

Case Study

“An Exploration: Community Based Livestock Insurance Scheme”

Vizianagaram (Andhra Pradesh, India)

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Flow of Presentation

- Introduction
 - CIRM (Centre for Insurance and Risk Management)
 - Livestock Insurance in India
- Community Based Livestock Insurance
 - Organizational Structure
 - Society for Elimination of Rural Poverty (SERP)
 - Strategy
 - Process Flow
 - Performance & Challenges
 - Future Prospects
- Conclusion

Centre for Insurance and Risk Management (CIRM)

- Established in the year 2006 as a design and research centre at Institute of Financial Management and Research (IFMR), Chennai
- Engage in **product design & action research** to facilitate greater market outreach of risk management solutions among poor households

Focus Areas	Verticals
Product Innovation: Action Research and Product Development	- Agriculture - Livestock - Health
Market Making: Data Warehousing, Training and Policy Advocacy	- Catastrophe - Pensions/ Annuities - Life

Livestock Insurance in India

- Livestock contribute about 4.5% of Indian GDP
 - 100 million households depend on livestock directly or indirectly
- Total cattle population: 283 million
 - Cow population: 185 million, Buffalo: 98 million
- Livestock Insurance
 - Started in 1971
 - Less than 7 percent of total cattle population covered; mostly “Credit-linked”
 - Risks other than death are not covered

CIRM

[Ref: http://www.nddb.org/statistics/population_india_species.htm](http://www.nddb.org/statistics/population_india_species.htm)

Distribution Models: Comparison

Parameters	Partner Agent Model	Direct Sales Model	Community Based Model
Outreach	90 percent of market share	10 per cent of market share	Experimental phase
Risk Carrier	Insurer	Insurer	Risk pooled by Community
Sales Channel	Through intermediary: Banks, NGOs, MFIs	Insurers deploy direct sales staff	Community members or Community Institutions
Remarks	Business grows fast, low transaction cost, easy origination, distribution & sale,	Limited based on size of sales team, Non-profitability on branch basis	Not tested enough

Distribution Models: Challenges

Parameters	Partner Agent Model	Direct Sales Model	Community Based Model
Origination: Identification	Certification from Veterinary Doctors	Certification from Veterinary Doctors	Community Verification
Adverse Selection	Very high due to chances of collusion	Relatively lesser, still very high	Community vigilance, less moral hazard
Claim settlement	Post mortem and other certification from Veterinarian, Delay in payment	Post mortem and other certification from Veterinarian, Delay in payment	Community certification,



Vizianagaram: Context

- 82 per cent of population is rural (1.83m / 2.3m)
- Agriculture based economy: 68 per cent of population directly dependent on agriculture
 - More than 90 per cent of land holdings are small and marginal (less than 2 ha)
 - Mainly rain-fed (nearly 80 per cent of total cultivation)
 - Soil type: medium fertility red and sandy loam soil
 - Thus, livestock rearing forms a major part of income of small and marginal farmers and landless laborers

http://en.wikipedia.org/wiki/Vizianagaram_district#Geography

<http://vizianagaram.ap.nic.in/DistrictProfile.htm>



**90,000 animals insured under
Community based Model**

CIRM

What triggered the genesis?

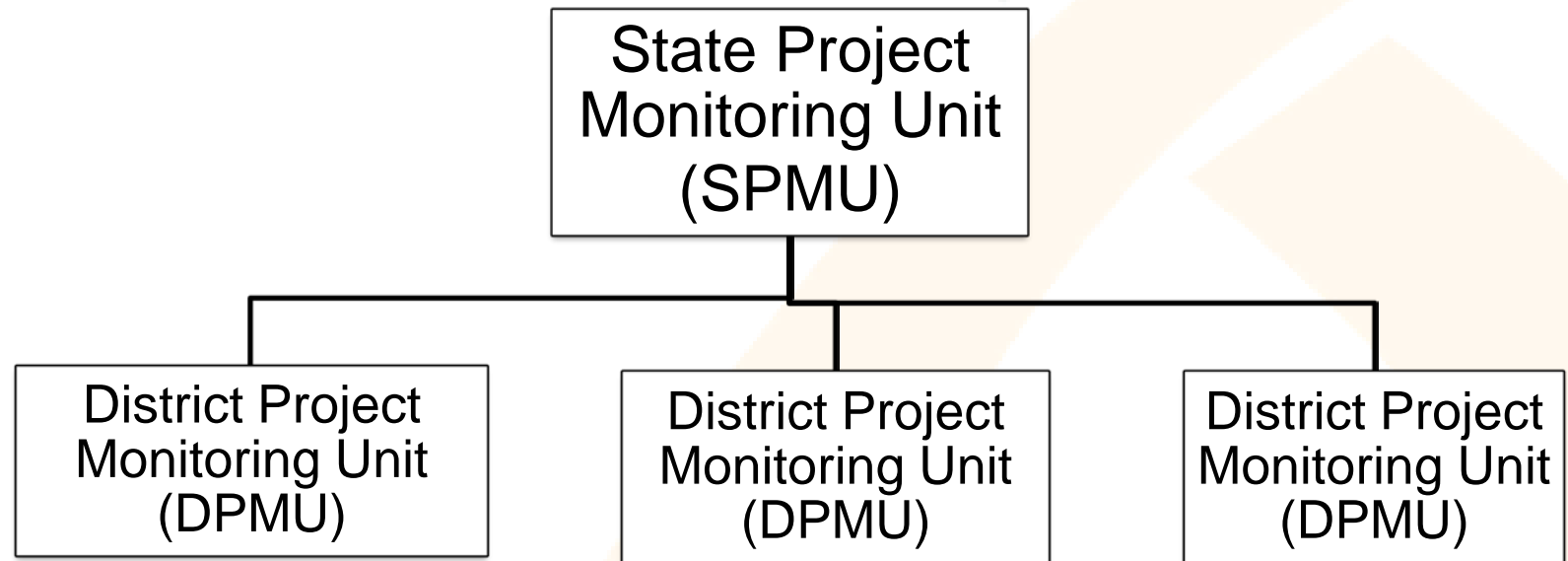
- Self Help Group(SHG)-Bank linkage program
 - SHGs availing credit for acquiring “cattle” as an asset
 - Credit for “cattle rearing” compulsorily bundle with insurance
- Bad experience with insurer
 - Claim settlement delay and process complications (death certificate/ port-mortem report, follow up etc.)
 - Claim settlement costs for the livestock owner in the range USD 30-60 per claim

Genesis of Community Based Model

- Started in the year 2003-04
 - Credit linked insurance for cattle
 - First phase from 2003-04 to 2006-07 (3 years): limited number of cattle were covered
 - Initially only 3500, then 1500 more were added in 2006-07
 - Numbers were limited to study the mortality patterns
 - Second phase (2007-08 onwards): Scheme opened to all SHG members
 - More than 90,000 cattle are insured as on date

Organizational Structure: SERP

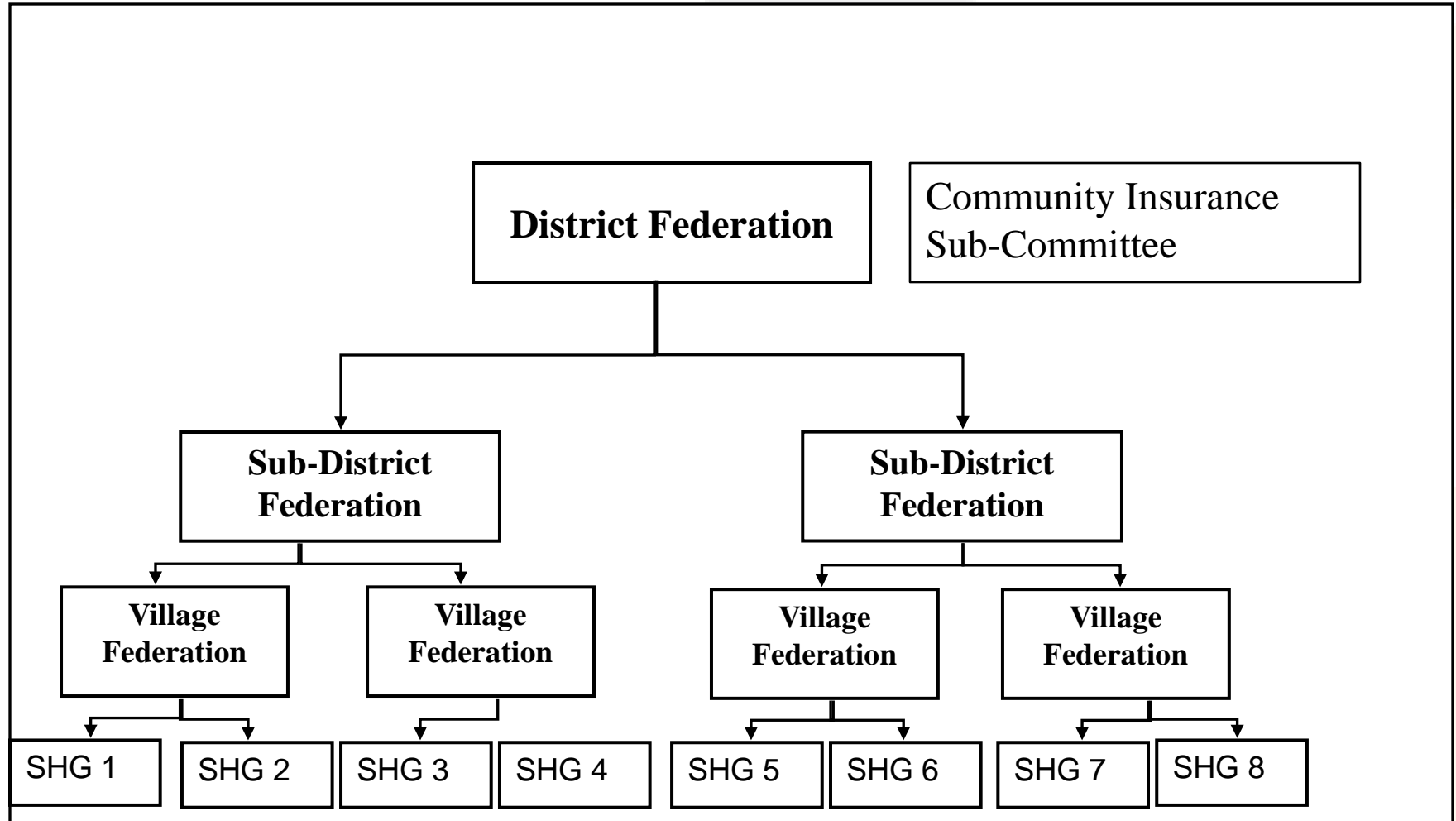
- Society for Elimination of Rural Poverty (SERP)
 - Implementing agency of “*Indira Kranthi Patham*” (Andhra Pradesh Rural Poverty Reduction Project)



Activities undertaken by SERP

- Under the Rural Poverty Eradication Program, SERP engages in the following activities:
 - Community institution building
 - Credit linkage of the Community Institutions (SHGs)- Financial Inclusion
 - Education, Marketing of community produced agricultural outputs, Dairy, Land development
 - Social security measures: life insurance, personal accident insurance and pensions
 - Women empowerment and health initiatives

Structure: Community Based Organizations



Strategy of the Scheme

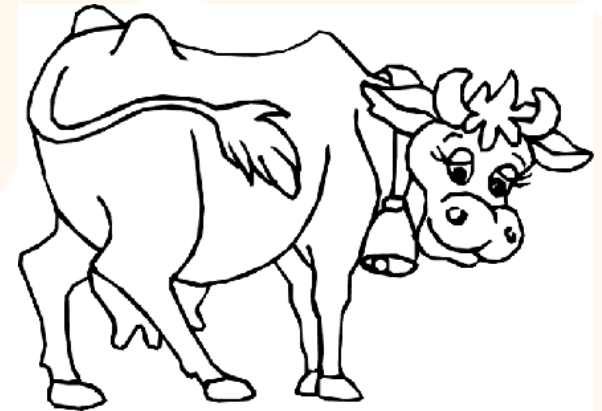
- Risk pooling at localized level
- Peer (Community) monitoring and vigilance
 - Insurance Advisor from the community, herself a SHG member
 - Controls fraud
- Risk reduction
 - Through “Veterinary Care” including vaccination for major diseases
- Simple Processes
 - Reduction in transaction costs

Product Specifications

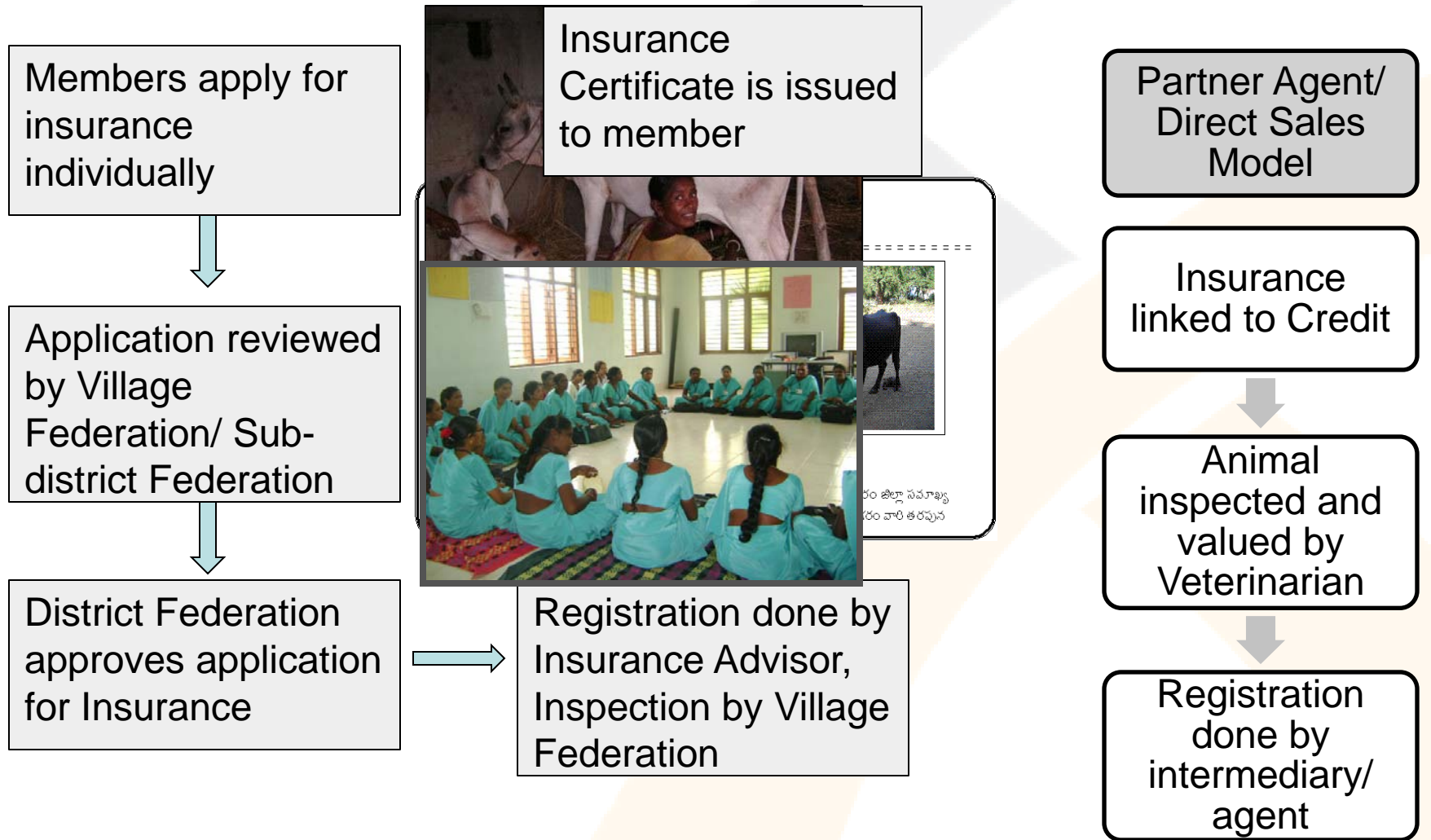
Product	Insurance to cover livestock mortality
Purpose	To provide a safety net for the SHG members against death of animals due to any reason. Insurance is also a protection to community based organisations/SHGs where clients avail loans for dairy farming.
Eligibility	All SHG members in Vizianagaram District.
Criteria/ (Exclusion)	First 3 lactations are insured / (Cattle in other lactations are not covered)
Sum Assured	Value of cattle (As declared by the Owner).
Annual Premium	4% of cattle value (It has reduced to 2% for the year 2009).
Policy Benefits	Cattle Death Benefits – 100% Sum assured on death
Documents for Claim Settlement	Membership number, Photograph of dead animal with identification no. of member which must be clearly visible.
Death Certificate	No post mortem required, death certificate from Village Federation and Insurance Advisor
Enrolment	Closed enrolment- once in a year (60 days)

Process Flow

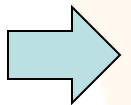
- [Member Registration](#)
- [Claim process & Community Vigilance](#)
- [Redemption of Claim](#)



Member Registration/ Enrolment



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Insurance Claim & Community Vigilance

On death of cattle, either owner/ villagers/ Village Federation informs Data Centre



Data Centre directs Insurance Advisor to inspect the dead cattle



Insurance Advisor inspects the cattle with Village Federation, issue Death Certificate



Insurance Advisor submits inspection report to Sub-district/ District Federation

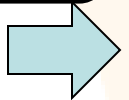
Partner Agent/
Direct Sales
Model

Death reported
to Intermediary/
Agent

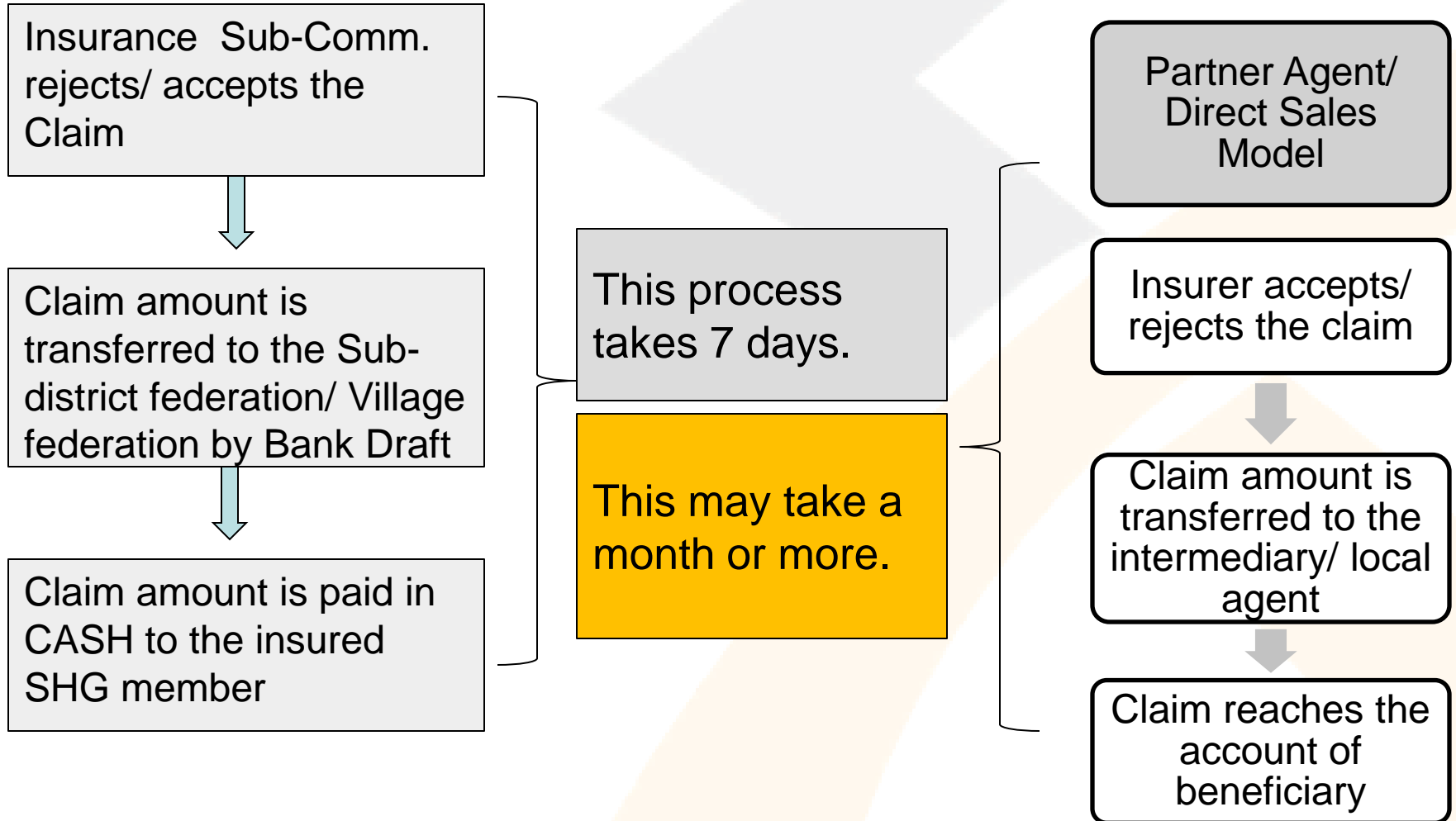
Animal
inspected by
Veterinarian

Post-mortem
report needed

Claim request
with out the
Veterinary
Certificates not
entertained



Redemption of Claim

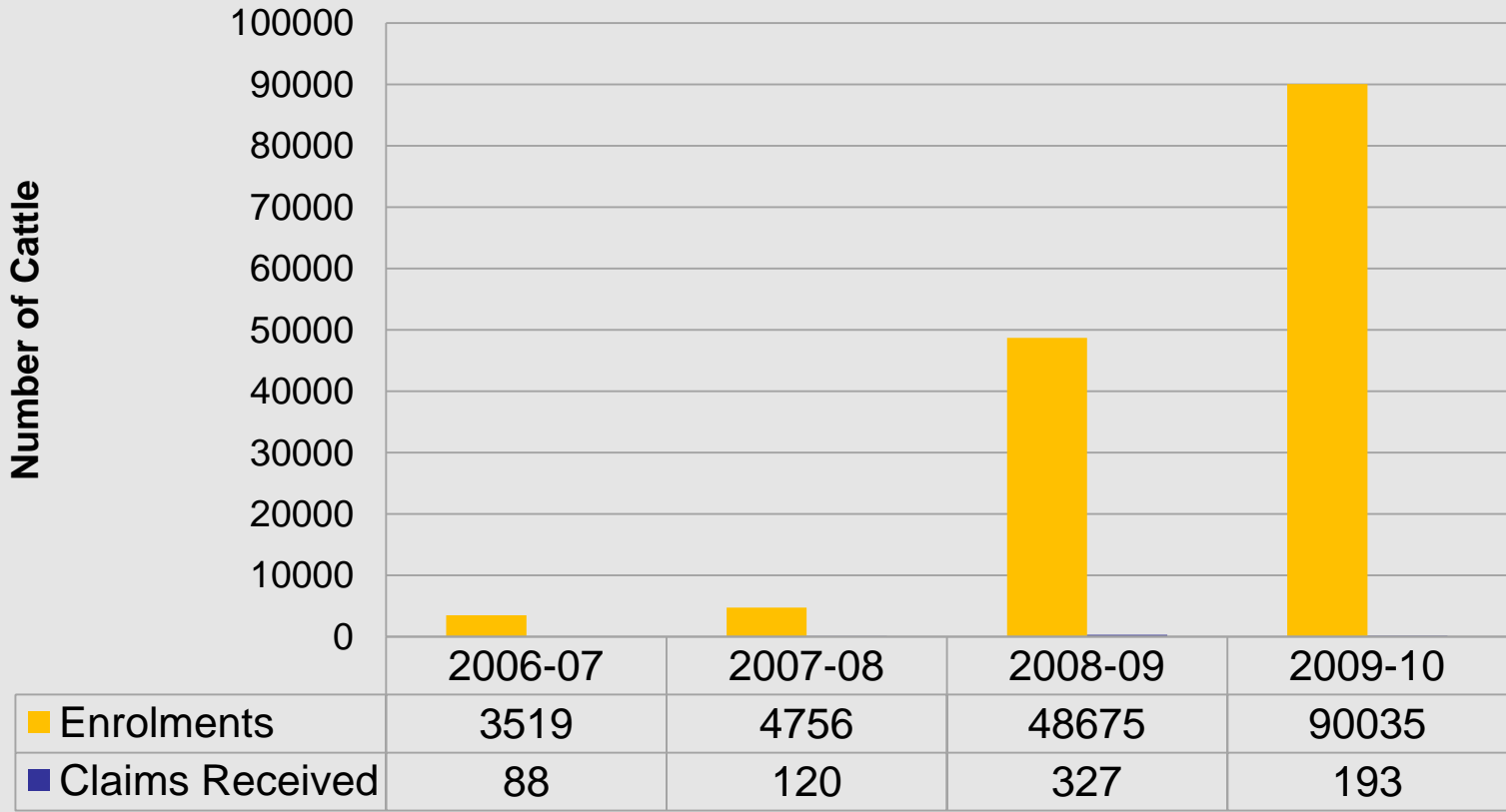


Capacity Building

- **Insurance Advisor:**
 - She is one among the SHG members
 - Literacy level: Primary to Senior Secondary level only
 - Undergoes special Insurance training
 - Offers a range of insurance products (life, health and cattle insurance)
- **Community Women:**
 - Undergo insurance literacy training

Performance

Progress of Community based Livestock Insurance



Performance

- Reduced claims due to “risk reduction” measures
- Community vigilance- control in cases of frauds
 - Has also helped in Premium reduction over the period (Premium reduced from 4% to 2% of cattle value)
 - Transparent processes
- Simple and speedy claim settlement process
 - Reduced documentation- Community Certification
 - Claim payment normally takes 7 days
 - No “Out of pocket” expenses for the cattle owners

Challenges

- Community as the risk bearer
 - Exposes them to covariate shocks
- Enrolment done only once in a year
 - So new animals purchased by SHG members after enrolment season miss out the opportunity till next cycle.
- Heavily dependent upon the “Insurance Advisor”
 - Expansion in scale would be a challenge in this case

Future Prospects

- Scaling up in 6 more districts (in 2010-11) and to the whole state of Andhra Pradesh by 2012
 - This would lead to covering 10 million cattle
- Scaling up would put challenges such as Data management and Cattle identification
 - Technology intervention for data management and animal identification
 - Automation of process would reduce dependence on human capacity of “Insurance Advisor”.

Conclusion

- The Community based livestock insurance scheme has been very successful
 - Main pillars of it's success: Simple process, Close Community Monitoring, Veterinary Services
- Has high societal impact as it helps Women SHG members to protect themselves against asset loss
- Empowerment of the members and the community in turn

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