Time to step up Insurance Coverage for Natural Calamities

What is the issue?

In a climate vulnerable country like India, natural calamities hit the poor harder in terms of loss of assets and income than the rich widening the inequality.

What is the status of inequality in India?

- All-India Debt and Investment Survey (NSS 77th Round) was released by National Statistical Office to pronounce inequality in the distribution of assets both in rural and urban areas as at June 2018.
- In rural areas, the top 10 per cen%t of the households owned over 50 % of assets, whereas the bottom 50 % owned just 10 %.
- In urban areas, the inequality was more visible with the top 10 % owning 56 % of assets and bottom 50 % owning merely 6 %.
- The Gini coefficient at 0.678 for urban areas exceeded that for rural areas at 0.615.
- The median Gini value for the coastal States was higher than that for non-coastal States implying that frequent natural catastrophes as one of the reasons for exacerbation of inequality in asset distribution.

> *The Gini index is a measure of the distribution of income across a population.*
>
> *A higher Gini index indicates greater inequality, with high-income individuals receiving much larger percentages of the total income of the population.*

What is the significance of insurance coverage in this regard?

- Against India's disaster history, its geophysical position and the vigorously changing climatic conditions, one of the productive means is to protect the

lives and assets through insurance cover.
- The natural calamities hit the poor harder in terms of loss of assets and income than the rich.
- The World Bank paper on climate insurance (2017) observes that Insurance solutions bolster early action during a disaster and speed up recovery to restore livelihoods and rebuild critical infrastructure.

What interventions have been made regarding insurance coverage?

- The World Bank, the **Global Facility for Disaster Reduction and Recovery (GFDRR)** along with partners are developing insurance solutions to help vulnerable countries manage disaster risks through a portfolio of financial instruments.
- The World Bank Group's **Global Index Insurance Facility** provides risk transfer solutions and index-based insurance to small farmers, micro-entrepreneurs and microfinance institutions in developing countries.
- The International Finance Corporation is also active in this space.
- Germany, the UK, the World Bank and GFDRR, over 30 NGOs and private sector partners have launched **InsuResilience** to upscale the climate risk finance and insurance solutions in developing countries.
- In India, the standard Policy for Fire and Natural Perils is issued under Fire Insurance cover natural calamities.
- There are policies derived from the basic wordings such as Industrial All Risk Cover and in many other policies, natural calamities are mentioned as specific perils covered.

How can the insurance coverage be expanded?

- Sustainable development must consider investing in disaster risk reductions in a cost-effective manner.
- Low insurance penetration in India must be addressed by motivating people and increasing their insurance awareness and literacy.
- Insurers must be persuaded by IRDAI to market specific disaster insurance products especially for rural areas which is the worst hit.
- Increasing per capita income would incentivise people to consider risk-transfer mechanism as a major solution.
- Adequately designed insurance products providing cover for the core economic property (both individual use and public utility) can help the government develop a resilient response mechanism.
- IRDAI and insurers shall formulate a framework with weather module-based insurance solutions to bring adequate financial relief to end-users.

- The government may establish a guarantee fund for insurers incurring catastrophic losses due to payment of claims on account of natural disasters.

Quick facts

The Insurance Regulatory Development Authority of India (IRDAI)

- The IRDAI is a statutory body established in 1999, deriving its powers and functions from the **IRDAI Act, 1999** and **Insurance Act, 1938.**
- It works as an autonomous body responsible for managing and regulating the insurance and reinsurance industry in India
- It is also responsible for registering and/or licensing insurance, reinsurance companies and intermediaries according to the regulations.
- IRDA Act was passed upon the recommendations of **Malhotra Committee report** in 1994.
- IRDAI is a 10-member body including the chairman, five full-time and four part-time members appointed by the government of India.
- The headquarters of the agency is at **Hyderabad.**

Reference

1. https://www.thehindubusinessline.com/opinion/time-to-step-up-insurance-cover-for-natural-calamities/article37442443.ece