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Micro Insurance for Protecting Livelihoods – Perspectives of Livestock Insurance

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Abstract: *Livestock contribute towards the livelihood of the poor by supporting subsistence consumption at household level. It is an integral part of the livelihood of India's rural population. As the critical mechanism to cope with crop failure, it helps generate assets and bolsters the financial security of rural Indian farmers, many of whom are among the poorest people in the country. The intensive rearing of livestock led to higher incidences of diseases and involvement of high feed cost due to stall fed system. Raising cattle, sheep or poultry is a risky business – especially if you do not own a herd or flock but only one or a few animals. The biggest risk is disease. Insurance as the key risk transfer must adapt to the coming reality of more commercial farming in India. The Government of India provides insurance against income losses of vulnerable sections arising out of four major reasons such as crop failure, sudden death of family member, unforeseen health expenditure and unexpected death of cattle. This paper intends to identify various schemes and arrangements for the Livestock Insurance in India. It also narrates the financial structure and availability of livestock insurance in Indian context. The last portion narrates the policy recommendations for the development of this sector.*

I. INTRODUCTION

Livestock contribute towards the livelihood of the poor by supporting subsistence consumption at household level, providing with complementary cropping activities, buffering against seasonality in income from other income generation activities and providing some assets for insurance against un predictable demands for cash (Dorward et al. 2009).

Livestock is an integral part of the livelihood of India's rural population. It contributes significantly to the overall output of the country's agricultural industry. Farming in India depends to a large degree on the vagaries of monsoon. If the rains fail, crops wither. Livestock plays a crucial role in mitigating that risk. It provides alternative employment – especially for women and income opportunities. As the critical mechanism to cope with crop failure, it helps generate assets and bolsters the financial security of rural Indian farmers, many of whom are among the poorest people in the country.

During the last two decades, population growth, aberrant monsoon due to climate change, restrictions on land use, deforestation, cash crop plantation by big farmers, decreased land availability, sharp rise in land prices and industrialisation promoted through globalisation forced the farmers to shift to intensive farming system from the traditional free-range system (Bala Ravi2004). The intensive rearing of livestock led to higher incidences of diseases and involvement of high feed cost due to stallfed system. Decrease in green and dry fodder availability from village common land and nearby forest areas with increased incidences of foot and mouth disease (FMD), pleuropneumonia, Peste des petits ruminants (PPR), avian influenza and anthrax enhanced the risk in commercial livestock production activities resulting in decline in native livestock population (FARD2007).

Fischer and Buchenrieder, 2009 established the fact that the absence of livestock insurance threatened the long-term livelihood of small farmers by increasing the vulnerability to acute financial loss in the mountainous regions of Northern Vietnam. A comprehensive study by Perry and Grace, 2009 highlighted the complex relationships among 'livestock, livestock disease, livestock disease control and global poverty' and concluded that livestock diseases affected poverty reduction. This signifies the introduction of sophisticated risk management mechanisms for sustainable livelihood of farmers in the above scenario. Lack of proper animal husbandry extension support with veterinary healthcare services and risk minimisation options such as livestock insurance limited the livelihood options of farm households adversely affecting dietary diversity, food security and income generation. Limited availability of organic manure from the decreasing livestock population, use of dry cattle dung as fuel for cooking due to diminishing availability of firewood, non-affordability for use of alternate sources of energy as fuel for domestic purposes, high cost and scarcity of inorganic fertilizers, threatened sustainable agriculture and soil health status in most of livestock farming areas of country.

Need for introducing Micro Insurance

On a large scale Providing access to mainstream financial services like savings, credit and insurance are seen as necessary conditions for promoting the livelihoods of the poor. While a diverse set of both formal and informal institutions have evolved to cater to the savings and credit needs of the poor, notable among them being the Micro Finance Institutions (MFIs) of various types, there is still a huge gap with respect to insurance services available for the poor. It is also well understood that the vulnerability to various risks is highest for the poor. In the absence of proper risk hedging mechanisms like insurance, the poor stand to loose their wages, borrow, liquidate their assets, migrate and face several other hardships, which in turn only trap them into a deeper and vicious cycle of poverty. The acuteness of the gap in risk management solutions for the poor is on account of several reasons:

1. With the increasing prevalence of nuclear families, the informal support system of the joint family too is unavailable for most people today.

2. Social protection programs from the public sector too are not universal yet and in places where they are present to some extent in the less developed countries, they often are seen as another straining factor for the already prevailing fiscal management problems. This prevents the governments in these countries from improving the scale and scope of social protection programs

3. Penetration of the formal insurance sector is very low today in all the developing and underdeveloped countries In the light of the above constraints, the challenge of providing a whole of range of insurance products to cover the risks related to both lives and livelihood generating assets of the poor is huge. However, the current situation should be viewed as an opportunity for various stakeholders like the developments sector, policy makers and insurers to expand and deepen the micro insurance market. Micro Finance institutions have made major strides to improve the access to credit and savings for the poor. It also an opportunity and imperative for micro finance institutions to seize the moment by actively providing micro insurance services for the poor and thereby contribute to achieving comprehensive financial inclusion of the poor.

II. IMPORTANCE OF LIVESTOCK

While livestock contributes to the nutritional diet and food security of the people, the growth of the sector in different states is very uneven. Accelerating growth in the Punjab, Haryana and Gujarat regions is in stark contrast to states like Odisha, which lags behind. The divergence is due to the policy focus of different state governments. Depending on the incentives and infrastructure provided by the states, the sector grows or stalls.

Developing this sector in a country where 250 million people or 51% of the total employed population works in agriculture is crucial. In a country that still faces rising population numbers the livestockraising industry can potentially provide work for many, assure food security and generate additional income – a cornerstone for further development and economic growth. Nearly 60% of rural households have livestock as an integral part of their farming system. About 69% of women are engaged in this sector. This sector contributes 26% to agricultural GDP. According to latest 19th Census, the livestock population stands at 512 million in India.

Investment, Credit and Insurance

Animal husbandry and dairying is a state subject, and bulk of the investment for their development comes from the state governments. The central government contributes about 10% to the total investment through central and centrally-sponsored schemes as to supplement state governments' resources. In absolute terms, total outlay for animal husbandry and dairying increased over the plan periods. However, as per cent of the total plan outlay the share of animal husbandry and dairy development declined from 1.1% during first FYP to 0.4% during VI FYP and further to 0.3% in the subsequent FYPs. As proportion of the total outlay for the agricultural sector, the share of livestock fell from 11.2% in II FYP to 3.6 % in IX FYP but increased to 9.3% during XI FYP. The share of livestock in the planned investment has never been commensurate with its contribution to GDP or Agrl.GDP.

Since IV FYP the emphasis had been on dairy development to support the Operation Flood Programme. With the end of Operation Flood program, the allocation to dairy development slowed down, reaching to about 30% in the XI FYP. Animal health and veterinary services now receive about 30% of the total funds. In XI Plan, the centrally sponsored schemes -Animal Health and Disease Control and National Project for Livestock Development accounted for a major share of the outlay for animal husbandry. Small ruminants, piggery, feed and fodder development, research, education and training did not receive adequate financial support. There has been a large gap between planned and actual expenditure in case of Animal Husbandry in most plan periods, except during Xth FYP.

There is hardly any private sector investment in animal husbandry except some support to Gaushalas and Gosadans. The diary sector, however, has attracted considerable private investment in processing, value addition and marketing. The dairy development is no longer a monopoly of the NDDB as privately owned dairy plants account for close to half of the total milk processed in the country. Diary processing was not a priority for lending by institutional credit agencies. In 2009, dairy processing was included in the list of priority sector lending activities.

Credit:

Financial institutions provide credit for various livestock as 'term credit' for introduction of animals, construction of animal sheds, purchase of equipments etc.). The credit is also provided for activities like establishment of milk collection centers, bulk milk coolers, livestock product processing units, cold chain, storage and marketing infrastructure, vehicles for transporting livestock products, retail outlets for sale of livestock products etc. and feed and fodder development activities are also eligible for financing.

III. AN OVERVIEW OF INSURANCE SCHEMES OF GOVERNMENT OF INDIA

The Government of India provides insurance against income losses of vulnerable sections arising out of four major reasons

(i) Yield losses in agriculture (crop insurance),

(ii) Death and disability of an earning member of a family (life insurance and group accident insurance schemes),

(iii) Unforeseen health expenditure (e.g. health insurance)and

(iv) Death of cattle, buffaloes and sheep (e.g. livestock and sheep insurance).

This section provides an overview of the basic nature, premium rates and compensation structure of livestock schemes.

LIVESTOCK INSURANCE SCHEME

The Livestock Insurance Scheme, a centrally sponsored scheme, which was implemented on a pilot basis during 2005-06 and 2006-07 of the 10th Five Year Plan and 2007-08 of the 11th Five Year Plan in 100 selected districts. The scheme is being implemented on a regular basis from 2008-09 in 100 newly selected districts of the country. Under the scheme, the crossbred and high yielding cattle and buffaloes are being insured at maximum of their current market price. The premium of the insurance is subsidized to the tune of 50%. The entire cost of the subsidy is being borne by the Central Government. The benefit of subsidy is being provided to a maximum of 2 animals per beneficiary for a policy of maximum of three years.

The scheme is being implemented in all states except Goa through the State Livestock Development Boards of respective states. The scheme is proposed to be extended to 100 old districts covered during pilot period and more species of livestock including indigenous cattle, yak &mithun. The Livestock Insurance Scheme has been formulated with the twin objective of providing protection mechanism to the farmers and cattle rearers against any eventual loss of their animals due to death and to demonstrate the benefit of the insurance of livestock to the people and popularize it with the ultimate goal of attaining qualitative improvement in livestock and their products.

1.Business interruption for large dairy farms

Dairy farms have large herds. An epidemic, a fire or flooding of the facilities poses a major business risk for them. Replacing or moving livestock to avoid infection in a case of an epidemic generates huge cost. There may be additional cost for new equipment and fodder. Increasing cost will come in addition to diminished revenues. Commercial entities around the world have business interruption insurance in place for these types of events. It helps to cover additional cost in case of an incident, thus protecting the financial vitality of a company's balance sheet.

2. Cattle feed and insurance

Sixty percent of the expenses a livestock farmer in India has are for fodder. In case the monsoon fails this cost can rapidly increase by 30%–100% since a falling supply coincides with rising demand. Often farmers buy less fodder than they need, leading to shrinking yields from the malnourished livestock. Having more commercially interested dairy farmers triggered a trend away from traditional feed to more nutritional or mulations. These benefited milk yields. Farmers also discovered that using feeds that are more advanced exposed them to price risks in the fodder market. Corn prices in India increased 50% between January 2009 and February 2014. The volatility affected producers' profits and their ability to buy feed. The situation will not improve. Projections for 2015 are for a shortfall of 65% in the supply of green fodder and 25%for dry fodder. These developments necessitate revenue protection covers to hedge the market risks of variations in input cost. Bundling this revenue cover with livestock insurance is a way of offering farmers a package that protects them on the input as well as on the output side.

3.Microfinance Institutions (MFI)

As of 31 March 2015, Non-Banking Financial Companies (NBFC) MFIs provided credit to over 30.5 million clients. The total number of

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NBFC-MFI on 31 March 2015 stood at 10 553. Around 40% of MFI's lending portfolio goes into the dairy sector. The MFIs also train farmers in best practices and risk management. They also monitor the health of livestock health to minimise loan defaults.

4.Distribution channels in Rural India

Reaching the farmers means moving into the countryside. Experience has shown that insurance uptake increases once the point of sales and services is close to the farmers. Currently the prevalent distribution networks of livestock insurance in India are Microfinance Institutions (MFI), NonGovernmentalOrganisations and dairy co-operatives.

5. Managing Agricultural risks:

India and most other developing countries have a large exposure to weather risks, where the majority of the population is dependent on rainfed agriculture. In the past two decades, large scale attempts have been made to cover the risks of farmers through state sponsored crop insurance schemes, aimed at covering multiple risks faced by the crops in India. These schemes have however raised significant fiscal pressure for the state even as it covers only about 10% of Indian farmers. This situation has arisen due to adverse 7 claims experience, where the claim payouts have been more than four times of the premium collected. Besides a 50% premium subsidy offered by the government, all the excess claim payouts too are borne from state finances. The crop insurance schemes have also been unpopular with the farmers as the claim assessment process is not very transparent and claim payments are often delayed. Alternative models to manage crop risks are now being explored to find a more sustainable approach to managing agricultural risks. Index based weather insurance is now emerging as a promising alternative. A simple weather index insurance product would work in the following manner. In the event of a shortfall of rain from a predetermined level (index) during a particular period of the crop season, the farmer would be compensated based on a predetermined formula which takes into account the probable loss incurred due to the extent of shortfall in rain. This allows for an objective way to measure claims payable to the insured farmer. As the claim payout formula is predetermined, it automatically leads to timely settlement of claims to farmers, allowing them to reinvest in their next crop or to meet their immediate consumption needs. With the availability of historical weather data, the pricing of the insurance product can be done on an acutuarial basis leading to a more financially sustainable product. The availability of international reinsurance for weather insurance helps to transfer the local weather risks to the global weather risk market and thus provides for a better case of pooling of risks.

IV. LIVELIHOOD AND WORK SECURITY INSURANCE

Many poor households lose their livelihoods in the wake of a major disaster. A livelihood protection or work security insurance can help to compensate for income losses due to livelihood disruptions after a major disaster. This can be especially useful in places with frequent and predictable disasters. SEWA in India has developed a work security insurance to protect incomes of its clients who lose work and assets due to illness, widowhood, accidents, fires, communal riots, floods and other such natural and human-made calamities. The insurance is provided in collaboration with a national insurance company, Life Insurance Corporation of India. By 2005, about 32,000 members were covered. Members pay an annual individual premium of Rs.60 (US$1.50) for comprehensive coverage of losses worth Rs.50,000 (US$1100). The microinsurance product is provided through SEWA Insurance, an intermediary between the SEWA clients and the formal insurance companies such as LIC.

V. CONCLUSION

Today, every people in the society has to be aware on all dimensions and all the information, at least on the facilities which provides benefits them. As far as one has to aware the risk involved in life can be covered through insurance not only for human life but also the livestock which supports the living of human beings. This research has made an attempt to trace out the awareness on livestock insurance which cover the risk of the live stocks from the research it is found that majority of the respondents are not aware of livestock insurance except the people who get bank loan to purchase that live stocks. Even though they are aware of livestock insurance policy but they are not aware of the procedure to acquire and renew the insurance policy after repayment of loan, thus the insurance companies has to provide or create awareness on livestock insurance to the unreached rural farmers and others in the villages.

As a country with the world's large stand still expanding population, this is a dangerous development. The country needs a thriving farming sector to assure its food security. One key component of this is that farmers remain viable and working should a disaster hit their business. Insurance is normal for farmers in the developed world. Today it is possible to bring this "normal" to less developed regions as well. Once in place, insurance protection gives economic peace of mind to lenders and other value chain partners. Their agency is needed if the industry is to develop.

However, they will only participate provided they know that farmers will still be around after extreme weather events or following an epidemic. Insurance is one partner in this process, bringing insurance protection to the table as well as additional know-how. It is time to start working on helping Indian farmers to meet this challenge. In recent years, climate change has affected productivity and profitability in different sectors in several ways. There fore, the present challenge of bringing in sustainability in animal husbandry sector justifies the adoption of risk management mechanisms. Insurance is a 'form of adaptive capacity for the impacts of climate change' that provides the insurance users with a better control over physical and business risks (Mills 2005). Absence of sound risk mitigation mechanisms may render the animal husbandry sector unprofitable and question the viability of the sector itself in the future.

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