INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

NON-LIFE DEPARTMENT

**DISCUSSION PAPER**

**Increasing General Insurance Penetration in rural areas with special focus on agriculture and allied activities through the concept of a**

**Model Insured Village**

1. Need for insurance protection in rural areas

1.1. India is predominantly rural with more than 65% of the population residing in the rural areas. Most of the rural people are hardly aware of insurance as a concept nor have they experienced the benefits of insurance. In the rural areas agriculture and allied activities are the main occupations and the prime source of livelihood. The target segment of rural insurance consists largely of low-income households or individuals who have little savings and limited financial capacity.

1.2. The vagaries of the Indian monsoon leading to droughts, floods, natural disasters, failure of crops, uncertain crop yields and fluctuating prices, inadequate farmer support services and existence of predominantly small and marginal farm holdings, weak rural infrastructure and low financial literacy are some of the key risks and characteristics associated with Indian agriculture and the rural population.

1.3. Apart from affecting the livelihood and incomes of small farmers, failure of agriculture also affects the food security of the nation and impacts the overall economy. Risk management of the agriculture and allied sector and other related risks of the rural population through need-based, simple and affordable insurance products will help in building a robust agrarian economy and such efforts will lead to an overall self-reliant rural India.

1.4. The Govt. of India’s initiative through PMFBY has helped improve the insurance protection for crops in recent years. However, a large number of crops and cropped area are outside the scope of PFMBY and still remaining uninsured. These can be served through different tailored indemnity based /weather index based products. The allied farm risks, MSMEs, Agro Businesses, Livestock and other personal insurance needs of rural population are also largely unserved.

2. Main challenges in spreading insurance to rural areas

2.1. Some of the main existing issues and challenges for advancing growth of rural insurance business are.

* Lack of awareness about the concept of insurance and its benefits amongst the rural population.
* Limited choice of insurance products with various flexible features.
* Absence of people friendly and transparent claim settlement mechanisms.
* Weak network of insurance companies and intermediary presence in rural areas.
* Low / slow pace of modern technology adoption in the rural insurance segment.
* Underdeveloped market with constraints in offering affordable covers and proper servicing.
* Lack of industrywide well-coordinated efforts to serve the rural insurance segment.

3. Overcoming various challenges:

3.1 Awareness and Publicity:

* Focused publicity campaign need to be carried out for a reasonable period of time on the benefits of insurance, rural insurance products and its features etc. in print, electronic, social media and through other traditional and innovative ways of reaching out to people especially rural and semi urban population throughout the country using vernacular language. *for e.g.Bima Jaruri Hai.*

(for Reference - the Association of Mutual Funds in India (AMFI) led an advt. campaign that successfully targeted and generated investment from beginners with catchy slogan “*Mutual Fund Sahi Hai”.)*

* Efforts in this area need to be encouraged, monitored and /or lead by IRDAI through GI council / Joint working group involving the insurance industry for continuous technical support to publicity activities, advt. content etc.
* The support and involvement of Govt. of India need to be explored considering that this initiative would be beneficial to the society and the country at large. It is also in line with initiative and vision of Govt. of India of “*Atma Nirbhar Bharat Abhiyan”*.
* To generate interest and focus amongst the population about insurance, a series of simple articles/bullet points in print and electronic media/social media in vernacular language to be started as part of publicity campaign; giving information on insurance business and its benefits, knowledge about capacity and nature of national and global insurance industry, various insurance products and its benefits, its importance in economy and how insurance protection helps in leading self-reliant life and business activity.

3.2 Insurance Product innovation and other enabling steps:

* Innovative, affordable, tech-based insurance products, in the form of package and/or combi policies that provide a flexible for choice of risk protection offering adequate risk coverage in rural and semi urban areas are necessary to attract the rural population.
* Considering the low ticket size of premium per policy and inadequate infrastructure of insurance companies, technology use needs to be encouraged at all levels-- from policy distribution, servicing, loss assessment to claims settlement.
* Insurance companies need to be encouraged to formulate tech-based innovative products especially package policies / weather based covers/ indemnity based covers flexible to accommodate various needs of crops, livestock, farmers, farm labourers, rural artisans, MSME sector, students, rural services sector etc.
* A special sandbox phase may be considered inviting innovative products targeting the rural population, agriculture and allied sectors insurance needs from insurance companies, Insure-tech firms, insurance intermediaries, others research institutions/ universities and companies dealing with rural population and agriculture and allied sector (in collaboration with insurance company).
* Insurance companies need to revisit the existing products and revive the network of policy distribution and servicing in rural area considering the changed needs, demand and dynamic risk profile of rural risks and latest available modern technology.
* Creating a competitive scenario amongst insurance companies and recognition of insurers / Intermediaries performing exceptionally well in innovative product introduction, product promotion and innovative distribution methods, partnering with Govt., various formal groups/ institutions and successfully promoting rural and agriculture Insurance Business will go a long way in helping the case of rural insurance.
* As a holistic approach the insurance industry needs to focus not only on products and promotion but also on distribution network, tech based responsive policy servicing and monitoring mechanism, supportive insurance concept education of rural population etc.
* Govt. support in terms of promotion and part sharing of premium subsidy to make the insurance cover affordable for some key products/group of products/package products for rural and vulnerable sections of society including agriculture will be big enabler. In general, innovative insurance covers for rural population, crops (not covered under PMFBY), livestock, macro covers to states for natural catastrophic risks like drought, flood, cyclone etc. can be accepted and supported by state Govt. in terms of premium subsidy, product promotion and policy administration.

4. Concept of a model insurance village:

* To demonstrate the concept and efficacy of insurance as risk management tool and to make farmers and rural population aware of benefits of insurance; special focused efforts needs to be made to cover the entire population in the village and their property, farms/crops, farm machineries, vehicles, different village level services, manufacturing enterprises and other specific insurance needs of the particular village through targeted efforts in few selected villages.
* Every general insurance company and reinsurance company accepting general insurance business and having office in India (partnering with General insurance company of their choice) needs to be involved for piloting the concept.
* The efforts in selected villages need to be continued for a minimum period of three to five years so as to make the insurance benefits visible to the community.
* The concept may be implemented in a minimum of 500 villages in different districts of the country in the first year and increased to minimum of 1000 villages in subsequent two years.
* The choice of villages is to be made carefully, considering the various relevant aspects and parameters in order to implement the concept successfully for a period of three to five years. Various State and Central Govt. award winning villages and villages with track record of implementing various social welfare and environmental friendly initiatives, villages with record of community based participative welfare efforts etc. and ready to participate and support for successful implementation of the concept may be preferred for implementation.
* Insurance companies need to study the risk profile of villages, their insurance needs and expectations on risk management of different sections of village population and design products as per the need using latest modern technology for servicing and monitoring the entire insurance processes.
* Insurance companies need to engage Insure-tech/ Fin-tech firms and other specialised agencies for support in the study, product design and the focused implementation of the concept using modern technology at all the levels of insurance processes from marketing, servicing, loss assessment and claims settlement etc.
* To make the premium affordable financial support needs to be explored through NABARD/other institutions CSR funds/ Govt. support/ support from Re-insurance companies etc. and to keep some of the covers available with very minimum/nominal premium cost so as to have each family and their property/crops having insurance cover and entire village community participates in the initiative. Effort should also be made to offer existing ongoing socially beneficial and affordable Govt. supported life and general insurance schemes.
* IT based knowledge pool of various activities and data base like insurance profile of village, insurance needs and products offered, different awareness techniques and distribution methods, technology used in servicing, loss assessment, claims settlement etc. to be documented and made accessible to all the participating insurance companies.
* Efforts are to be made to offer comprehensive insurance protection to all the major insurable risks that villagers are exposed to and making available covers at affordable/subsidised cost. As a special case and considering the pilot nature of the initiative; provision should also be made by each insurance company to financial support / offer assistance to the villagers (special supportive contingency grant ) in the event of major natural catastrophic events causing losses to insured property due to uncovered natural perils, peril covered but not falling under defined period/condition during the overall policy period etc. loss to insured property due to uncovered risks, losses not supported through state relief or NDRF grants, other insurance schemes etc.
* Senior official/s of the insurer, preferably CEO/CMDs of the company to periodically monitor and review progress of implementation in their respective selected villages.
* Special efforts to be made to popularise the insurance benefits of this initiative in surrounding areas of the selected village.

5. Utilising existing rural network and Govt. Schemes:

* Various initiatives of Rural Development Ministry and informal network of SHG members /Women SHG members, Bank Correspondence Sakhi (BC Sakhis) can be used for insurance product distribution and servicing. At present 11,189 BC Sakhis are available in 11,552 villages of 330 districts of 18 different states. Ministry of Rural Development, Govt. of India, targets to have at least one trained BC Sakhi in each village of the country for providing basic financial services in rural areas.
* Insurance companies can have tie up with different farm input suppliers, financial institution, rural services providers to target distribution of small ticket, short duration/ tailored products covering agriculture and allied risks as bundled product with agriculture inputs and other farm support services.
* Bank assurance: Bank assurance has proved to be more acceptable amongst the rural masses than any other traditional intermediary. The network and reach of banks in rural area can be increasingly used for selling rural and agriculture insurance products.
* Insurance company strategically targeting rural and micro product can be effective in creating new business opportunities and furthering the growth of general insurance in rural India.
* Weather index Products / hybrid products combining weather index and indemnity based insurance protection needs to be marketed for various crops remaining uncovered under PMFBY. Well-designed flexible farm insurance package policies targeting comprehensive needs of crops, livestock, farmer, farm implements etc. can generate lot of interest amongst the farmer and will help generate sizable business. Various state Govt. can support such farmer friendly insurance products with part subsidy sharing and can also help in product distribution and claims servicing.
* High value agriculture/Contract farming/Corporate farming/farmer producer groups cultivating intensive agriculture with proper farm management practices, reasonably assured farm inputs, good technical support. Needs of such farmers are different and needs to be addressed through separate tailored insurance covers. Demand for such cover is increasing continuously and is largely remaining unserved. These farmer groups have good paying capacity and ready to accept innovative covers.
* Unified Package Insurance Policy: Risk Covers offered under pilot Unified Package Insurance Scheme (UPIS): 1 PMFBY/ RWBCIS (Crop Insurance) 2 PMSBY (Accidental Death Insurance) 3 PMJJBY (Life Insurance) 4 Fire & Allied Insurance 5 Agriculture Pump set Insurance 6 Student Safety Insurance 7 Agriculture Tractor Insurance.
* As per existing guidelines of pilot UPIS farmer has to compulsorily choose minimum two covers other than crop insurance to be eligible for crop insurance subsidy.
* Pilot UPISneeds to be revived and should be allowed to be implemented along with PMFBY throughout the country with choice/option to the farmers to join and choose the available cover options with crop insurance. Provision may also be made for offering additional insurance covers designed suiting to the local area/ demand of the farmers/crops by respective notified insurance company under PMFBY in consultation with the state govt.
* Macro Covers to State Govt.: State Govt. can be offered macro insurance covers based on pre-defined parametric weather indexes covering large complex risks arising out of natural catastrophes affecting the entire agriculture ecosystem and rural economy. Indemnity Pay-outs to the Govt. in such catastrophes can be used by them for various relief measures in the event of calamity.

6. Initiatives that can be taken:

* Insurers can set-up a dialogue with State Govt./Ministries that run various developmental programmes/schemes for farmers, rural and vulnerable sections of society. Insurance companies can integrate insurance with such programmes.
* As already suggested we can encourage insurers to adopt model villages and develop schemes for insurance protection.
* Alternative mechanisms for financing/subsidising premium to make it affordable for farmers and rural population need to be looked at.
* To increase the penetration of insurance in rural areas we need simple products which are easy to understand with no complicated terms and conditions. Insurance companies along with the regulator needs to work on offering such products.
* Use of alternative distribution channels like Government and Non-Government Organization, Doctors and School Teachers, Unemployed Youth and Youth Clubs etc.
* Financial incentives, premium subsidies, and the overall role of government to promote agriculture insurance and product development.
* Weather index based products can be adopted by State Govt. for disaster risk financing through insurance at macro level.
* To achieve economies of scale in insurance product offering; large social developmental projects and activity based insurance product adoption and promotion may be given more emphasis by various State and Central Govt. Departments.
* CSR activities of large industrial houses and other commercial organisations can be focused towards risk management through insurance especially of Rural and Agriculture sector, this can also include part premium financing and support to insure-tech initiatives in this direction.
* In a nutshell, this paper seeks to advocate and discuss the idea of a village level initiative as a possible solution to increase the penetration of insurance in the rural areas of our country.