



International
Labour
Office



CASE BRIEF:

IFFCO-TOKIO GENERAL INSURANCE CO.

Michal Matul, Aparna Dalal and Alice Merry



CASE BRIEF:

IFFCO-TOKIO GENERAL INSURANCE CO.

Product name: Pashu Dhan Bima (livestock wealth insurance)

Location: India

Description: Initially a credit-linked cattle insurance product for farmers taking loans for cattle. After the pilot it also became available to farmers not taking loans. It protects the farmer against the death of insured cattle due to disease or accident. Radio frequency identification devices (RFIDs) are used to identify cattle and reduce fraud.

Premium: 3 to 5 per cent of sum assured, paid on an annual basis

Animals covered: 50,000 as of March 2013

Claims ratio: 56 per cent

New identification technology catalyzes process change, reducing fraud and enabling rapid claims payment

THE RISK OF LIVESTOCK

About 1 billion people, around 70 per cent of the world's population living in extreme poverty, depend on livestock for their livelihood. Small farmers in India generate nearly half of their income from livestock and the value of cattle represents a significant part of their wealth, so the death of cattle poses a significant risk and affects farmers' net worth and income.¹

Yet efforts to provide livestock insurance in India have struggled with high claims ratios, with public insurers frequently experiencing claims ratios of 150 to 350 per cent. A major driver has been fraud, since it is very difficult to identify whether the animal in the claim is the insured animal. Use of external ear tags identifying insured cattle has been ineffective as it has been easily manipulated.

ITGI PILOTS A TECHNOLOGY SOLUTION...

To address the identification challenge, IFFCO-Tokio General Insurance Co. Ltd. (ITGI) decided to use a new technology, radio frequency identification devices (RFIDs). In 2009 it launched a product called *Pashu Dhan*

Bima (livestock wealth insurance) targeting 25,000 small farmers, to pilot the technology and related processes. The technology allowed ITGI to accurately identify insured cattle and therefore reduce fraud.

It was also popular with clients. The RFID capsule is inserted beneath the hide of the ear area of the cattle with a syringe. The process is considered less painful for the animal than tagging with plastic ear tags. With ear tags it was common for the milk production of animals to reduce for a few days after the tagging because of the trauma of the experience. In addition, farmers prefer that the RFID tags are not visible, so unlike ear tags do not make it obvious that cattle was bought with a loan.

...AND REVOLUTIONIZES ITS PROCESSES

ITGI used the introduction of the technology as an opportunity to change its processes. In most livestock insurance schemes, bank managers and veterinarians control the enrolment process, whereas ITGI's use of its own employees allowed them to control it directly. In the new process the ITGI employee oversees the tagging, to ensure that the correct cattle are tagged, but can also provide further information to the farmer, including an explanation of the claims process and a toll-free number to call.

ITGI also redesigned the claims process. Within four to six hours of notification, the

¹ Delgado, C.; Rosegrant, M.; Steinfeld, H.; Ehui, S.; Courbois, C. 1999. "Livestock to 2020: The next food revolution", in *A 2020 Vision for Food, Agriculture, and the Environment*, No.61.

CLIENT VALUE IMPROVEMENTS AS A RESULT OF BUSINESS DECISIONS

Client value dimension	Change	Client value	Business rationale
Product	Removal of clause stating that only half the claim would be paid if the cattle dies while pregnant	Crucial cover during an important stage in the cattle's life	Simpler policy, easier to explain during enrolment
Product	Value-added services (e.g. information on cattle management, deworming tablets)	Healthier cattle	Fewer claims
Access and experience	Door-to-door service	No need to travel for enrolment or claims	Clients deal with ITGI directly, building the brand over the long term
Cost	Lower premium	Lower cost	Attracts banks and milk societies
Cost	ITGI bears all the costs of the veterinarians	Less money out of pocket	Ability to choose better veterinarians
Experience	Faster claims processing	Get money faster	Greater control over fraud

BETTER VALUE FOR CLIENT AND INSURER

This case illustrates the link between viability and client value. ITGI made several product and process changes to make operations more efficient and to improve the viability of the product. Several of these business-motivated decisions have had a positive impact on the client value of the product. These are encouraging developments because, while the sector has many stories of the trade-offs between viability and client value, there are few experiences highlighting the positive correlation between the two dimensions.

ITGI employee visits the farmer, usually with a veterinarian. They inspect the carcass and read the RFID chip to check that it matches the identification number on the policy. The ITGI employee also helps the farmer complete the claim documents.

As a result of this improved process, most claims were processed within 15-20 days. This means that the product offers considerably improved client value compared to other livestock insurance products, which have claims turnaround times of up to six months.

BEYOND THE PILOT

ITGI expanded the product after the pilot and it is now a mainstream part of its portfolio with a claims ratio of 56 per cent. It covers 50,000 animals as of the beginning of 2013.

ITGI had hoped that the cost of the RFID tags would decrease with time, but with increased demand, prices in fact increased, and tags became harder to source. However, by this point the RFID technology was not as important to ITGI as the associated process changes. It was difficult to sell the product without the RFID technology in areas that had already experienced it, since clients had come to trust it and associate it with the fast claims payouts. In new areas, however, ITGI has implemented the improved processes,

but with cheap plastic tags rather than costly RFID tags.

ITGI has found that it has still been able to minimize fraud in these areas, although the claims ratios are slightly higher than in areas where RFID tags are used. ITGI believes that the significantly reduced cost of the tag more than makes up for the slight increase in claims.

RENEWALS DEMONSTRATE VALUE

Client satisfaction is demonstrated by healthy renewal levels. Interestingly, around 30 per cent of clients are no longer associated with the bank through which they initially received the insurance, but are now reaching out to ITGI themselves to continue to protect their cattle.

The most important differentiator of the product for clients is the speed at which claims are paid. The new processes have greatly reduced fraud and thus won the confidence of the claims staff, facilitating rapid claims payment.

This is a good example of a mandatory product that gained clients' trust through superior service. Once clients have experienced the product, they are more likely to renew on a voluntary basis. This demonstrates the importance of increasing the value of mandatory insurance products as a spring board for creating an insurance culture.



Housed at the International Labour Organization's Social Finance Programme, the **Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with generous support from the **Bill & Melinda Gates Foundation** to learn and promote how to extend better insurance to the working poor. Additional funding has gratefully been received from several donors, including the **Z Zurich Foundation** and **AusAID**.

See more at
www.ilo.org/microinsurance