

## Chapter-2: Financial management

### 2.1 Introduction

DAC&FW is responsible for budgetary control, release of funds and overall administration of the schemes at the central level. Funds are released by GOI and state governments to AIC on 50:50 basis towards share in premium subsidy under NAIS, MNAIS and WBCIS along with claims over and above 100 *per cent* of premium collected under NAIS (for food and oilseed crops) to the IAs. In turn, AIC releases to private insurance companies their share of premium subsidy (MNAIS and WBCIS). The schemes are demand driven and funds are released by GOI and state governments on demand from AIC.

### 2.2 Budget allocation and expenditure

Between *Kharif season* 2011 and *Rabi season* 2015-16, the GOI and state governments incurred ₹ 32,606.65 crore towards payment of premium subsidy and claim liabilities as detailed in **Annexes-II (a), II (b) and II (c)**. The allocation and utilization of funds under agriculture crop insurance schemes by the GOI (in respect all implementing states) and selected nine states for the years 2011-12 to 2015-16 are given below:

**Table 2: Allocation and expenditure** (in ₹ crore)

Ministry/ State	2011-12		2012-13		2013-14		2014-15		2015-16	
	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure
DAC&FW <sup>12</sup>	1,025.00	1,053.33	1,550.00	1,549.18	2,550.00	2,551.02	2,784.93	2,598.35	3,185.09	2,982.47
Andhra Pradesh	258.59	258.59	291.68	291.68	178.35	145.78	106.00	93.18	172.00	115.32
Assam	0.92	0.37	0.82	0.82	1.00	1.00	2.00	0.00	4.00	0.00
Gujarat	245.11	56.86	456.13	390.65	460.03	629.71	434.00	171.17	487.36	517.36
Haryana	14.62	7.37	7.15	7.05	37.49	37.24	50.50	0.01	35.12	34.31
Himachal Pradesh	3.18	3.78	6.86	8.33	9.46	7.92	12.87	10.34	17.5	2.00
Maharashtra	63.98	63.98	111.47	111.47	287.29*	287.29	125.51	125.51	1,007.24*	1,007.24
Odisha	59.00	56.39	282.57	298.87	30.00	10.27	160.00	159.95	160.00	70.14
Rajasthan	336.97	336.87	359.52	358.99	249.80	249.55	362.17	362.07	316.00	269.96
Telangana <sup>13</sup>	0.00	0.00	0.00	0.00	0.00	0.00	83.86	56.15	69.88	15.36

(Source: DAC&FW and selected state governments)

\* Enhanced provisions were made to meet the major claims reported during 2012-13 and 2014-15 due to adverse climate conditions in Maharashtra.

<sup>12</sup> Details of releases and expenditure as applicable to all implementing states

<sup>13</sup> Telangana state was created on 02 June 2014.

DAC&FW was requested to provide details of state-wise contribution of all the implementing states, which is awaited (February 2017). Audit also noticed that as per the data provided by DAC&FW, the total liabilities of the GOI (premium subsidy and share of insurance claims in case of NAIS) was ₹ 15,792.23 crore during the period of audit as against the budget provisions and actual expenditure of ₹ 11,095.02 crore and ₹ 10,734.35 crore respectively. DAC&FW was requested to provide clarification of the difference in the data, which is awaited (February 2017).

In Assam, though funds were provided by the Finance Department, the Agriculture Department did not draw any funds in 2014-15 and 2015-16. Government of **Haryana** ceased to implement the schemes from *Kharif season* 2014 onwards. Arrears relating to *Kharif season* 2013 and *Rabi season* 2013-14 were released in 2015-16. Similar delays in release of state governments' share were observed in **Andhra Pradesh, Himachal Pradesh, Maharashtra** and **Telangana**, affecting the reimbursement of claims to farmers. The reduction in allocation and expenditure in **Rajasthan** in 2013-14 over the previous years is attributable to the capping of insurance premium in that year.

### 2.3 Savings under NAIS with Agriculture Insurance Company of India Limited (AIC)

In terms of NAIS guidelines issued in July 1999, the IA (GIC till March 2003 and AIC thereafter) was required to meet the entire liabilities up to 100 *per cent* of premium in the case of food crops and oilseeds, and 150 *per cent* of premium in the case of commercial and horticultural crops. Liabilities in excess of these limits were to be shared equally by GOI and the state governments till complete transition to actuarial regime in a period of five years. Thereafter, all claims up to 150 *per cent* of premium would be met by the IA for a period of three years, the limit of which would increase to 200 *per cent* thereafter. Claims above these limits would be met out of a corpus fund to be created with equal contributions of GOI and the state governments.

Audit observed that during the period of operation of NAIS (from *Rabi season* 1999-2000 to *Rabi season* 2015-16, *i.e.*, 33 seasons), AIC had accumulated savings of ₹ 2,518.62 crore<sup>14</sup> from the collection of premium (amount of premium collected: ₹ 14,056.81 crore less AIC's share of claims paid: ₹ 11,538.19 crore). The guidelines were silent on the utilization of savings, if any, due to difference between premium collected and claims payable by AIC and as such AIC retained the savings.

<sup>14</sup> As per data provided by DAC&FW in August 2016

DAC&FW has been taking up the matter with AIC and Ministry of Finance to return the savings on the ground that AIC was being reimbursed all operational expenses for implementation of the scheme, and there was no justification for AIC to retain the savings. Audit noticed that the Ministry of Finance had directed AIC in December 2009 to release ₹ 200 crore to DAC&FW stating that these funds are being drawn “from the retained profits/ reserves (created out of NAIS activities) of AIC as a prelude to the recasting of the scheme and stopping the excess premium of individual state being appropriated as profits by AIC”. Later on, the Ministry of Finance did not agree (April 2014) to permit AIC to release further funds stating (i) that release of ₹ 200 crore in December 2009 has been objected by Auditors and (ii) such payments will reduce the solvency ratio to be maintained by AIC as per the IRDA’s regulations. However, Audit noticed that there was no comment by C&AG on release of ₹ 200 crore and the Statutory Auditors have only qualified that ₹ 200 crore is being shown as ‘Advances and other Assets’ in the Balance Sheet of AIC and the amount had not been adjusted against the retained profit/reserves. As regards solvency ratio, the decision to maintain this ratio is to be taken by the shareholders of the AIC (viz. all government insurance companies and NABARD) in consultation with Ministry of Finance, and is not to be linked with the issue of remitting of savings by AIC to the Government of India.

DAC&FW stated (January 2017) that they have again taken up the matter with the Ministry of Finance for the remittance of savings to the Consolidated Fund of India.

#### **2.4 Release of funds to private insurance companies without verification**

Under MNAIS and WBCIS, DAC&FW had entrusted AIC with the responsibility of channeling funds received from GOI and state governments and releasing premium subsidy to private insurance companies. DAC&FW guidelines (October 2009) stipulated that final payment to the private insurance companies was to be made on submission of final statistics with complete details of coverage during the season along with certificate of the concerned state government and a random verification regarding product benchmarking, and coverage by an agency appointed by GOI, and finding of such verification found to be in order.

Audit noted, however, that during 2011-16, AIC had released ₹ 3,622.79 crore<sup>15</sup> as premium subsidy to ten private insurance companies<sup>16</sup>, without compliance to any of the guidelines mentioned above.

In their reply to Audit (October 2016), AIC confirmed the requirement entrusted on private insurance companies under the guidelines, but failed to explain why AIC took no action to ensure compliance to the guidelines before release of funds.

## **2.5 Non-availing of re-insurance cover for claims share of governments**

As per NAIS guidelines, AIC was required to obtain appropriate re-insurance cover in the international re-insurance market. Audit observed, however, that while AIC had arranged for re-insurance support only for their own share of claims under NAIS, they did not arrange re-insurance support for the share of claims to be borne by GOI and the state governments. Had such re-insurance been provided, liabilities of GOI and the state governments amounting to ₹ 21,989.24 crore could have been reduced.

AIC replied (October 2016) that as regards NAIS (for food and oilseed crops), governments acted as reinsurers by sharing the risk whenever the claims exceeded the stipulated margin. In so far as actuarially rated products like WBCIS, MNAIS and NAIS (for commercial and horticultural crops) are concerned, where AIC was fully responsible for all the claims, adequate reinsurance protection was availed of.

AIC's reply is not acceptable as the scheme (NAIS) guidelines provided that IA (AIC) is responsible for arranging re-insurance support for the entire scheme claims under NAIS and not for the AIC portion alone.

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<sup>15</sup> GOI share: ₹ 1,873.36 crore and states' share: ₹ 1,749.43 crore.

<sup>16</sup> ICICI Lombard General Insurance Co. Ltd., IFFCO Tokyo General Insurance Co. Ltd., HDFC ERGO General Insurance Co. Ltd., Cholamandalam MS General Insurance Co. Ltd., Tata AIG General Insurance Co. Ltd., Reliance General Insurance Co. Ltd., Future Generali India Insurance Co. Ltd., SBI General Insurance Co. Ltd., Universal Sompo General Insurance Co. Ltd., Bajaj Allianz General Insurance Co. Ltd.

## 2.6 Utilisation Certificates (UCs)

### 2.6.1 Non-submission of UCs by IAs to states

GOI released premium subsidy of ₹ 5,265.48 crore to insurance companies (including AIC) under WBCIS (₹ 3,879.10 crore) and MNAIS (₹ 1,386.38 crore) through AIC since inception of these schemes till *Rabi season* 2015-16. DAC&FW issued standing instructions (March 2014) to AIC to mandatorily furnish state-wise and company-wise UCs to DAC&FW within a week of release. Audit, however noticed that AIC did not furnish periodic returns, as mandated, to DAC&FW. Instead, AIC furnished UCs only at the time of requirement of fresh funds from DAC&FW.

Audit also observed that during the period covered in audit, four states, **Assam**, **Haryana**, **Maharashtra** and **Odisha**, released funds to all the IAs (AIC and private insurance companies). Of these, two States, viz., **Assam** and **Haryana** released ₹ 1.66 crore and ₹ 84.21 crore, but did not receive UCs. Out of ₹ 3,409.33 crore released by Maharashtra, UCs for ₹ 3,365.86 crore were outstanding. In **Odisha**, as against actual expenditure of ₹ 595.62 crore, the Cooperation Department furnished UCs to the Finance Department for ₹ 690.57 crore, which needs reconciliation.

### 2.6.2 Non-submission of UCs by Bank/FIs to AIC

National Crop Insurance Programme (NCIP) guidelines require Bank/FIs to submit UCs to IAs within 15 days of credit of claims amounts to beneficiary farmers. Audit scrutiny of records of AIC revealed that in many cases Bank/FIs failed to submit UCs to AIC. Consequently, AIC did not have even the minimum assurance from the Bank/FIs that they had distributed the claims amounts to beneficiary farmers as detailed in **Table-3**.

**Table-3: State-wise position of UCs**

(₹ in crore)

State	Claims paid	UCs received	UCs not received	Percentage of UCs received
Andhra Pradesh	3,017.52	805.38	2,212.14	26.69
Assam	8.49	3.85	4.64	45.35
Gujarat	2,848.57	658.36	2,190.21	23.11
Haryana	4.20	0.54	3.66	12.86
Himachal Pradesh	20.41	4.68	15.73	22.93
Maharashtra	653.78	230.47	423.31	35.25
Odisha	1,629.02	755.99	873.03	46.41

Rajasthan	242.28	107.74	134.54	44.47
Telangana	523.14	137.544	385.60	26.29
<b>Total</b>	<b>8,947.41</b>	<b>2,704.55</b>	<b>6,242.86</b>	<b>30.23</b>

Age-wise break up of UCs not received is given below:

**Table-4: Age-wise analysis of outstanding UCs**

(₹ in crore)

State	Less than one year	1 year to 3 years	above 3 years	Total outstanding UCs
Andhra Pradesh	145.14	496.28	1,570.72	2,212.14
Assam	*	0.59	4.05	4.64
Gujarat	*	96.82	2,093.39	2,190.21
Haryana	*	2.67	0.99	3.66
Himachal Pradesh	1.62	14.11	**	15.73
Maharashtra	68.96	354.35	**	423.31
Odisha	*	648.85	224.18	873.03
Rajasthan	4.58	129.96	0.00	134.54
Telangana	*	148.11	237.49	385.60
<b>Total</b>	<b>220.30</b>	<b>1,891.74</b>	<b>4,130.82</b>	<b>6,242.86</b>

\* AIC informed that no claims have been settled as on date (December 2016)

\*\* AIC informed that no UCs were pending from Bank/FIs

AIC accepted the observation and stated (October 2016) that Bank/FIs are being urged and followed up regularly for timely submission of UCs.

Audit noticed similar shortcomings in the scrutiny of records/ information collected from selected private insurance companies in **Maharashtra, Haryana and Rajasthan.**

## Conclusions

Though DAC&FW invariably released their share on time, there were instances of delayed release of their share by state governments. Such delays impacted on the release of insurance compensation to affected farmers defeating the fundamental purpose of the schemes to provide timely financial assistance to the farming community. The guidelines were silent on the utilization of savings, if any, due to difference between premium collected and claims payable by AIC under NAIS and AIC retained the savings. AIC failed to exercise due diligence by verification of claims by private insurance companies before releasing funds to them. AIC failed to take re-insurance cover on behalf of GOI and state governments as provided in the guidelines.

AIC furnished UCs to the Department only at the time of demand for fresh funds and not within a week of release of funds as required by the Department. Implementing Agencies did not ensure submission of UCs by Bank/FIs and therefore, did not have even the minimum assurance from the Bank/FIs that they had distributed the claim amounts to beneficiary farmers.

**Recommendations:**

- i. DAC&FW should introduce a mechanism whereby delay in release of share of the state governments is reduced.
- ii. As the NAIS has been replaced with PMFBY, the issue of adjustment of savings under NAIS is to be taken to its logical conclusion by DAC&FW, Ministry of Finance and AIC.
- iii. DAC&FW should ensure that payments to IAs are released only after due verification.
- iv. GOI and state governments should ensure timely submission of UCs to it by Implementing Agencies and by Banks/FIs to Implementing Agencies so that the insurance benefits to the farming community are better monitored.