No. 13015/02/2015-Credit-II
Government of India
Ministry of Agriculture & Farmers Welfare
Department of Agriculture, Cooperation & Farmers Welfare

Krishi Bhavan, New Delhi
Dated the 28th February 2020

To

1. The Chief Secretary of all States/UTs
2. Secretary, Ministry of Finance, Department of Expenditure, North Block New Delhi
3. Secretary, Ministry of Finance, Department of Financial Services (Insurance and Banking Divisions), Jeevan Deep, Parliament Street, New Delhi
4. Director General, IMD, Lodhi Road, New Delhi
5. Deputy Director General, Field Operations Division, NSSO, Faridabad
6. Director, IASRI, Pusa, New Delhi
7. Director, MNCFC, Pusa, New Delhi
8. Director, NRSC, ISRO, Ahmedabad
9. Executive Director, IRDA, Hyderabad (AP)
10. Chief General Manager, FIDD, RBI, Mumbai
11. Managing Director, NABARD, Mumbai
12. CMD, GIC Re, Mumbai
13. CMD/MD of all Scheduled Banks including PSBs/RRBs and Cooperative Banks
14. CMD/MD of all empaneled General Insurance Companies
15. CEO, Common Service Centre, New Delhi

Subject: Implementation of revamped "Pradhan Mantri Fasal Bima Yojana (PMFBY)" and "Restructured Weather Based Crop Insurance Scheme (RWBCIS)" – Administrative Approval from Kharif 2020 onwards - reg.

Sir,

I am directed to refer to letter No. 13015/03/03/2016-Credit-II dated 23rd February, 2016 and 28th September, 2018forwarding therewith Administrative Approval and Revised Operational Guidelines of the of the Pradhan Mantri Fasal Bima Yojana (PMFBY) respectively and to state that the aforesaidSchemes are being regularly reviewed, especially the challenges faced by the stakeholders in its operational implementation.Accordingly, based on the experience gained from implementation of PMFBY for 2 years, various study reports and feedback received from various stakeholders, operational issues were addressed in Revised Operational Guidelines, which were implemented with effect from 1st October, 2018 with many improvements.However, there were still challenges in implementation of the scheme to meet aspirations of the stakeholders.This Department had done consultations with all stakeholders

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viz. State Governments, farmer organizations, insurance companies (ICs), reinsurance companies, financial institutions, concerned organizations, and Central Government Departments at various forums to identify the challenges and finalize the possible solutions/remedial measures etc.Based on their feedback and suggestions following changes have been approved by Union Cabinet of India for incorporation in the provisions/parameters of PMFBY/RWBCIS:

i) **Allocation of business to Insurance Companies to be done for three years (Both PMFBY/RWBCIS).**

Though the scheme (guidelines) advise the States to float the tender for choosing Insurance Company for allocation of crop insurance business for a longer period up to three years, most of the States were allocating the business for one season to one year except a few States, which affects the implementation of the scheme, especially on account of limited allocation of infrastructure and resources in the field by insurance companies. Increase in allocation period of work to ICs for 3 years will increase the outreach of the scheme, enrolment of the farmers, enable crop damage survey and proper coordination with the different stakeholders at field level as well as grievance redressal and early settlement of claims etc. This will also ensure assured business to insurance companies for longer duration leading to increased commitment towards infrastructure and manpower deployment. Further, States will be free from the problem of repetitive tendering process every season/year leading to numerous delays.

ii) **Option has been given to States/UTs to choose Scale of Finance or district level Value of Notional Average Yield (NAY) i.e. NAY*MSP as Sum Insured for any district crop combination(Both PMFBY/RWBCIS). Farm gate price will be considered for the other crops for which MSP is not declared.**

Under the existing provisions the sum insured of the notified crops in a district is equal to the Scale of Finance fixed by the District Level Technical Committee (DLTC)/State Level Technical Committee (SLTC) which, in many instances, leads to over or under compensation/claim to farmers in comparison to value of crop damaged resulting into a moral hazard in respect of few crops and areas.In some case sum insured is less than the value of the yield leading to distress among farmers.This provision will result in better benefit to farmers as sum insured can be decided based onnotional value of average yield rather than Scale of Finance which may not reflect true value of crop in many regions.

Notional value of average yield is calculated as –

Notional Average Yield (NAY) x Minimum Support Price (MSP), for any district-crop combination.

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- *Notional Average Yield will be the moving average District-level yield of best 5 years out of last 7 years (without application of indemnity level).*
- *For the crops where, MSP is not available, Farmgate price will be considered.Farmgate price will be calculated based on the weighted average market price for the period of 3 months after harvesting in previous season/ year.*

iii) **Central Subsidy under PMFBY/RWBCIS to be limited for premium rates up to 30% for unirrigated areas/crops and 25% for irrigated areas/crops. Districts having 50% or more irrigated area will be considered as irrigated area/district(Both PMFBY/RWBCIS).**

It has been seen that some district crop combinations have higher claim experience season to season leading to higher premium rate.The higher actuarial premium rate in some crops and areas also indicates inconsistencies in the cultivation of crops as per the suitability of the climate, inconsistencies in collection of yield data, etc.This leads to adverse selection and moral hazard.Accordingly,Central Subsidy will be limited for gross premium rates up to 30% for unirrigated areas/crops and 25% for irrigated areas/crops. Districts having 50% or more irrigated area will be considered as irrigated area/district.

It is envisaged that State Governments examine the cause of such high premium rates and make suitable corrective measures in collection of yield data, issueweather advisory, advise crop diversification to the farmers etc. State Government may continue to implement the PMFBY/RWBCIS for such high premium crops, howeverCentral premium subsidy liability will be limited up to the aforesaid capped limits, beyond which additional premium subsidy will be borne by State Government. An illustration of Central Subsidy limits is as below –

<u>Assuming the actuarial premium rate for an unirrigated Kharif food crop in a non-North-Eastern State to be 33%</u>. In this case, 2% premium will be the farmer share. For remaining premium up to limit of 30% for unirrigated crops/areas i.e. 28% (30% limit - 2% farmer share), central subsidy will be provided on 50:50 basis i.e. 14% Central subsidy and 14% State Govt Subsidy. Additional premium of 3% (33% gross premium - 30% limit) will also have to be borne by State Government.

iv) **Flexibility to States/UTs to implement the Scheme with option to select any or many of additional risk covers/features like prevented sowing, localized calamity, mid-season adversity, and post-harvest losses. Further, States/UT can offer specific single peril risk/insurance covers, like hailstorm, under PMFBY even with or without opting for base cover(Both PMFBY/RWBCIS).**

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Presently scheme offers comprehensive coverage of risk from pre-sowing to post harvest losses irrespective of the risk associated with the crops and agro-climatic areas.It has been observed that few of the offered risks are not required in some particular areas and crops.Hence, it is proposed to offer a basket of risks with the choice to States to top up any or many additional features such as prevented sowing, localized calamity, mid-season adversity, and post-harvest lossesbased on the suitability of the risk associated with that particular area/crop.This will be helpful to States in choosing risk coverage based on the risk associated with that crop/area.Further, it will also be helpful in rationalization of premium rates, subsidy burden to the States and increase in outreach of the schemes for other areas and crops.States can also implement single peril risk/insurance cover viz. hailstormafter prior approval from Government of India.

v) **States not to be allowed to implement the Scheme in subsequent Seasons in case of considerable delay by States in release of requisite Premium Subsidy to concerned Insurance Companies beyond a prescribed time limit. Cut-off dates for invoking this provision for Kharif and Rabi seasons will be 31st March and 30th September of successive years respectively(Both PMFBY/RWBCIS).**

Although there is a provision of defined timelines for releasing of State share of premium subsidy to the insurance companies with a provision of penal interest @ 12% per annum beyond the three months of specified period, it has been observed that settlement of claims to the beneficiary farmers has been considerably delayed due to delay in State Share of Subsidy by many State Governments, which hampers the basic objective and adversely affects the Scheme.

Hence, in the interest of beneficiary farmers and bring in more accountability within the Scheme, it has been decided that States where there is a considerable delay in release of requisite Premium Subsidy to concerned Insurance Companies beyond a prescribed time limit will not be allowed to implement the Scheme in subsequent Seasons. Cut-off dates for invoking this provision for Kharif and Rabi seasons will be 31st March and 30th September of successive years respectively.

vi) **For estimation of crop losses/admissible claims, "Two-Step Process of Loss Estimation"to be adopted based on defined "Deviation matrix" using specific triggers like weather indicators, satellite indicators, etc. for each area along with normal ranges and deviation ranges. Only areas with deviations will be subject to CCEs for assessment of yield loss (PMFBY).**

Inconsistency has been observed between the production and the claims paid under the crop insurance schemes, which indicate moral hazard and also lead to increase in premium rates.Further, a need was also felt to rationalize available resources, infrastructure and deployed manpower for conducting of considerable huge number of

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Crop Cutting Experiments (CCEs) (about 70 lakh every year) irrespective of the probability of crop losses to decide the payout.By adopting a "Two-Step Process of Loss Estimation", States will be able to rationalize the utilization of available resources, manpower etc. for proper implementation of the scheme.This will help in conduct of need based CCEs in Insurance Units (IUs) where triggers are in deviation range resulting into better estimation of losses.Detailed guidelines/SOP for implementation of this proposal will be shared subsequently.

vii) **Technology solutions like Smart Sampling Technique (SST) and optimization of number of CCEs to be adopted in conducting CCEs (PMFBY).**

Under present methodology the sample plots for conducting CCEs are selected on a random basis leading to dissatisfaction among Stakeholders, and high basis risk, as there is no provision to proportionately select the experimental plot based on the irrigation pattern, crop health/condition, etc.Technology solutions that provide for proportionate selection of sample/experimental plots based on crop health, will further rationalize the payout to the farmers and reduce the basis risk.Further, such technology solutions will reduce total number of CCEs (Optimization of CCEs) and will improve distribution of locations of CCEs (Smart Sampling Technique) conducted under PMFBY. This will lead to accurate and quick yield estimation resulting into timely and appropriate claim settlement to insured farmers. Accordingly, States have to adopt these techniques for crop yield estimation under PMFBY.

viii) **In case of non-provision of yield data beyond cut-off date by the States to implementing Insurance Companies, claims to be settled based on yield arrived through use of Technology solution (PMFBY alone)**.

It has been observed that delay in approval of data on CCE Agri App/sharing of CCE yield data with Insurance Companies by State Governments leads to delay in settlement of claims of farmers, defeating the main objective of the Scheme.In case CCE data submitted through CCE Agri App is not approved within stipulated timelines, the same will be approved automatically and used for claim calculation. In case of non-submission of Actual Yield (AY) data by State Government to implementing Insurance Companies within stipulated timelines, synthetic Yield data arrived through using Technology solution will be used for calculation of admissible claims and subsequent settlement of claims to eligible farmers.The cut-off date for submission of yield data to Insurance Companies is normally two months after completion of harvesting of a particular crop.

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ix) **Enrolment under the Scheme to be made voluntary for all farmers(Both PMFBY/RWBCIS).**

Currently, enrollment under the Scheme is mandatory for the farmers availing Seasonal Agricultural Operational (SAO) loans/Kisan Credit Card (KCC), namely, loanee farmers, for the crops and in the area notified by the State/UT Government.For the non-loanee farmers, enrollment is optional.However, compulsory coverage of loanee farmers has led to dissatisfactionalong with demands from various quarters of farmers/farmers organizations for making the scheme voluntary for all farmers.The main objective of making enrolment under the scheme voluntary for all farmers is to empower farmers to take an informed decision on mechanisms to protect their crops.

This provision is expected to lead to a decrease in coverage of farmers, especially in low-risk areas, due to which the overall premium rates may increase resulting in to increased rate of premium subsidy for both Central and State Government. There is a need for all stakeholders to implement extensive IEC activities to increase awareness and outreach among farmers and promote enrolment.

Existing loanee farmers will be given a provision to opt-out from the Schemes by submitting requisite declaration to concerned bank branches any time during the year but atleast by seven days prior to the cut-off date for enrolment of farmers for the respective seasons. Bank branches shall conduct special awareness drive among existing loanee farmers in this regard. Bank branches shall also be directed to maintain proper records of farmer declarations.

Further, all farmers who approach banks for renewal/fresh issue of Kisan Credit Card (KCC) shall be asked by the respective bank branches to convey their willingness to participate in the Scheme by and will be enrolled accordingly by the concerned bank branches on National Crop Insurance Portal.

Result of participation under voluntary coverage would be reviewed after three years.Suitable measures including incentivization of farmers may be undertaken by State Government/Insurance Companies to encourage farmers to enroll under the scheme.

x) **Central Share in Premium Subsidy to be increased to 90% for NER from the existing sharing pattern of 50:50(Both PMFBY/RWBCIS).**

North-Eastern States have a differentiated agriculture landscape and by that extension implementation of crop insurancethan rest of the country, owing to theirtopography, cropping pattern, availability of infrastructure, adoption of technology,

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etc. This, coupled with the financial stress on these States to make adequate budget allocation, has resulted in a very low off-take under the Scheme in this region.States like Arunanchal Pradesh, Mizoram, and Nagaland have not been able to implement the Scheme due to financial constraints.Existing subsidy sharing pattern of 50:50 between Centre and States has been found to be unviable for adequate coverage in most North Eastern States. Hence, Central Share of Premium Subsidy for North Eastern States will be increased to 90% from existing 50%. This provision will help in incentivizing the NER States to notify more areas and crops under the Scheme.

xi) **Provisioning of up to 3% of the total allocation for the Scheme to be made by Government of India and Implementing State Governments for administrative expenses(Both PMFBY/RWBCIS).**

Absence of separate and adequate budget provisions for various administrative and operational expenses under the Scheme hinders seamless implementation and overall achievement of desired objectives of the Scheme.Provisionof earmarking separate allocation of up to 3% of total allocation for the Scheme willhelp Central and State Government in better deployment of manpower, infrastructure as well as better planning, implementation and monitoring of the scheme to achieve the objective of schemes to provide benefit to the targeted beneficiaries. Accordingly, State Government may open a separate budget head/line for administrative expenses under the Scheme.

2. Besides above, Department of Agriculture, Cooperation and Farmers Welfare in consultation with other stakeholders/agencies will prepare/develop State specific, alternative risk mitigation Programme for crops/areas having high rate of premium.Further, as the scheme is being made voluntary for all farmers, therefore, to provide financial support and effective risk mitigation tools through crop insurance especially to 151 districts which are highly water stressed including 29 which are doubly stressed because of low income of farmers and drought, a separate scheme in this regard would also be prepared in consultation with concerned Stakeholders. The proposed separate scheme may have minor variations on the present financial projections. Requisite approval for this separate scheme would be obtained separately.Till finalization of the new scheme for these districts, PMFBY/RWBCIS will continue to be implemented in these Districts.

3. The concerned provisions/parameters of scheme and operational guidelines of the PMFBY and RWBCIS shall be modified to incorporate the above said modifications.

4. The other terms and conditions of these schemes remain same.Operational Guidelines of PMFBY/RWBCIS would also be revised shortly and will be uploaded on the National Crop Insurance Portal (NCIP) – www.pmfby.gov.in.

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5. The revamped Schemes will come into force from Kharif 2020 season after incorporating the provisions/parameters mentioned in Para 1(i) to (xi) above in the existing PMFBY/RWBCIS guidelines. The revised operational guidelines for PMFBY/RWBCIS will be circulated separately by this Department.Further, States that have entered into long-term contracts with insurance companies are required to re-visit earlier contracts and revise or make new contracts as per revamped schemes.

6. The Central Government has made a budget provision of Rs. 15,695 crores for implementation of revamped PMFBY/RWBCIS during 2020-21.

7. All State Governments/UTs are requested to take necessary action and issue appropriate instructions to concerned Departments /agencies at State level and make adequate budget provisions for implementation of PMFBY/RWBCIS, which are critical for successful implementation of the scheme.

8. Implementation of the revamped scheme will require close monitoring and periodic review at State and district levels.State Level Coordination Committee on Crop Insurance (SLCCCI) will be responsible for monitoring of the scheme along with 18 empaneled insurance companies at State level.

9. Receipt of this letter may kindly be acknowledged, and action taken by the State/UT Government may please be intimated to this Department urgently.

10. The issues with approval of the competent authority.

Yours faithfully,

Ashish Bhutani

(Dr. Ashish Kumar Bhutani)
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Chief Executive Officer, PMFBY
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Copy to: Principal Secretary (Agri./Hort./Coop.) of all State Governments/Union Territories.

Copy also for information to Cabinet Secretariat/PMO/PS to Hon'ble AM/ MOS (PR)/Sr. PPS to Secretary, DAC &FW/PPS to Special Secretary & FA, DAC & FW/PPS to AS (Credit).