



# drishti

## Fines for Delaying Payment of Crop-Insurance Claims

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Under a new rule introduced in October 2018 (which took effect in January 2019), **insurance companies will have to pay fines for delaying payment of crop-insurance claims.**

- Enforcement of this new rule governing the Pradhan Mantri Fasal Bima Yojana (PMFBY) has revealed the magnitude of the problem:
  - Outstanding claims owed to farmers amounted to nearly Rs 530 crore until March 31, 2019.
  - It accrued over the past four sowing seasons between the Kharif and summer-sown season of 2016 to the winter sowing season of 2017-18.
- About “eight companies” have now been slapped with a fine of Rs 16 crore for various delays.
- As per rules, an insurance company must now make payments within 30 days of receiving all claims-related data, failing which penalty at a rate of 12% of the outstanding is levied.
- Farmers, under PMFBY, have to pay between 1% and 2% of the total premium, depending on crops and sowing season. The rest is shared between the Centre and states on a 50-50 basis.
- **A majority of those fined are public-sector insurance companies** since they have, between them, a majority share of the farm insurance business. Currently, 18 companies are impaneled to offer farm insurance. Of these, five are state-owned. The share of crop insurance business with state-owned firms is 52%.'
- The two changes introduced are:
  - The fines, aimed at ensuring compliance of insurance companies with making timely payments.
  - It provides for penalizing state government for their share of the delay.

### Consequences of Delay

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- Delay in paying compensation for crops ruined by weather shocks can have a **domino effect on the fortunes of individual farmers** and the overall economy.

- Such delays can push millions of **farmers into poverty, leaving them with little money** for the next sowing season.
- Such delays hamper farmers' ability to **service their agricultural loans, pushing them closer to the brink of default**. Farm insurance is compulsory for any farmer taking an agricultural loan.
- Such vicious cycles of delayed payments, among other issues, were one of the factors **behind massive protests by farmers** in the last two years to demand farm loan waivers

## Concerns

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- Fixing responsibility is a positive step, but the penalty has to have a valid reason. **Claims cannot be cleared just because data has been cleared by states.**
- **There can be a discrepancy in claims data sent by states** or consequential delays from state governments, which often cause delays in releasing premium.

## Way forward

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- If the PMFBY scheme is to achieve its most critical goal, **timely payouts to farmers must be ensured.**
- **It should rely on high-end technological fixes**, from drones to even a new constellation of satellites, for accurate crop damage assessments, which is the key to faster processing of claims.