

# *A case for livestock insurance*

*Gopinath Karat – IFFCO TOKIO General  
Insurance Co. Ltd., India*

# IFFCO TOKIO General Insurance Co. Ltd.

A blend of complementary competencies



- **World's largest fertilizer manufacturer in the cooperative sector**
- **Membership of 39,862 cooperative societies**
- **Production (2009-10): 8.44 mill MT**
- **Turnover (2011-12): US\$ 4.66 billion**
- **Group company of Millea Holdings established in 1879**
- **Japan's oldest and largest general insurance company and among the top ten largest worldwide**
- **Net written premiums (2011) of US\$ 22.77 billion**

*74% - 26% JV between IFFCO and Tokio Marine Asia*



# Cooperative Channel

## **Objective:**

Spreading insurance knowledge and awareness among rural communities by leveraging our cooperative strengths

## **Focus:**

Identify areas where both IFFCO and IFFCO TOKIO have presence, to ensure a dynamic synergy, effective coordination and better functioning as a unit

## **Modus Operandi:**

Match IFFCO-TOKIO and IFFCO presence by making agents from cooperative societies, who in turn get benefits in terms of additional earnings.

# Cooperative Bancassurance Channel

- Excellent channel to penetrate into rural cooperative societies and its members
  - High number of rural branches
  - Loans extended to Cooperative members for Property, Personal Accident, Health, Livestock
  - Channel of distribution of Government subsidies to the farmers
  - Cost effective
  - **However** substantial cattle loans in loan portfolio
  - Cattle insurance not promoted within IFFCO-TOKIO due to various challenges

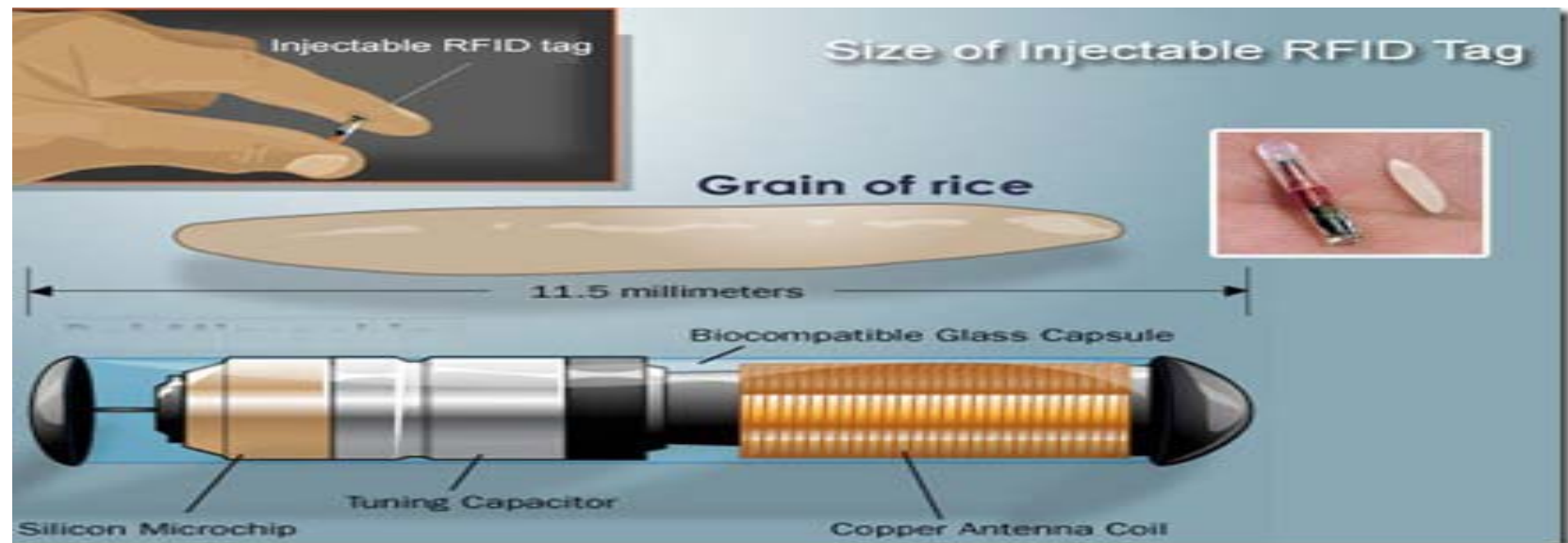
# Challenges facing livestock insurance

- High operating costs in remote rural areas
- Absence of actuarial / mortality data making pricing difficult
- Difficulty in valuation – age, health and productivity
- Identification of the insured animal
- Monitoring and verification of tagging

**→ History of high loss ratios due to identification problem**

**→ Grant from the Microinsurance Innovation Facility to pilot the use of RFID for identification**

# The RFID Microchip



# Product: Pashudhan Bima Yojana

Feature	Detail
<b>Eligibility</b>	<ul style="list-style-type: none"><li>• Credit-linked for farmers with cattle loans</li><li>• Age of cattle<ul style="list-style-type: none"><li>• Buffalo: 3 to 12 years</li><li>• Cow: 2 to 10 years</li></ul></li></ul>
<b>Benefits</b>	<ul style="list-style-type: none"><li>• Death due to disease or accident</li><li>• Sum assured is loan value (during claim settlement, the bank receives outstanding loan, rest credited to farmer's account)</li></ul>
<b>Premium</b>	<ul style="list-style-type: none"><li>• 3% to 5% of sum assured</li><li>• Paid on an annual basis</li></ul>
<b>Exclusions</b>	<ul style="list-style-type: none"><li>• Waiting period: 15 days after tagging</li><li>• No waiting period in case of accidental death</li></ul>

# Distribution

- Cooperative banks and milk cooperative societies
- Serviced by fully owned subsidiary IFFCO TOKIO Insurance services Ltd (ITISL)
  - A **100% subsidiary** of IFFCO TOKIO
  - Operates as a **Corporate Agent of IFFCO TOKIO**
  - Low cost vehicle for developing **retail and personal lines** of business
  - Penetrates both **semi-urban** and **rural**
  - Helps in developing **cooperative initiatives** for IFFCO TOKIO



# Bima Kendras

- One man offices operating out of cooperative banks - providing a **trusted environment**
- Manned by **son of the soil** called Bima Sahayak/ Relationship Executives (RE)
- Areas with lower insurance penetration – expect to generate **better reach of insurance**



# Enrolment Process

- RE and veterinary doctor visit farmer
- Veterinary doctor performs the RFID implantation
- RE takes the reading of the chip and records details
- RE collects the premium and provides a copy of health certificate cum insurance cover note to society or bank.



# Claims Process

- In the event of claim the farmer/society/bank informs RE
- RE reaches the spot within 4 to 6 hours, takes the RFID reading of the carcass and matches it with the records
- RE takes photos of full body and RFID reader
- Veterinary doctor provides the post mortem (when needed) and issues death certificate
- RE fills and submits all the forms related to claim
- RE receives the cheque and handovers the same to the client

# Spot Claim Survey



# Performance Indicators

<i>INCOME STATEMENT</i>	<i>US\$</i>	<i>DETAILS</i>
<i>PREMIUM</i>		
<i>Gross premiums</i>	496 372	28,138 cattle insured
<i>Unearned premium reserve</i>	-142 471	
<i>Net earned premium</i>	<b>353 901</b>	
<i>CLAIMS</i>		
<i>Gross claims paid</i>	118 035	194 claims paid, 7 rejected
<i>Outstanding claims reserve</i>	1 691	
<i>Net incurred claims</i>	<b>119 726</b>	Claims ratio = 35%
<i>OPERATING EXPENSES</i>		
<i>Personnel expenses</i>	106 478	100% project manager time, 20% Relationship Executive time
<i>Administrative expenses</i>	143 296	Tagging fee to vets, cost of RFID readers and chips, post mortem fees, travel, village meetings etc.
<i>Commission expenses</i>	49 637	10% paid to cooperative banks
<i>Total operating expenses</i>	<b>299 411</b>	Expense ratio = 84%
<i>NET INCOME</i>	<b>-65 236</b>	Combined ratio = 118%

# Key Performance Indicators

Indicator	Phase-I Aug 2009 - March 2010	Phase-II April 2010 - March 2011	Phase-III April 2011- Oct 2011	All Phases Aug 2009 TO Oct 2011
Total number of policies	401	2379	3144	5924
Total number of cattle insured	2355	15080	10701	28136
Total number of beneficiaries	947	10343	5509	16799
Growth ratio	0%	148%	52.60%	112%
Coverage ratio	29.40%	102.60%	133.80%	112.50%
Earned premium	\$ 9964/-	\$ 93,618	\$ 353,901	\$ 353901
Net income ratio	-456.80%	-65.50%	-18.40%	-18.40%
Incurred expense ratio	521.50%	122.70%	84.60%	84.60%
Incurred claims ratio	35.20%	42.80%	33.80%	33.80%
Number of claims paid	3	112	79	194
Claims rejection ratio	0%	4%	2.50%	3.5%

# Business Viability

- IFFCO TOKIO views entire Bima Kendra as one portfolio
- Allocates costs by premium, not time
- Willing to “cross-subsidize” with other bancassurance products
- Expand spread in existing areas as IFFCO TOKIO has already invested in the Bima Kendra and the technology (RFID readers)

# Client value and business viability

Change	Client value	Business rationale
Removal of 50% claim during pregnancy	Crucial risk cover during important stage of the cattle maturing.	Simpler policy, easier to explain during enrolment.
Reduction in premium	Lower cost!	Attracts banks and milk societies.
Faster claims processing	Get money faster.	Greater control over fraud. Involvement in process.
Door-to-door service	No need to travel for enrolment or claims.	Clients work with ITGI directly. Build brand over long run for client and the community.
Reduction in transaction costs	Less money out of pocket	Ability to choose better veterinarians.
Value added services	Healthier cattles	Healthy cattle don't die!



*Thank You*