

# VARSHA BIMA - 2005

## General Benefits

1. We know that yields are variable. However, we are now realizing that the weather (rainfall) is also becoming increasingly unpredictable and uncertain. In this scenario “Varsha Bima” is an efficient insurance product for the benefit of the farming community.
2. Varsha Bima covers anticipated yield losses on account of shortfall in the actual rainfall within a specific location and period.
3. Varsha Bima has been designed for popular and widely grown field crops like Rice, Bajra, Maize, Jowar, Groundnut etc. in the drought prone areas.
4. Varsha Bima provides for two options – viz. ‘Sowing Failure (SF)’ and ‘Rainfall Distribution Index (RDI)’. The SF covers the risk of prevented / failed sowing, while RDI covers entire season’s rainfall requirement with due respect to moisture requirement at critical stages of crop growth. Rainfall index is created by (i) giving weights to rainfall of critical periods and (ii) by capping for excess rainfall. The index reflects the ideal and practical method of assessing the rainfall requirement, and, therefore, is more efficient compared to aggregate rainfall.
5. Calculation of rainfall index is transparent and fully objective.
6. Varsha Bima is inexpensive to operate as very few agencies would be involved in implementation, and, therefore, the aggregate administrative cost would be lower than the traditional crop insurance.

## Specific Benefits to the Farmers

1. Flexible premium rates. AIC made honest effort to keep the premium rates as affordable as possible while providing fair and reasonable benefits to the farmers.
2. It allows speedy settlement of payouts, as early as a month after the indemnity period. Rainfall Index is calculated taking rainfall up to October, so payouts could be given before end of November.
3. The grower is not required to submit claim form or other documents as proof for his losses. The claim payout is automatically calculated on the basis of rainfall data collected from the reference IMD station and the amount is credited to grower’s Bank Account.
4. It reduces loan default risk, so better terms on interest rates can be offered by financial institutions.

5. Since the claims are paid on the basis of area rainfall, the grower retains the incentive of putting in extra effort for getting better yield of his crop.

### **Benefits to the State Government**

1. State can buy a Master Policy covering all resource-poor farmers and thus provide risk mitigation tool against drought risk, which can obviate the need for other farmer-oriented relief. Alternatively, the premium could be subsidized and thus make the Varsha Bima affordable to farmers.
2. The payout provided under Varsha Bima is transparent, efficient & direct, and hence more effective, scientific and foolproof compared to the government relief.
3. Having supported the Varsha Bima through premium subsidy, the government is free from the claims burden.

### **Benefits to the Financial Institutions/Credit Agencies**

1. The policy provides collateral security to the production credit disbursed by the Credit Agencies.
2. Stand to receive payout under Varsha Bima much earlier than the normal repayment by the farmer, which is expected only after harvesting and sale of produce.
3. It helps in credit purveying and penetration.
4. Since the loan portfolio is protected, banks can offer better terms and cheap interest rates on the loan.