Agriculture Insurance in India: Increasing Access, Reducing Poverty

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More than a fifth of the world's poor live in India, and most are tied to agriculture for their livelihoods. And half of the entire Indian workforce is in this sector alone. But while crop yields have increased in the country in recent years, so has the gap between yields in richer areas compared to poorer ones.

Figure 1: India wheat yield growth over time, by district poverty level

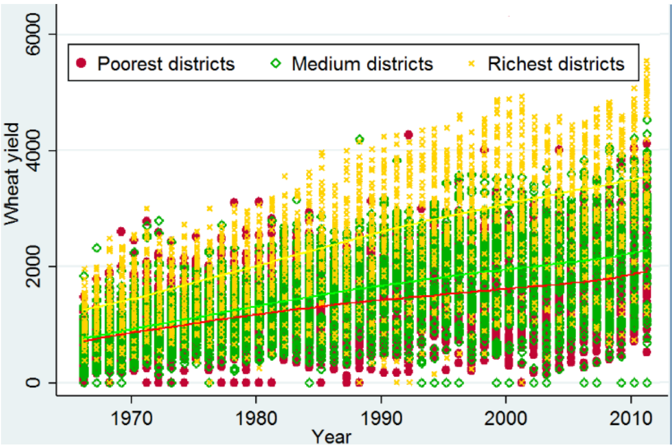

Figure 1 shows this in the context of wheat, one of the main crops of the winter season. In the 1960s, before the Green Revolution, richer districts performed just slightly better than others in terms of yield. As technology and infrastructure improved over the last half century, richer districts grew more in absolute and relative terms than poorer ones. This story is similar for other major crops in the country, which raises concerns for poverty reduction and pro-poor growth in the country.

Agricultural crop insurance can play an important role in this context. One of the main factors contributing to this widening yield gap is lack of access to financial services for the poor, such as credit, banking and agricultural crop insurance. All of these can help poor farmers leverage the technologies, farm inputs, and markets that richer farmers already use, thereby reducing production constraints and transaction costs. The result has the potential to lead to higher output, enhanced productivity and reduced poverty levels.

Impact on short-term poverty levels is even more likely when financial services are subsidized by the government. This has become a major selling point of the government's new crop insurance program, Pradhan Mantri Fasal Bima Yojana (PMFBY). Farmers pay only 1.5-2% of the total sum insured for crops, leaving the rest to government subsidies. This highly-discounted insurance has led to roughly 30% coverage of Indian farmers, and plans are to expand this by a third next year. Accordingly, total agricultural premium increased from $650 million in 2015 to $3 billion the following year.

India is now the world's third largest agricultural insurance market in the world and the largest in terms of premium ceded to reinsurers. As a result, GIC Re has become one of the world's largest reinsurers. As Ironshore broadens its participation in the India agricultural market and builds upon our relationship with GIC Re, we are poised to support this massive government endeavor. By increasing access to financial services and, specifically, agriculture insurance cover for India's crop producers, we aim to contribute to both poverty alleviation and inequality reduction globally for many years to come.