. Farmers found the insurance product effective as it allowed them to easily repay loans and other financial commitments. This also freed them banking on alternatives which include personal savings and borrowing of funds from local banks and money lenders normally used to finance losses incurred as a result of extreme climatic events. A significant part of the beneficiaries also found the product offered during these pilots to be need oriented and effective when compared with other crop insurance products available in the market.

At the same time, Half of the beneficiaries, who have intimated claims, found the payouts not in line with their expectations. Others also pointed out delays in the claim settlement process. Requests have also been raised by the Insurance partner AICI on the development of operational models which can be
sustained based on the administrative expenses allocated within the standard product design process. This is in lieu of the low premium rates mandated as part of the ongoing crop insurance schemes and are necessary to benefit from government subventions within crop insurance schemes in the form of premium subsidies.

To conclude, a large number of interviewed respondents have expressed their interest in purchasing the products in forthcoming seasons and are willing to recommend the product to their friends and relatives. In general, majority of the interviewed beneficiary farmers see immense value and are agreeable to the continuation of the intervention in the coming seasons. A similar vote of confidence has been received from the Karnataka state department of Horticulture who has made a formal request to GIZ to scale up the pilot for the winter harvest (Rabi) post September 2016 with a commitment to enroll a minimum area of 10,000 acres for each product.