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Strong competition among reinsurers and a sustained period of favourable loss experience have strengthened insurers' negotiating position in the ongoing crop insurance renewals, prompting them to seek higher ceding commissions.

According to industry officials, insurers are seeking commissions of 5-8 per cent of premiums this season, compared with 3-5 per cent in the previous renewal cycle. The push comes amid increased competition among foreign and domestic reinsurers and improved profitability in the crop insurance segment. Premium rates in the segment have also steadily declined over the past few years.

Earlier, several states had awarded crop insurance tenders for three-year periods. This year, however, most states have floated one-year tenders, with the process beginning in May and expected to conclude by the end of June or early July. Industry experts said the delay was due to the Centre considering a new three-year scheme, which has not yet been introduced, prompting states to proceed with one-year tenders.

"The main risk factor being considered is El Nino. Insurers are demanding higher commissions because crop insurance has been a favourable business over the last few years and competition among reinsurers has increased. Earlier, commissions were around 3-5 per cent of premium; now insurers are seeking 5-8 per cent. Negotiations are still underway and contracts have not been concluded. Despite the pressure, there is still some sanity in the market," a reinsurance official said.

"Earlier, commissions ranged between 0.5 per cent and 6 per cent of premiums. This time, during the reinsurance renewals, insurers are seeking commissions of up to 8 per cent because of better profitability in the business," another reinsurance official said.

Under the Pradhan Mantri Fasal Bima Yojana (PMFBY), the sum insured for a farmer is determined by the scale of finance per hectare for a specific crop, as decided by the District-Level Technical Committee and pre-declared

by the State-Level Committee. The total sum insured is calculated by multiplying the scale of finance by the area of the notified crop proposed to be insured.

Farmers pay relatively low premiums under the scheme — up to 2 per cent of the sum insured for kharif crops, up to 1.5 per cent for rabi crops, and up to 5 per cent for commercial and horticultural crops. The balance premium is shared equally by the Centre and state governments, except in the North-Eastern states (from kharif 2020) and Himalayan states (from kharif 2023), where the sharing ratio is 90:10. Farmers are not required to pay any premium beyond these prescribed rates.

The PMFBY operational guidelines also provide for three alternative risk-transfer structures besides the standard model — cup-and-cap (80:110), cup-and-cap (60:130), and a profit-and-loss-sharing model. Under these structures, if claims remain below specified thresholds, a portion of the premium subsidy paid by the government is returned to the state treasury.

For instance, under the 80:110 cup-and-cap model, insurers bear claims when they range between 80 per cent and 110 per cent of premium collections. If claims are below 80 per cent, a portion of the government's premium subsidy is refunded to the state treasury. If claims exceed 110 per cent, the government bears the additional liability. A similar framework applies to the 60:130 model.

According to industry experts, more states are moving towards cup-and-cap arrangements from the traditional risk-transfer model, which has also contributed to lower premium rates.

"The last two years witnessed favourable monsoon conditions and healthy agricultural production, contributing to a more balanced claims environment under crop insurance schemes. However, agriculture remains exposed to multiple uncertainties, including El Niño events, rainfall deficits, input cost pressures, and geopolitical developments, all of which can materially influence crop yields and claims experience," said Ashish Agarwal, Head Agri. Business & CSC, Bajaj General Insurance

Agarwal added, "Given the long term nature of agricultural risk, sustained insurer participation depends on actuarially viable pricing, policy stability, and timely implementation decisions. The market is currently navigating a transition period, with states assessing their participation and tendering approach following the Government of India's directions issued in May."

According to PMFBY data, gross premium under the scheme declined to ₹19,147.59 crore in FY25 from ₹29,661.65 crore in FY23. Claims paid also fell over the period, reflecting improved loss experience.