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A Study on Impact of Agricultural Insurance on Farming Systems

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ABSTRACT: This research paper is mainly intended to demonstrate the importance of agricultural insurance and its impact on farming sector. Because of rising population, diminishing cultivatable land, climbing agricultural related debts and altering uncertainness's in farm financial income; there is a bang-up need to manage both agricultural insurance and risk factors which inherently exist in the agricultural sector. The endeavor of agriculture is subject to much precariousness. Many people in India earn their livelihood from this sector only as agriculture is considered to be as backbone yet. The uncertainties of weather conditions, yielding, price fluctuations, government based policies, global market conditions, and many other factors could cause wide dangles in agricultural income. All these kind of risks must be properly managed to achieve acceptable management in agriculture. It necessitates preferring among choices that reduce the financial impressions of such uncertainties. This paper also look some issues which basically deal with formal and informal mechanisms implemented to counter the risks and briefly focus on future projections of climate change and their impact.

KEYWORDS: Agricultural insurance, Cultivatable land, Future projections of climate change, Global market conditions, Financial impressions, Risk factors, Uncertainties.

I. INTRODUCTION

It is well known that, in India basically agricultural risks are aggravated by a sort of factors, ranging from weather and atmospheric variance, common natural disasters, incertitude's in yields and costs, unaccented rural infrastructure, imperfect markets and inadequate and sub-optimal financial services admitting the determined span and design of risk extenuation instruments such as credit and insurance.

These factors not only threaten the livelihood and incomes of small farmers but also weaken the practicality of the agriculture sector and its potentiality to become a part of the solution to the problem of indigenous poverty of farmers and agricultural labor community. The decisive nature of agriculture with respect to rural transmutation and the national economy, considered beside its inherent structural features, certainly further requires significant government and financial sector intercessions to not only ensure the food and nutritional security measures of households in the farming community of interests, but also generate deliverances and investments in this gross under-funded sphere. The poor percolation and development of various risk management tools in India also represents huge probabilities for the emerging agricultural insurance and trade good markets in terms of attracting producers out of the poverty situation by isolating them from income shocks and ensuring that a fairly percentage of the price goes to the producer.

Farmers employ a variety of formal and informal techniques to handle and extenuate risk, ranging from the use of drouth resistant crop varieties to reduced economic consumption and sale of assets. The Government is also implementing a large number of schemes to provide ministration to farmers confronting hardship.

[1].Rural people in developing nations are susceptible to a range of risks and restraints that obstruct their socio-economic evolution. Weather risk is permeative in agriculture. Weather dazes can immobilize farmers and households in poverty, but the risk of impacts also confines the tendency of farmers to endue in measures that might increases their productivity and improve their economic position.

[2].Conventional risk related management mechanisms like established micro-insurance, crop insurance, and other conventional methods such as savings, loans, or informal measures such as donations, gifts, mutual insurance connectivity's with neighbors, and safety nets are less effective in covering farmer's losses.

[3].Although, India has accomplished autonomy in food cereal yield, through the gradual promotion of modern innovative technologies the incomes of the farmers have not amended much and unstable because of natural calamities and price wavering. Hence, the author suggested that, the crop insurance is demanded to handle the issue of yield risk in the farming sector.

II. RISKS IN AGRICULTURE AND COPING MECHANISMS

It is evident that, management of risk in agriculture is one of the major worries of the decision makers and policy contrivers, as risk in farm output is considered as the major primary cause for bottom level of farm based investments. Both, there are few entailments for output growth.

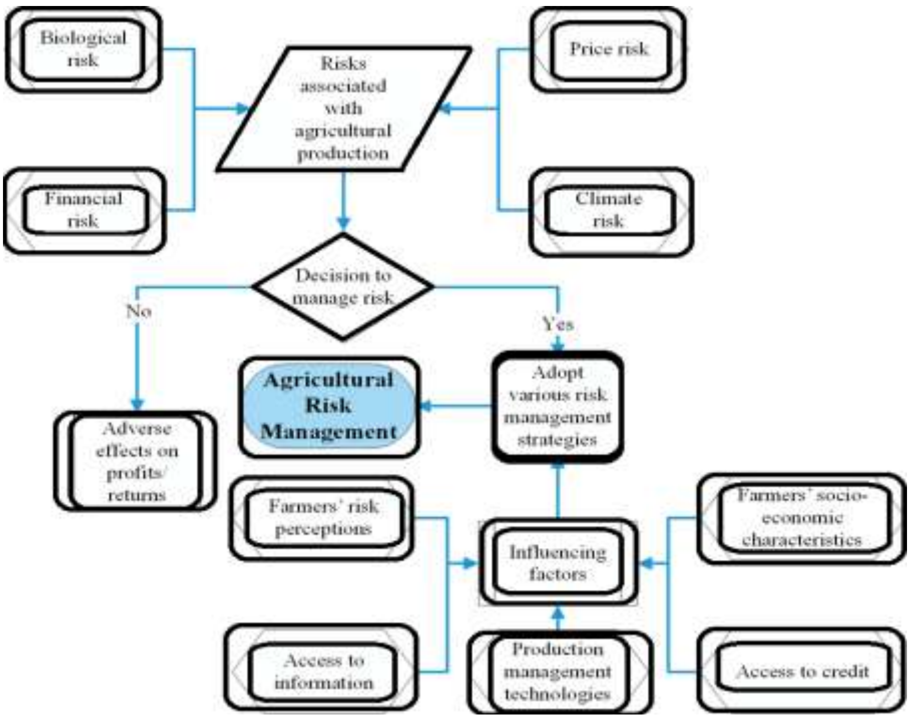
For developing different mechanisms and strategies to palliate risk in agriculture it is imperative form to acknowledge the sources and magnitude of fluctuations involved in agricultural output. Farmers are exhibited to risk from rainfall unevenness, market price variations, credit doubtfulness and acceptance of novel technology. The multifariousness's in the sources of risks require a mixture of instruments for assisting the farmers. In India, it mainly includes crop related insurance, rainfall insurance, farming based income insurance and a disaster relief fund. Most of these measures other than crop insurance are in the observational phase. Dissimilar sources of risk that affect agriculture are illustrated below.

I. Production Risk: These risks are mainly arising due to uncontrolled weather conditions and Pests.
Indian agriculture is often and rightly termed as 'gamble of monsoon'. It is characterized by high variability of production outcomes

II. Price or Market Risk:
Input and output price volatility is important source of market risk in agriculture and is largely outside farmer's control.

III. Financial and Credit Risk:
The way a farmer finances his agricultural activities is a major concern for the Indian economy. In India, about 70% of farmer-households have no access to formal sources of credit.

IV. Institutional Risk:
Another important source of uncertainty for farmers is institutional risk, generated by unexpected changes in regulations that influence farmer's activities. Changes in the level of input and output support, and subsidies can significantly alter the profitability of farming activities.



SCHEMATIC DIAGRAM OF VARIOUS AGRICULTURAL RISKS

V. Technology Risk:

New technologies for modernizing agriculture such as High Yielding variety (HYV) seeds, new agrochemicals, nutrients etc. should be adopted in agricultural practices. Furthermore, the lack of information about market developments in agricultural technologies and farm practices, government policies, finance and risk management instruments, weather forecasts etc add significant risks to the farming practice in India.

VI. Personal Risk:

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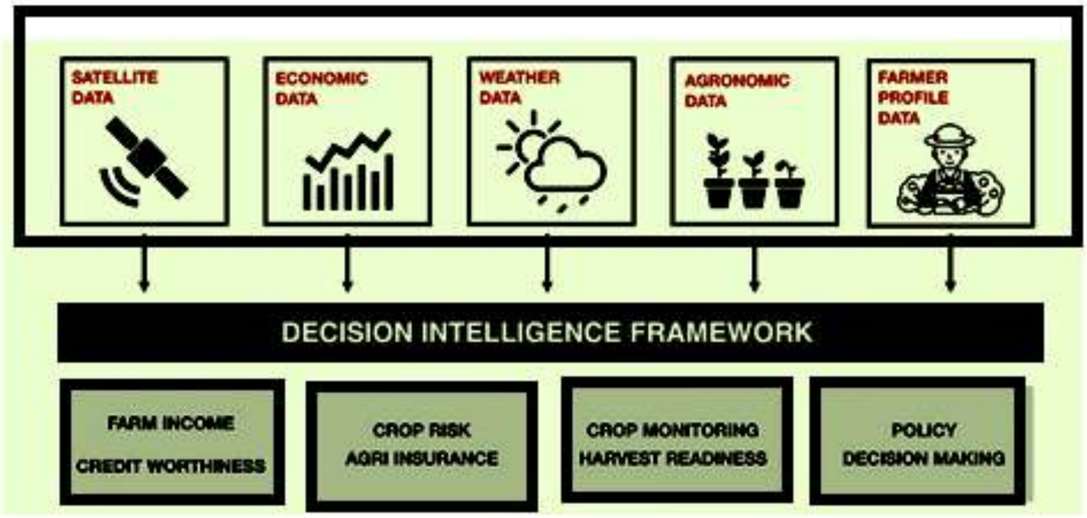
Agricultural households include the families of farmers, draught power, cattle, assets etc are exposed to considerable personal risks affecting the life and well being and loss of assets perhaps more than most other economic enterprises.

VII. Coping mechanisms:

Production and market risks have the largest impact on agricultural producers. Various market-based risk management solutions should be analyzed further to address the sources of risks respectively.



BLOCK DIAGRAM OF AGRICULTURAL RISK MANAGEMENT

III. CONCLUSION

Agriculture is considered to be a predominant sector of Indian economy and basically credit plays an important role in increasing agriculture production. Availability and access to enough, timely and low cost credit from various institutional sources of risks is of utmost importance especially to marginal farmers. Along with other inputs, credit is essential for launching sustainable and productive farming systems. Most of the farmers are small producers enlisted in agricultural activities in areas of widely varying potency. Experience has depicted that, easy access to financial servings at low-priced cost positively impresses the productivity rate, asset establishment, income and food security of the rural poor. The major concern of the Government is therefore; to bring all the farmer households within the banking congregation and promote complete financial comprehension.

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