

8th Webinar on IFRS17

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Ind AS 117 Standard interpretations for Crop

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Agenda



- Setting the context
- Crop schemes Overview and features
- Arguments for recognition under Ind AS 117
- Arguments against Ind AS 117
- Key concepts under Ind AS 117

Setting the context

- Ind AS 117 Insurance Contracts standard – Principles based
- No automatic recognition of contracts underwritten by insurance companies under IND AS 117 – Judgement needed

Crop
Insurance
Schemes
by GoI

- Pradhan Mantri Fasal Bima Yojana (PMFBY)
- Restructured Weather Based Crop Insurance Scheme (RWBCIS)

- The scheme is designed at state level and operationalised at cluster level within states as per Operational Guidelines issued by Centre
- Insurance Cos participate through tender processes

Arguments presented apply to crop schemes only

Crop Schemes Overview



PMFBY

Covers yield loss to standing crops from sowing to harvesting.

Perils include adverse weather events and also widespread pest and disease attacks, landslides, natural fire due to lightening, storm, hailstorm, and cyclone etc.

CCE/YES-TECH/other technology derived loss estimates.



RWBCIS

Covers crop losses due to adverse weather conditions.

Perils include adverse weather events relating to rainfall, temperature extremes.

Loss payouts based on weather station data.

Arguments for Ind AS 117

Defining Insurance Risk

Ind AS 117 Definition

Insurance Contract

A contract under which one party (the issuer) accepts **significant insurance risk** from another party (the policyholder) by agreeing to compensate the policyholder if a specified **uncertain** future event (the insured event) **adversely affects** the policyholder.



Parsing OG

- Farmers should have **insurable interest** on the insured crops and lands

OG Para 3.1

- Low Frequency events satisfy **'principle of indemnity'** - Localised and post-harvest loss assessment at farm level, loss intimation essential

OG Para 5.5

- Compensation as per **near actual loss experience**

OG Para 18.5.8

PMFBY Operationalization

- CCE to be conducted so as to **reduce moral hazard**

OG Para 18.5.3

- Insurer can co-observe CCE

OG Para 18.5.13.7

- Right to challenge CCE data

OG Para 19.2

Kharif
2024

- 33.75 Mn hectares of area insured
- 25.9 Mn farmers

Increasing role of technology

CCE planning through smart sampling

Yield estimation

Assessment of prevented sowing

Clustering of districts

Use of technology has been built in for better administration and coordination.

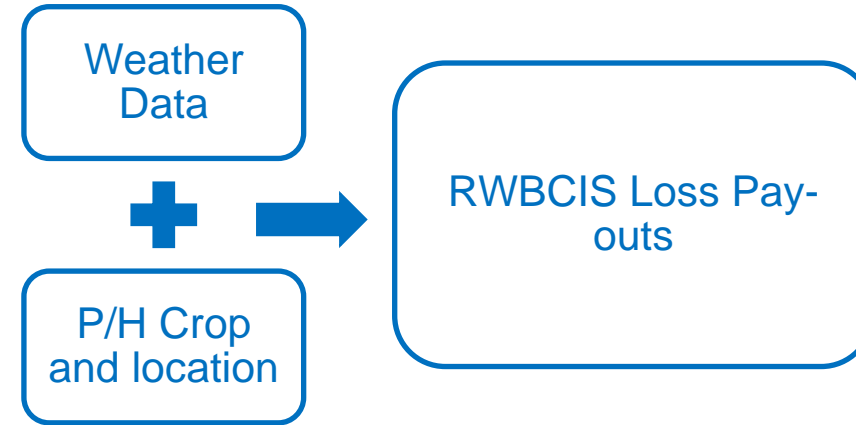
Arguments for RWBCIS

Ind AS 117 Paragraph

B26 (k)

Contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

considered as an example of insurance contract if the transfer of insurance risk is significant.



- Sum insured apportionment to crop growth phase → condition of B26(k) is met.
- Scheme specifies that payments correspond to significant crop-damages due to adverse weather.

Arguments for Ind AS 109

Interpretation of Standard Para B13

Ind AS 117 Paragraph

B13

Some contracts require a payment if a specified uncertain future event occurs, but **do not require an adverse effect** on the policyholder as a precondition for the payment. **This type of contract is not an insurance contract** even if the holder uses it to mitigate an underlying risk exposure.



Adverse effect on entity to be a contractual pre-condition



Claim can be denied by entity

PMFBY/RWBCIS allows conditional U/W stage rejection however insurer lacks rights to investigate/reject claims

Interpretation of Standard Para B27(g)

Ind AS 117 Paragraph

B27 (g)

contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).

Is not considered as an example of insurance contract.



PMFBY

- Yield-based
- Linked to average yield as per CCE

RWBCIS

- Area-based
- Triggered by weather peril data

PMFBY Basic Cover and RWBCIS

Claim intimation is not pre-requisite

Pay-outs irrespective of evident actual losses suffered from adverse weather

Basis Risk

↑ Role of Remote Sensing Technology



Weather
Information
and Network
Data Systems

(WINDS)



Yield
Estimation
System based
Technology

(YES-Tech)



Collection of
RealTime
Observations
and
Photographs of
Crop
(CROPIC)

- Physical yield assessment on survey basis is being replaced with satellite image-based assessment.
- Non-physical variables like NDVI/NDWI and other similar indices are derived using the remote sensing data.
- States are increasingly relying on use of technology as an alternative to conducting CCEs.

Key Concepts under Ind AS

117

Contract Boundary

Insurer is bound to T&C of tender with **conditional** cancellation

E.g., for a 3 yr tender,
CB as per IND AS 117 =
3 yrs, as per *Para 34*



Quantitative PAA
Eligibility testing reqd
as per *Para 53 (a)*

Contracts are not PAA Eligible as per *Standard Para reference 53 (b)*

Several RI contracts have an annual review clause, contract boundary aligned with review clause on the RI contract

Level of Aggregation

Para 14 → Similar Risks, Managed Together

PMFBY

- Area based approach
- Coverage in case of crop yield shortfall
- Co-observe CCEs

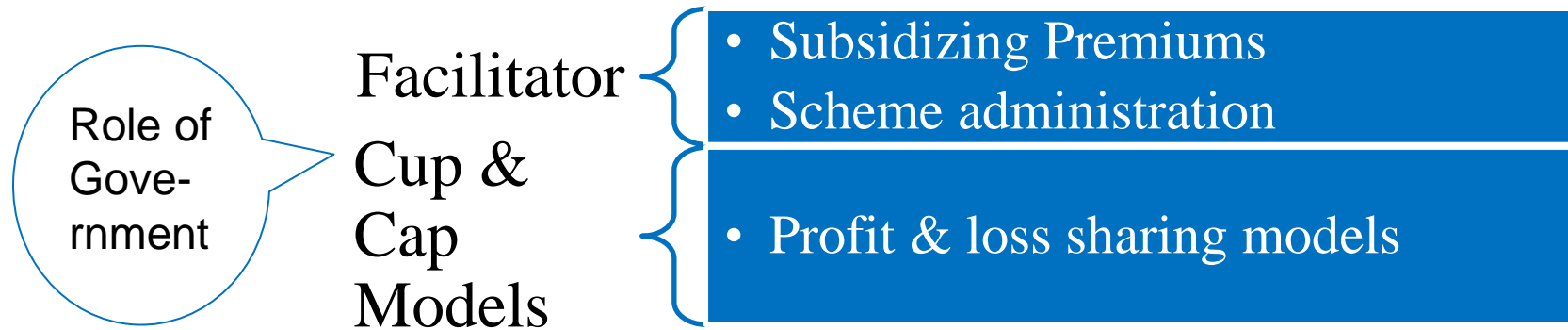
RWBCIS

- Index based approach
- Coverage basis weather related indices
- Readings from weather station;
- Or undertake claim surveys for localised

Onerous Contract Testing – aligned with Pricing level

Role of State & GOI

Farmer is the ultimate beneficiary
State Government being the master policyholder



LR below lower limit threshold → NDIC

Questions?

Thank You!