



## The Impact of Crop Insurance Schemes in Indian Agriculture

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### Abstract

With more than half of the workforce employed and a part of GDP contribution, agriculture continues to be one of the important economic sectors in India. However, unpredictable weather patterns, changing crop prices, extreme events like floods and droughts remains a major difficulty that Indian farmers have to deal with since decades. For farmers, especially the small landholders who lack the financial backup to absorb losses are affected the most in such cases. These uncertainties result in crops losses resulting in the farmers facing financial instability. A vital measure to mitigate these risks is the crop insurance, which offers financial protection against crop losses. It has become a crucial instrument in addressing the issues, protecting farmers' livelihoods and lowering agriculture and farming related risks. Farmers all around the world utilise crop insurance as an effective instrument to reduce risks related to unfavourable weather, pests, illnesses, and market fluctuations.

**Keywords:** Crop insurance, Risk management, Pradhan Mantri Fasal Bima Yojana

### Introduction

Agriculture is susceptible to different risk factors like climate change, extreme weather and different pest outbreaks. These hazards have the capacity to cause significant losses to the Indian farmers, risking their means of sustenance and affecting the agricultural sector. Indian farmers face significant financial instability due to unpredictable crop yields. One of the most significant risk management techniques present to deal with such challenges is the crop insurance. Crop insurance is a risk management measure used to protect the farmers from financial losses caused by adverse weather conditions, pests, diseases, or other unexpected events that affect crop yields. Crop insurance programs compensate the farmers for losses suffered as a result any disruptions causing crop loss. The emergence of crop insurance in India has been mainly driven by government programs like the Pradhan Mantri Fasal Bima Yojana (PMFBY). It was launched in 2016 and is run under the Ministry of Agriculture and Farmers' Welfare, Government of India. It offers farmers financial assistance during difficult times. These programs seek to increase agricultural productivity and the



ability of the farmers to cope with the impacts of climate change. It helps farmers to recover from adverse circumstances and sustain a steady income by offering security against the yield losses. The crop insurance system has diversified, offering a range of options like yield-based, revenue-based, and weather-based insurance.

### **Crop Insurance in India**

India's crop insurance journey began with introduction of several schemes like the introduction of the Comprehensive Crop Insurance Scheme (CCIS). It was started from 1985 with the objective of providing financial support to the farmers in the light of crop failure due to drought, flood etc. It was replaced by the National Agricultural Insurance Scheme (NAIS) which was introduced to address these gaps, provide broader coverage and flexible premiums. The NAIS and CCIS were replaced by the Pradhan Mantri Fasal Bima Yojana (PMFBY). It was launched in 2016 and marked a prominent shift in policy with emphasis on reducing premium rates, expanding coverage, and increasing the ease of claims. Studies have shown that PMFBY, has contributed to increased insurance penetration in several states offering premium rates at 2% for Kharif crops, 1.5% for Rabi crops, and 5% for horticultural and commercial crops.

### **Benefits of availing Crop Insurance**

Crop insurance offers farmers protection against natural disasters such as floods, droughts, and cyclones. Insurance enables farmers to recover by paying for crop loss or

damage. This guarantees that the enormous costs of recovery following a calamity won't fall on farmers alone. In order to prevent a sharp decline in farmers' profits, crop insurance balances revenue fluctuations by compensating when yields are low. Farmers now have easier access to finance and loans as a result of the crop insurance. Farmers are able to invest in high-quality seeds, fertilizer, technology, and modern techniques for farming because of easier access to financing, which have potential to increase the output. Farmers are more inclined to invest in new farming methods, equipment, and technology when there is an insurance policy in place. This might boost efficiency and production, which would support the agriculture industry's long-term growth. Crop insurance programs considerably benefit small and marginal farmers, who are more susceptible to challenges. In the event of crop failure, the financial security that insurance offers keep people from falling further into poverty, which helps to reduce poverty in rural regions.

### **Challenges faced in implementation of the Insurance schemes**

The advantages of crop insurance are not well understood by many farmers, particularly those in remote areas. The scope of insurance programs is restricted by a lack of knowledge about the policies as well as how to use them. Although crop insurance offers essential financial support, the insurance claim procedure is frequently lengthy. It may take some time to evaluate agricultural damage and



then disburse funds, placing farmers in an uncertain position when they most need assistance. Crop insurance policies might not always offer sufficient protection to compensate completely for a farmer's losses.

### Conclusion

Crop insurance plays a crucial role in agricultural sector by safeguarding the farmers and sustaining the agriculture and farming practices. By providing farmers financial protection against crop failures and other risks, crop insurance in India has the potential to significantly improve farmers' resilience. However, some obstacles like low engagement rates, delays in claim settlements and affordability problems still remains. Addressing these issues by increased awareness, workshops and technology integration is essential to maximise the potential of effective crop insurance.

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