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Helping Accelerate Poverty Reduction in Asia and the Pacific

MEETING RISK MANAGEMENT DEMANDS OF THE POOR IN SRI LANKA

Risks, such as loss of employment, natural calamities, disease, or death, affect everyone, but the poor suffer more from the impact.

To cushion the negative shocks, the poor borrow from informal sources, withdraw their savings, or sell productive and nonproductive assets. Often, these may not be enough to cover their losses. The poor are left even more vulnerable when the next crisis occurs.

The unexpected costs of these risks put much-needed money to unplanned use and plunge them deeper into poverty. Such risks call for some kind of safety net or other social protection mechanism.

Providing the poor access to insurance against unfortunate events allows them to receive more complete compensation for the loss than they could have provided on their own. It becomes a powerful financial tool to protect themselves and their families against risk.

However, of the estimated 4 billion people worldwide who live on less than \$2 a day, fewer than 10 million currently have access to formal insurance from a regulated financial institution. According to a recent study by the MicroInsurance Centre, 23 of the poorest 100 countries have no formal insurance targeted at the poor. In the other 77 countries, insurance is far from universal: less than 8% of the poor in the Americas, less than 3% of the poor in Asia, and only 0.3% of the poor in Africa are covered. The very few poor people who do have insurance receive it through community-based organizations (CBOs), mutual insurers, nongovernment organizations (NGOs), or commercial insurers.¹

Microinsurance in Sri Lanka

There is a well-established tradition of providing social protection within the community in Sri Lanka. In an informal manner, the family, the extended family, and the local community provide basic social security. Though the form and coverage of these traditional social services have changed over time, they still exist to a large extent. During the last decades, the traditional systems have been complemented with new NGOs or CBOs, many of which are supported by funding agencies. Although quite

extensive, the social protection provided by the adjusted traditional systems and the many CBOs/NGOs has considerable shortcomings, especially with respect to old-age pension and access to complementary health services.²

The insurance sector in Sri Lanka comprises two government insurance schemes, 13 private insurance companies, and a handful of microfinance nongovernment organizations (MFNGOs) that organize member-based insurance schemes. The Government of Sri Lanka offers subsidized mandatory and voluntary life insurance for those whose incomes are below the poverty line, and death, disability, crop, and livestock insurance for low-income farmers. However, the government schemes are not based on actuarial principles and are deemed unsustainable without government refinancing. Private insurance companies offer a variety of insurance products, but they cater mainly to the corporate sector, and their client base of individual insurance is highly skewed toward urban and middle- or upper-income households.³

The Sri Lankan insurance industry is regulated and supervised on the basis of the Regulation of Insurance Industry Act No. 43 of 2000. The supervisory authority is the Insurance Board of Sri Lanka (IBSL), which has been established under the Insurance Act.

The Government does not have resources to offer sufficient social security to the citizens and the penetration of the commercial insurance industry is too limited. Sri Lanka has no dedicated microinsurance policies and the requirements of the Insurance Act are considered prohibitive for insurance providers that intend to serve the poor and low-income groups.

ADB TA 4761: Microinsurance Sector Development in Sri Lanka

Technical Assistance (TA) 4761: SRI Microinsurance Sector Development¹ was designed to improve the access to affordable life and general insurance products of the poor and low-income households in Sri Lanka, especially those in conflict- and tsunami-

affected areas. Specifically, the TA intends to establish an appropriate legal and policy framework for the promotion of microinsurance,⁵ increase the accessibility of affordable microinsurance products by the poor, and enhance capacity of potential microinsurance providers. As such, the Government, the insurance industry, MFNGOs, and CBOs are expected to gain a better understanding of microinsurance as an effective means of poverty reduction.

A policy and legal review of the Insurance Act 2000 and the existing regulatory arrangement to develop recommendations on policy and legal changes was conducted during the first phase of the TA. Among the findings and recommendations were⁶

- Insurance law in Sri Lanka does not appear to be conducive to development and promotion of microinsurance services in the country, and informal organizations offering microinsurance products are operating outside the law of insurance.
- Premium rates of long-term policies are too high to be afforded by poor households.
- Most MFINGOs offering microinsurance products are not skilled on risk management, and the pricing of their products is not actuarially-determined.
- There is no provision for appointed actuary in the Act. Recommendations included the conduct of an actuary to ascertain the adequacy of the funds of the Social Security Board of Sri Lanka and certification by a licensed actuary for every long-term insurance scheme introduced by the Mutual Insurance Company and Cooperative Insurance Society.
- Amendments should be made to the Insurance Act to allow Mutual Insurance Companies and Cooperative Insurance Societies and companies to do insurance business and draft guidelines concerning their activities.
- Trainings to be conducted to all microinsurance agents on marketing of microinsurance products, policy servicing, and claims administration.

Likewise, a market (supply–demand) assessment was made and the major findings included⁷ (i) most of rural households have no access to commercial insurance products; more than 6 million persons (or 40% insurable persons) who can afford to pay reasonable cost for insurance are untapped by insurance service providers; most private insurance companies have effected innovative new marketing strategies targeting low-income households but the results are not impressive; and (ii) a substantial segment of low-income households have fixed mindset about insurance and insurers; rural people are interested in funeral, health, and life insurance, but not property insurance.

In January 2007, phase two of the TA, which is the implementation of a pilot scheme to test microinsurance products and appropriate delivery modes, commenced. The pilot microinsurance product, which was developed based on the market assessment, is a composite of life, funeral, and health (hospitalization) insurance, and the premium is set low to make it affordable for poor and low-income households. The term is renewable every year, with the same premium rate for 5 years. Seven private insurance companies and four intermediaries (MFIs) applied to participate in the pilot scheme.

So far, the TA has been successfully inducting the participation of the private sector in microinsurance and is a demonstration of public–private partnership under a TA project.⁸ Establishing partnership with the regulated insurer has facilitated the provision of insurance products to MFI clients while eliminating risk to the MFI, minimizing the administrative burden, and requiring little additional management capacity. Moreover, the partnership has contributed to eliminating legal restriction to provide insurance service.

Postscript

A regional workshop⁹ on Microinsurance Sector Development was held in Colombo, Sri Lanka, in June 2007 and covered topics, such as i) insurance demand and risk mitigation needs of the poor; ii) roles of governments and regulators; iii) health, crop, and calamity insurance; and iv) country case studies from Bangladesh, India, Pakistan, and Sri Lanka. It was attended by more than 200 representatives from insurance companies, brokers, MFIs, banks, government agencies, donors and the media. The workshop was built on the successful partner–agent microinsurance pilot scheme developed under TA 4761.

Key messages from among the workshop participants were:

- The Government can make certain regulatory solutions, such as taxation relief or simplified reporting for microinsurer (Arup Chatterjee, principal administrator, International Association of Insurance Supervisors);
- Products can be tailored to meet location and occupational risks of the poor, i.e., accident coverage for the urban poor, snakebite coverage for the rural poor (David Dror, professor of Health Insurance, Erasmus University);
- Partnership between insurance companies and microfinance institutions (partner–agent model) can be developed for cost-effective service delivery (L.B. Abeysinghe, GM, Sanasa Almaso Insurance Co. Ltd.).

Another sign of the TA's success is the fact that the Insurance Board of Sri Lanka (IBSL) has expressed its commitment to promote microinsurance and is actively reviewing the Insurance Act to facilitate the enabling environment.

Another significant outcome of the TA so far is an expression of interest from the Palli Krama Sahayak Foundation (PKSF)¹⁰ for Asian Development Bank (ADB) assistance for the development of microinsurance in Bangladesh.

It remains to be seen how these positive signs would be further taken up by ADB and the country stakeholders.

Endnotes

¹ <http://www.addisfortune.com/FEATURE-Insuring%20the%20World's%20Poor.htm>

² http://216.109.125.130/search/cache?ei=UTF-8&p=need+for+micro-insurance&fr=slv8-msg&u=www.ilo.org/amin/download/vision_en.pdf&w=need+micro+insurance&d=QArR-OljO-3a&icp=1&intl=us

³ ADB. 2006. Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Microinsurance Sector Development. Manila.

⁴ TA 4761 SRI Microinsurance Development. Total TA amount was \$755,000, of which \$600,000 was financed by the Poverty Reduction Cooperation Fund (contributed by the United Kingdom Department for International Develop-

ment and administered by ADB) and \$155,000 was the counterpart government financing. TA Approval Date: January 2006. Completion Date: June 2007. Executing Agency: Ministry of Finance and Planning (MOFP).

- ⁵ A category of insurance products that offer coverage for smaller sums to low-income households. A microinsurance plan provides protection to individuals who have little savings and is tailored specifically for lower-valued assets and compensation for illness, injury, or death.
- ⁶ Draft Final Report: TA 4761 Microinsurance Sector Development.
- ⁷ Mayumi Ozaki. TA4761-SRI: Microinsurance Sector Development—*Back-to-Office Report of Advisory Technical Assistance (TA) Review Mission*. December 2006.
- ⁸ Mayumi Ozaki. TA4761-SRI: Microinsurance Sector Development—*Back-to-Office Report of Advisory Technical Assistance (TA) Review Mission*. December 2006.
- ⁹ Mayumi Ozaki. *Back-to-Office Report of Regional Workshop on Microinsurance Sector Development*. July 2007.
- ¹⁰ Palli Krama Sahayak Foundation (PKSF) is a public-private apex body that channels funds for microfinance to MFIs. PKSF has been critical in the expansion and improved professionalism of the microcredit industry in Bangladesh.

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