FINANCIAL RISK COVERAGE IN CONTEXT OF PM'S TEN POINT AGENDA

"Risk Coverage must include all, starting from poor households to SMEs to multinational corporation to nation states"

: Prime Minister of India in his inaugural speech at AMCDRR, New Delhi (03.11.2016)

UNDERSTANDING RISK COVERAGE

In simple words 'risk' is danger, peril, hazard and chance of loss. The risk is an event or happening which is not planned but eventually happens with financial consequences resulting in loss. The risk can never be certain or absolutely predictable. Risk coverage is a method to prejudge the risk that may come up sometime in future and making arrangements for minimizing/managing losses thereafter. It is not a prediction but a process of reducing the risk to a minimum level. Risk coverage involves a number of measures that are used to keep the risk at possible minimum level by either transferring or financing of risk. Risk of life, health or property is reduced by transferring of financial value of the underlined risk. In a nutshell Risk may be defined as a fear of happening something adverse and in order to restrict such adverse happenings a plan is envisaged to cover financial losses arising out of the event. This is called covering of risk or 'Risk Coverage'.

RISK COVERAGE IN CONTEXT OF PM'S TEN POINT AGENDA AND DISASTER RISK REDUCTION

Though the Government is working determinedly in direction of Risk Coverage, still a large number of population needs to be brought under this umbrella of loss safety. Due to increase in the intensity and frequency of natural disasters worldwide, emphasis is being placed on designing disaster risk reduction strategies and risk transfer tools. In India, between years 2000 and 2020, 81551 people have lost their lives and over a billion people were affected due to disasters. These disasters have caused losses amounting to Rs.5.2 trillion [1] and it is the Government that is bearing the burden of these losses. Government of India is also working towards financial inclusion and providing risk cover insurance for the poorest. The foundation of 'Risk Coverage' for all has been laid through social inclusion schemes like 'The Jan Dhan Yojana' that has provided millions of people an access to the banking system, the 'Suraksha Bima Yojana' a risk insurance to millions of people in lower income strata and also 'Fasal Bima Yojana', that is providing risk coverage against crop failures to millions of farmers. A brief of the few of the Government's Risk Coverage schemes are as provided:

Pradhan mantra Jan Dhan Yojana (PMJDY): PMJDY offers unbanked persons easy access to banking services and awareness about financial products through financial literacy programmes.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY): The PMJJBY is available to people in the age group of 18 to 50 years having a bank account who give their consent to join / enable auto-debit. Risk coverage under this scheme is for Rs. 2 lakh in case of death of the insured, due to any reason.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)**:** The Scheme is available to people in the age group 18 to 70 years with a bank account who give their consent to join / enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.

All the above mentioned schemes are made affordable to all .The elaborative details of all such schemes can be viewed on the website of Department of Financial Affairs i.e**.** **https://financialservices.gov.in/financial-inclusion.**

ACHIEVING THE OBJECTIVES OF PM's AGENDA

As India takes a lead globally in the field of Start-ups and new technological ventures it's also vital for our country to further modernize our approach in disaster financing and necessitate insurance as a risk financing and risk transfer tool. With the climate change happening owing to global warming, the frequency of natural disasters will only increase with time. Even, the last couple of years were not very hearting due to physical and economic losses happened due to Covid-19. It is imperative for us to take cognizance that we cannot be dependent only on our budgetary allocations every time for managing the disasters and, that, for the economy to be less burdened in the future a sound risk transfer mechanism is essential in due course.

The contingent liability of the government due to natural disasters is often implicit and it does not clearly define the financial responsibility of the government when a disaster hits the country/ State. The government acts as a (re)insurer of last resort, without knowing precisely its disaster risk exposure. For government it's important to understand the loss potential of natural disasters and the extent of public intervention in recovery efforts. This will ascertain the contingent liability carried by the government. The Government also needs to create an enabling environment that allows private insurers and reinsurers to offer competitive products and, where deemed necessary, facilitate the establishment of catastrophe insurance programs based on public-private partnerships (including catastrophe insurance pools). The government can manage its remaining contingent liability arising from natural disasters by promoting the insurance of public assets and by protecting its budget against liquidity crunches through sovereign risk financing.

The 15th Finance commission taking a modern view on disaster risk financing approach has recommended four insurance interventions in its report on Disaster Management. These interventions are to be further studied by NDMA along with relevant ministries. The proposed interventions are:

i) Formulation of a Nationalized Insurance Scheme for Disaster-related Deaths in India
ii) Synchronization of Crop Relief Assistance under NDRF with Pradhan Mantri Fasal Bima Yojana
iii) Creation of a National Risk Pool for protection & recovery of Public Infrastructure from Disasters
iv) Accessing International Reinsurance Markets against protection for Outlier Hazard Events

A thorough study and further application of the above mentioned interventions will not only enable the government to provide risk coverage for all but also to ease its financial burden arising out of disasters every year. ***Although the natural disasters cannot be prevented from occurring, the losses caused by them can be managed prudently. Risk coverage through Risk transfer will help in Disaster Risk reduction i.e. the economic impact of disasters. Bringing together all under the roof of Risk Coverage will definitely lead to DRR and achieve the objectives of PM's agenda.***

Source:: *1 EM-DAT: The Emergency Events Database - Université catholique de Louvain (UCL) - CRED, D. Guha-Sapir - www.emdat.be, Brussels, Belgium*
2. IRDAI Annual report 2020-21
3. Data from MoF DFS Websit