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India: Insurers cut exposure to govt's flagship crop cover scheme PMFBY

Domestic general insurance companies are gradually reducing their exposure to the crop insurance segment, the Pradhan Mantri Fasal Bima Yojana (PMFBY), in a bid to balance their portfolios and cut down losses on account of high claims, even as the Centre made the scheme optional and slashed its contribution.

Gross premium underwritten by general insurers has fallen by 12.37 per cent to USD 573.24 Million in the four-month period ended July 2021 as against USD 654.18 Million in the year-ago period. This follows the 16.76 per cent decline in crop insurance premium to USD 2.59 Billion (excluding Agriculture Insurance Corporation) in the fiscal ended March 2021 as against USD 3.11 Billion in the previous year, according to figures available from General Insurance Council (GI Council).

Public sector insurance firms — particularly country's largest general insurer, New India Assurance — have almost reduced their exposure to nil in the four months of the current financial year. All the four PSU insurers — New India Assurance, United India Insurance, National Insurance and Oriental Insurance — have a combined exposure of just USD 516,065.92 in the period. Private sector general insurers like ICICI Lombard General Insurance and Tata AIG had exited the portfolio two years back. ICICI Lombard General Insurance had said it is exiting in the wake of losses and high reinsurance costs. Launched in February 2016, PMFBY witnessed huge claims of over 100 per cent in the first few years, leading to losses for insurers. Even GIC Re, which was earlier bullish on the portfolio, has cut down its exposure drastically after it was hit with heavy losses in the last two years. In the June quarter, the reinsurer slashed its crop portfolio by 23 per cent to year-on-year to USD 721.40 Million but has achieved profitability in the portfolio.

In February 2020, the government revamped PMFBY and the Restructured Weather Based Crop Insurance Scheme (RWBCIS) to address existing challenges in implementation of crop insurance schemes. In a major step, enrolment in the two schemes was made voluntary for all farmers, including those with existing crop loans. When PMFBY was launched, it was made mandatory for all farmers with crop loans to enrol for insurance cover under the scheme.

"The Centre has almost halved its contribution to its own flagship crop insurance schemes, slashing its share of the premium subsidy from the current 50 per cent to just 25 per cent in irrigated areas and 30 per cent for unirrigated areas from the kharif season of 2020," said an official of an insurance firm. The reduction in crop insurance exposure has come despite losses suffered by farmers in floods and other natural calamities in the last two years.

According to figures available from the GI Council, Agriculture Insurance Corporation (AIC) accounted for almost all of the premium at USD 280.16 Million in the four months, up from USD 234.67 Million a year ago. "Crop insurance business seems to have shifted from four PSU insurers to AIC," said an insurance sector source.

Among private sector players, Reliance General Insurance has increased its exposure to USD 84.74 Million from USD 58.53 Million in the four-month period ended July 2021. Bajaj Allianz cut down to USD 125.48 Million from USD 164.59 Million and ICICI Lombard to USD 5432 from USD 3.89Million

While farmer enrolment has reduced, another reason for the drop in farmer enrolment is reportedly the delay in pay-outs. Yet another reason that can be attributed to lower crop insurance is the mismatch between digital records and land ownership claims made by the concerned farmers (this mismatch prevents farmers from available crop insurance), said a Care Rating report.

Source: https://indianexpress.com/

Climate Change and General Insurance Industry: The Road Ahead

The effects of climate change are more visible than before. Stronger and more frequent natural disasters are destroying homes and businesses at record-breaking rates and putting entire food systems at risk.

Prima facie, it looks insurers can manage their exposure to climate risk using their deep understanding and prevalent, but, as effects of climate change could stress local economies and cause market failures that affect both consumers and insurers. More frequent catastrophic events, in combination with the need to meet evolving regulatory requirements, can threaten company business models—and make insuring some risk unaffordable for customers or unfeasible for insurers.

McKinsey research shows that the value at stake from climate-induced hazards could, conservatively, increase from about 2 % of global GDP to more than 4 % of global GDP in 2050. And the risks associated with climate change are multiplying.

Escalation of climate risk, such as the occurrence of more floods and wildfires, may lead to underinsurance—or to no insurance at all. The result, substantial market dislocation will include premium loss, higher rates of self-insurance, and an increased demand for disaster relief from the public sector.

The Intergovernmental Panel on Climate Change (IPCC) published its latest assessment of human-made climate change, warning that the planet will pass the warming threshold of 1.5 degrees Celsius in the next two decades, resulting in more heatwaves, droughts, and other extreme weather events, unless drastic and immediate action is taken to reduce carbon emissions.

The 2021 Wildfires reflect impact of climate change:

In the USA, as of Sep 14, 2021, the situation report of National Interagency Fire Center (NIFC) listed a total of 44,647 wildfires across the country that had burned more than 5.6 million acres. There are 19,761 personnel deployed on 79 large, active fires across the U.S., of these, 60 are uncontained. The average year-to-date is 44,654 fires burning 6.3 million acres.

New large fires were reported in California and Wyoming. Incidents in California, Montana, and Utah reported active fire behaviour with several gaining more than a thousand acres.

Research suggests that the fire season in California and across the West is starting earlier and ending later each year. Climate change is considered a key driver of this trend. The length of fire season is estimated to have increased by 75 days across the Sierras and seems to correspond with an increase in the extent of forest fires across the state.

In August 2021, an information bulletin by the International Federation of Red Cross and Red Crescent Societies (IFRC) mentioned that the Mediterranean region experienced its worst heatwave in decades, while the fire outbreak since July has continued to spread to more countries and to burn larger areas, the firefighting operations were mobilized.

The temperature in Sicily, Italy reached 48.8°C, which is categorized as 'hot temperature extreme', defined by the IPCC as 'the daily maximum temperatures over land that were exceeded on average once in a decade or once in 50 years during the 1850–1900 reference period'.

Response of Insurance Companies

The management of insurance companies should be to understand risk and climate science to mitigate the systemic effects of physical climate risk for themselves and their clients.

Insurers can build greater resilience by considering low-probability catastrophic events, diversifying their portfolio, and planning to evolve exposure over time. Risk models that assume nonstationary risk and de-emphasize historical data will be especially valuable.

They should now also focus on mitigating and even preventing physical climate risk. E.g., one North American insurer gives its homeowners insurance customers access to wildfire-defense services to help them with prevention and mitigation measures. Services include relocating valuables and deploying certified fire professionals to homes if a wildfire is approaching. Adjusting premiums to individual behaviours may also become more common.

In addition, they could work with the public sector to improve building standards and policies. Offering innovative solutions to cover newer and more frequent hazards, both acute (such as wildfires) and chronic (such as reduced crop yields).

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