

Community Managed Livestock Insurance

Process Steps

Andhra Pradesh
Drought Adaptation Initiative



THE WORLD BANK





Community Managed Livestock Insurance

First Phase of Insurance Product Development for Small Ruminants

Small ruminant production systems are an essential complement to agriculture in evening out the adversities of climate variability. While the traditional sheep rearers maintain larger flocks as the mainstay of their livelihoods, the poorer households depend on goat and sheep as source of asset building and income diversification. When agriculture fails, sheep and goats become one of the important sources of tiding over the crisis. It is in this context, AP Drought Adaptation Initiative (AP DAI), has focused on strengthening goat and sheep production systems, as part of the overall drought adaptation package of measures. Though the small ruminants provide livelihood security in terms of droughts, they themselves are highly risk prone!

The situation analysis in the program brought out the higher mortality rates in sheep and goats due to incidence of epidemic diseases and lack of access to

vaccination and health care services. The coverage of insurance products is also very poor. The change in more resilient deccani breed sheep towards non-local breeds has also contributed to higher risk. Death of animals leaves the burden of debt behind, as many families buy livestock taking loans from different sources. It is also a serious set back to the poor, as important 'livelihood assets' are lost and that they have to start all over again in their livelihood pathways.

The need for an insurance product for goats and sheep was felt necessary in AP DAI program as an essential component of drought adaptation measures, related to small ruminant production system. Such a product is envisaged for the following reasons:

- ◆ As a loan protection mechanism to prevent indebtedness due to mortality
- ◆ As an instrument of asset replacement for the household to pursue production activity
- ◆ As a driver for mandatory livestock vaccination; and
- ◆ As a driver for promoting deccani breed of sheep





The conventional insurance schemes have a low reach and the Government subsidized sheep insurance is fraught with many shortcomings; in effect reducing the reach/coverage of insurance for small ruminants. High levels of risk and moral hazards increases transaction costs and restrict the scope for good insurance products.

These conventional livestock insurance products suffer from the very restrictive and complicated procedures such as the following:

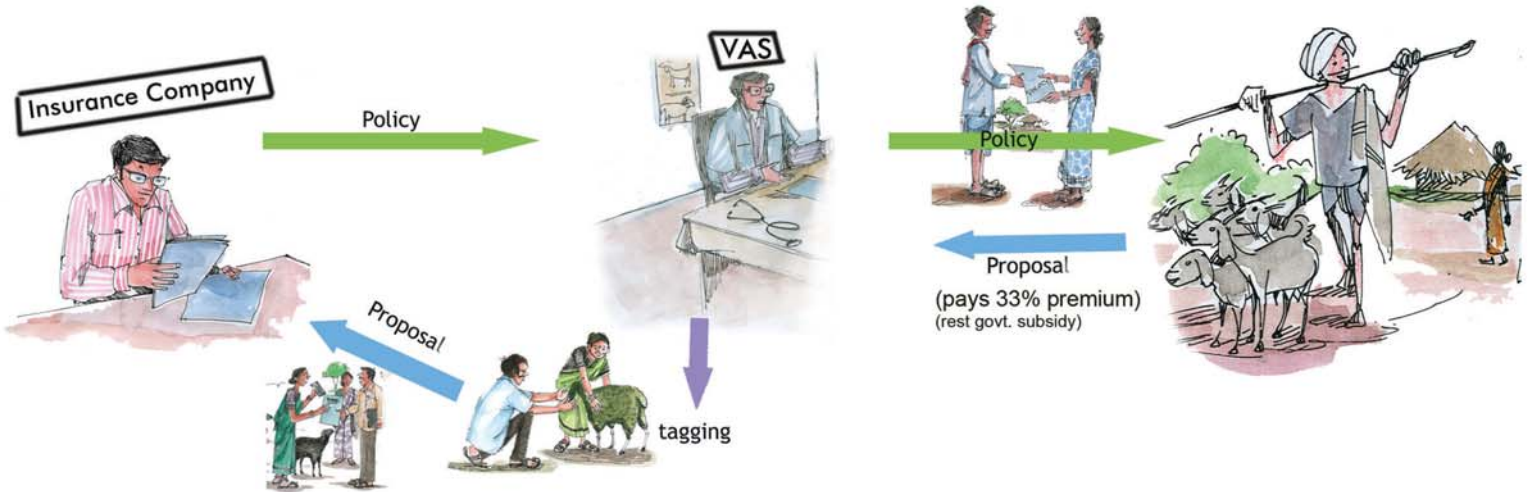
- ❑ Mandatory requirement of a health certificate from a veterinary doctor at the time of insurance.
- ❑ Mandatory vaccination of the animals as per schedule
- ❑ Mandatory requirement of a Death Certificate from a Veterinarian, in case of mortality
- ❑ Need for submission of Claim Assessment Form to the company along with the Ear Tag, photo of the dead animal and Postmortem report from a Veterinary Doctor:
- ❑ Procedural wrangles in getting the pay out

Availability of a Veterinary Doctor and his/her willingness to inspect the animal at site is a major limitation. Access to vaccination services, taking photographs and individually following the procedural wrangles in getting the pay outs are complicated in case of small ruminants. With these limitations, the insurance schemes are largely out of reach of rearers. Absence of vaccination and other support services, high mortality rates, migrant nature of the animals and higher transaction costs make small ruminant insurance a risky proposition for the insurance companies.

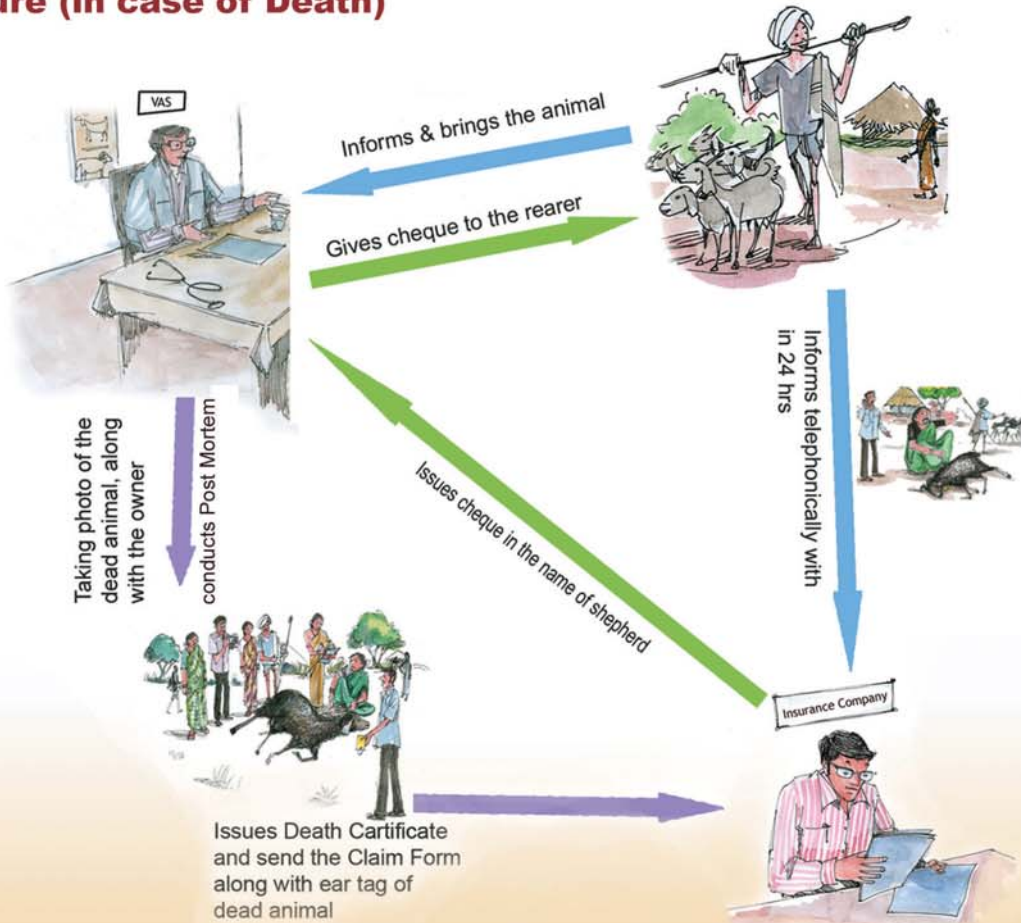


Insurance Model in Government Initiated Livestock Insurance

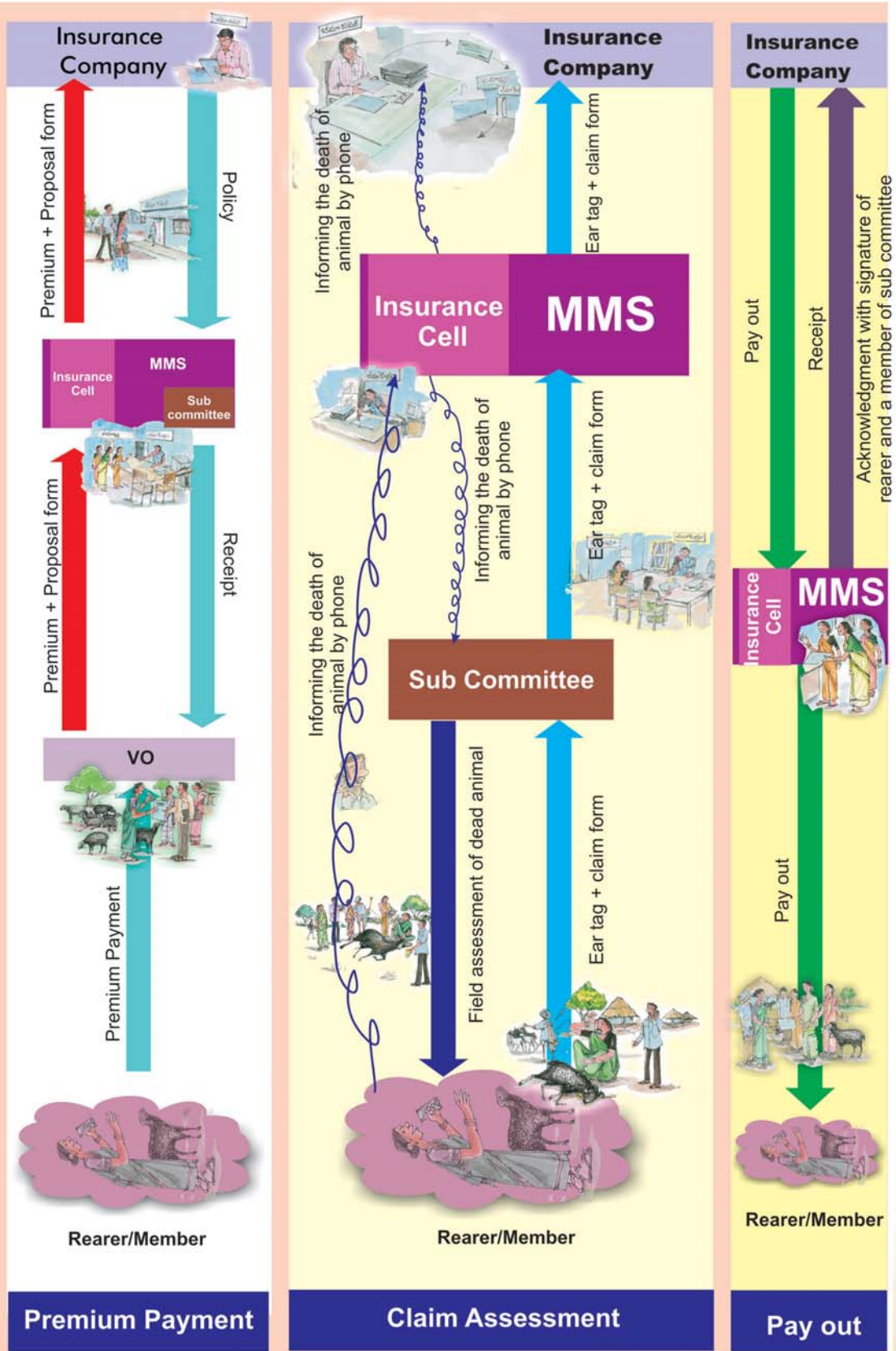
Proposal



Pay out procedure (in case of Death)



COMMUNITY MANAGED LIVESTOCK INSURANCE - KEY STEPS





Promoting Deccani Breed...

This program, initiated as part of AP DAI, envisages to procure deccani ram-lambs of about 4 months age and rear them up maturity. Out of these reared lambs, some rams, carefully selected for breeding purpose, would be purchased by the Department or by the program for breeding ram-replacement in main flocks. While the breeding rams gets slight premium, the culled ones are sold for meat. The rearer earns about Rs.800 to 1000 per animal in about 6 to 8 months.

A total of 586 deccani ram-lambs were procured from Nanded, Adilabad, Karimnagar and Pebbair shandies and distributed to members of SHGs covering 221 households, in 9 villages of 3 Mandals in Mahabubnagar district. Project provided 50% of cost as loan at 6% rate of interest, the rearer meets the rest. The transport costs were covered by the project.

Community Managed Livestock Insurance

The Community Managed Livestock Insurance program under AP DAI drew its basic lessons from the Loan Protection Scheme implemented by the Zilla Samakhya in Vizianagaram district with guidance from Society for Elimination of Rural Poverty (SERP)¹. The social capital built over time in terms of the SHGs and their Federations at Village and Mandal levels in the program area of AP DAI provided a unique opportunity to make insurance schemes for goats and sheep viable for companies.

The Insurance Product is overlaid on three other initiatives

- Community managed preventive livestock vaccination services, that are being institutionalized with Mandal Mahila Samakhya, Gram Panchayats and the Veterinary Department
- An initiative to promote resilient local deccani breed of sheep
- Organizing the goat and sheep rearers into Common Interest Groups.

This insurance scheme was developed to cover the deccani ram-lamb rearing and breed improvement program. Later on, it was extended to all types of small ruminants (goats and sheep).



¹WASSAN duly acknowledges members of Vizianagaram Zilla Samakhya, Mr.China Tataiah, Regional Project Director, SERP, Mr. G.Yesudas, Regional Manager, UIC and Ms. Seema Gaur, Assistant Manager, UIC, for their support and inputs in evolving this community based livestock insurance product.



Product Design

WASSAN facilitated evolution of a framework for this model in association with United India Insurance Company Ltd (UIIC), Hyderabad and Mandal Mahila Samakhyas. A Memorandum of Understanding was signed between WASSAN and UIIC for this purpose, as this product covers more than one Mandal (For MoU, visit: www.wassan.org/apdai). The product was designed to overcome the critical bottlenecks in the existing insurance schemes and enhance and access.

The salient features of the scheme are

- ❑ The Mandal Mahila Samakhya (MMS - Mandal level federation of self-help groups) will interface with the Insurance Company – in terms of collection/ payment of premium, tagging the animal, claim assessment, distributing the pay outs and asset replacement.
- ❑ The need for Health (at the time of purchase) and Death (at the time of claim assessment) certificates by Veterinary Doctor is waived.
- ❑ Payout would be made based on a Claim Assessment Report by women selected and trained for the purpose.

- ❑ Payouts, approved by the Company, would be made through MMS, which would be in the form of replacing the animal rather than giving cash / cheque to ensure the continuity of rearing activity by the rearer and also to avoid the potential debt burden on them (with the discontinuity of rearing).
- ❑ Proper documentation to be maintained and submitted by the MMS.
- ❑ Insurance Company pays service charges to the MMS.
- ❑ Losses due to epidemic diseases such as Enterotoxaemia, Sheep/ Goat Pox, PPR and Foot & Mouth, would be covered only on producing proof of vaccination against those diseases.

The sum insured is on the basis of age of the animal i.e;

- o Between 4 - 7 Months : Rs.1500/-
- o Above 7 months upto 16 Months: Rs.2000/-

Premium is Rs.80/ for each sheep / goat (service tax applicable).





Institutional Arrangements

The institutional actors include- Village Organization (VO) at Village level, Insurance Sub Committee, Bheema Kendram (Insurance Cell) at Mandal level (part of the Mandal Mahila Samakhya – MMS) and United India Insurance Company. The roles and responsibilities of each of this institution are:

Village Organization:

It is the lowest tier at the village level. It liaises between the rearer and the MMS. It collects and submits the insurance forms along with the premium to MMS, tags the animals and provides vaccination services as per schedule.

Bheema Kendram (Insurance Cell) at MMS:

It is the nodal point for livestock insurance program at MMS level managed by a part-time person. Its main responsibilities include – ensuring the paper work (premium payments, claim assessment, pay outs etc.) in liaison with the insurance company, collecting and payment of premiums to the company, receiving

information from the rearers about the death of the animal, arranging for quick field assessment by the sub-committee and processing and submission of claim assessments. It maintains all relevant records.

Insurance Sub Committee at MMS:

This Sub Committee was formed with four members from MMS and functions as part of MMS; residing at or near mandal head-quarters and having a phone facility are necessary conditions for becoming sub-committee members. It's roles include – inspection of the health of the animal while insuring, signing the insurance form for submission to the company, making arrangements for re-tagging, on-site claim assessment and issuing death certificate, filling up of claim form and submission of the same along with the ear tags to Bheema Kendram. The sub-committee will also send the claims to the company and discharges them on receipt of pay out. It helps the rearer in re-purchasing the animals.

Responsibilities of the Rearers

The rearer's responsibilities include - premium payment, safe custody of the receipt, ensuring tagging of the animal and re-tagging in case the tag is lost, vaccination of the animal as per schedule, informing Insurance Cell immediately in case of death of animal by phone and keeping the animal in good health,.





Key Process Steps

The key process steps include purchase of insurance policy, claim assessment and pay-outs..

Premium payment and purchase of insurance policy

- ❖ Only healthy animals are eligible for insurance. The sub-committee member inspects the animal before accepting it for insurance.
- ❖ The rearer pays the premium to the Village Organization.
- ❖ The animals are tagged by the person assigned the responsibility by the Insurance Cell. Insurance Company keeps a given number of ear tags with serial numbers at the disposal of the Insurance Cell/ Bhima Kendram.
- ❖ The proposal form is filled-in by the representative of the Village Organization; the details of the insurer along with the tag numbers, amount paid etc., are recorded at the VO.
- ❖ VO compiles all the data in the proposal form with details of- member's name, tag number of the animal, age, breed, sex, color, identification marks, cost, health status and vaccination particulars.

- ❖ The proposal form along with the premium amount is sent to Bheema Kendram at MMS.
- ❖ MMS issues receipt for insurance for each member.
- ❖ The sub- committee in MMS examines the proposal forms, authenticates them and submits to the Insurance Company along with the premium in bulk.
- ❖ Insurance Company issues Policies (village wise) to the MMS, after proper examination. The original Policies received from the Insurance Company are filed at Bheema Kendram at MMS and copies are sent to Village Organisations.

Claim Assessment

The rearer informs the Bheema Kendram immediately in the event of death of the insured animal, either directly by phone call or through the village activist.





The Bheema Kendram records the information and notes the rearer's name, tag number of the animal, date, time and cause of death in a phone call register. The same information is instantly passed on to the members of Sub Committee and to the Insurance Company almost on the same day; if it happens to be a holiday for the company, it would inform it on the following working day.

After receiving the death information, the sub-committee member(s) visit the village on the same day/ within 24 hours for field verification and assessment. The dead animal must be produced before the claim assessment team; else, the claim would not be processed. The team examines the dead animal and the circumstances leading to its death. After proper enquiry, they issue the Death Information Certificate and fill up the Claim Form, with the help of Village Assistant. The Claim Assessment Team has to sign the Claim Form, along with the rearer.



The claim will be rejected if ...

- ◆ Relevant information is not provided in time
- ◆ The dead animal is not shown to the sub committee
- ◆ The tag is missing on the ear of the deceased animal.
- ◆ The animals are not vaccinated as per schedule
- ◆ Proper care is not taken.
- ◆ Animals die within 15 days after insuring.

The ear tag of the dead animal, along with the ear, would be collected and attached to the Claim Form. If possible, photos would be taken of the dead animal along with its ear tag, with proper care that the tag number is clearly visible in the photo. This is an internal mechanism and is not mandatory for the company to process the claim, basing upon the requirement of photo.

If the number of dead animals of a rearer is more than two in a day, it is mandatory to take photographs of all the diseased animals; this is to safe guard against any mischief. The inspecting members of the Sub Committee have to ensure that all the required details including vaccination and medical treatment (if it is given prior to the death) be recorded in the Claim Form. The filled in Claim Form, along with the ear tag, is then submitted to Bheema Kendram on the same day for follow up.

After ensuring that the claim form is properly filled up, Bheema Kendram submits the claims to the Insurance Company along with the ear tags.



Awareness on insurance product is more among the community members. They are aware of Bheema Kendram phone number, which is printed on back of the premium paid receipt. Whenever there is incidence of death, they are following procedure and informing it to us. In the process, we got eight pay outs in Chennraam and four in Bijjaram. The rearers are happy with the product and also with our services.

- Anitha, Bheema Kendram, Kosgi MMS

Pay Out and Asset Replacement

Insurance Company examines the claim requests received from Bheema Kendram and finalizes the Pay Out after verification of the details. If the Claims are satisfactory, the Insurance Company clears the Pay Out within 15 to 30 days and sends the cheques to the respective Bhima Kendram in the name of MMS.

The cheque has to be acknowledged by the owner of the animal and a member of the Sub Committee. A discharge certificate would be issued by the Bheema Kendram to the Insurance Company, duly signed by the owner of the diseased animal and a member of the Sub Committee.

After receiving the Pay Out, the MMS / Bhima Kendram purchases another animal of the choice of the rearer and replaces the asset; cash payment (of pay out) to rearer is avoided. This is to ensure continuity of rearing activity by the rearer. Any outstanding debt to the Village Organization will be adjusted, in case payouts are settled in cash.



Anjilamma in the village Bijjaram purchased five ram lambs. She reared it for seven months. Of the five, one died and four ram-lambs were sold as breeding rams at a rate of Rs.2500 each. She got pay out of Rs.2000 on the insurance claim. She paid back the total loan amount of Rs.3,250 and the interest amount of Rs.128 for eight months to the Village Organization. She would like to continue the activity; apart from pay out amount she paid Insurance Premiums for another four ram lambs

S.No.	Subject	Rs
1	Total purchase cost	6250
2	Loan amount	3125
3	Interest amount for eight months	128
4	Insurance premium amount paid (50%)	225
5	Project grant (50% premium)	225
6	Gross Returns	12000
7	Net profit - 1	5397
8	Deducting the project grant for premium	225
9	Net profit -2 (in 8 months)	5175





Manjula of Bijaram village purchased two ram lambs taking a loan of Rs.1230. She slaughtered one animal for consumption on an occasion and the other ram lamb died for which she got payout of Rs.2000. She repaid the total loan along with interest for eight months and has realized a net profit of Rs. 610. In such an apparently failure case, Manjula is able to squirm out and is not indebted because of insurance. She intends to continue the activity in future.



Padmamma of Lodhipur village in Kosgi Mandal produced the ear tag of her dead ram-lamb and sought the sub-committee to assess her claim. She has not informed the Bheema Kendram about the death of the animal on the same day, but removed the ear tag and preserved. Sub Committee member rejected the case duly informing Padmamma the reasons for rejection viz., not having informed Bheema Kendram about the death and inability to produce the dead animal with the ear tag intact at the time of assessment.

Summary of Experience of Community Managed Livestock Insurance (CMLI) in AP DAI

The CMLI initially opened up for deccani ram-lamb rearing has very mixed results. It was a first round of experience in the product development. The experience has shown the potential for such an insurance product managed by communities. The systems are streamlined and the capacities of federations of SHGs to

manage the processes, in dealing with moral hazards in particular, are well brought out. That the social capital can be leveraged to reduce transaction costs and make insurance product available for relatively low value but high volume livestock important for poor, has been well demonstrated. The following Table summarizes the data on the first season work.



Community Managed Livestock Insurance

Experience on Ram-Lamb Rearing from AP DAI:

S.No.	Subject/Items	Kosgi	Bomraspet	Doulthabad	Total
1.	Total Insured	246	156	95	497
2.	Total Dead	22	23	23	68
3.	Mortality (in percentage)	9	15	24	14
4.	Total Calls received	22	23	18	63
5.	Assessment rejected	2	2	2	6
6.	Claims filed	20	21	16	57
7.	Claims rejected by the Company	0	2	5	7
8.	Total claims to be settled	20	19	11	50
9.	No. of Claim - Payouts received	19	16	5	40
10.	Total Earnings of Bhima Mitra	2466	1409	1510	5385
11.	Total Commission earned by the MMS	1629	1582	1021	4232
12.	Total Premium paid to the Company	22140	14040	8550	44730
13.	Total Pay outs (Rs)	38000	32000	10000	80000
14.	Total Cost to Company	39629	33582	11021	84232
15.	Total Payouts (including those due for settlement)	40000	38000	22000	100000
16.	Profit/Loss -	19489	25542	14471	59502

In the first year, the initial assumptions of about 4% mortality and pay out of Rs.1500 and Rs.2000, proved to be on the higher side. In the above context, it was realized that with a premium at Rs.120 per animal and reduced mortality (8%), the product would just breakeven.



“....Livestock insurance in most of the cases is a non-profitable product for any insurance company but it is important from the welfare point of view. The losses will be covered by their reserves. Company will try to minimize losses in a long term and with increase in coverage of the product. As long as transparency is maintained in claim assessment, the company will not reject claims; the scheme will continue. Though the product runs into losses initially, breakeven will be achieved at a later point with a scale. Company will take all portfolios into consideration and judge the loss and profit...

.... From the company side, we are willing to continue the product, as long as there is objectivity in claims. Indeed, the mortality percentage in this program is low compared to the regular government schemes. Proper emphasis is to be there on improving the ram-lamb management to reduce mortality rates; the claim assessment systems can also be made more rigorous. If losses continue over a period, the company may increase the premium....



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To Make the Product More Viable...

Ram-lamb rearing is the most risky of all the production systems related to small ruminants. Also, this is the first-time experience for most of the rearers in ram-lamb rearing. The profitability of the Community Managed Livestock Insurance program can be enhanced by the following measures:

- ❑ Improving expertise of the rearers in managing the ruminants and stabilizing the relevant systems for reducing mortality.
- ❑ Increased investment on capacity building of the rearers on management skills
- ❑ Extension of the insurance product to sheep and goat flocks – these are more stable populations with low mortality. Goats in particular, have low levels of mortality.
- ❑ Increasing the scale of the program and extending it to large ruminants (non-dairy animals like bullocks, heifers etc.)

Insurance is an essential part of development of small ruminant production system, particularly in the context of climate change and drought adaptation. It helps in preventing asset loss and indebtedness, which would stabilize the small ruminant economy and livelihoods.





Community Managed Livestock Insurance

