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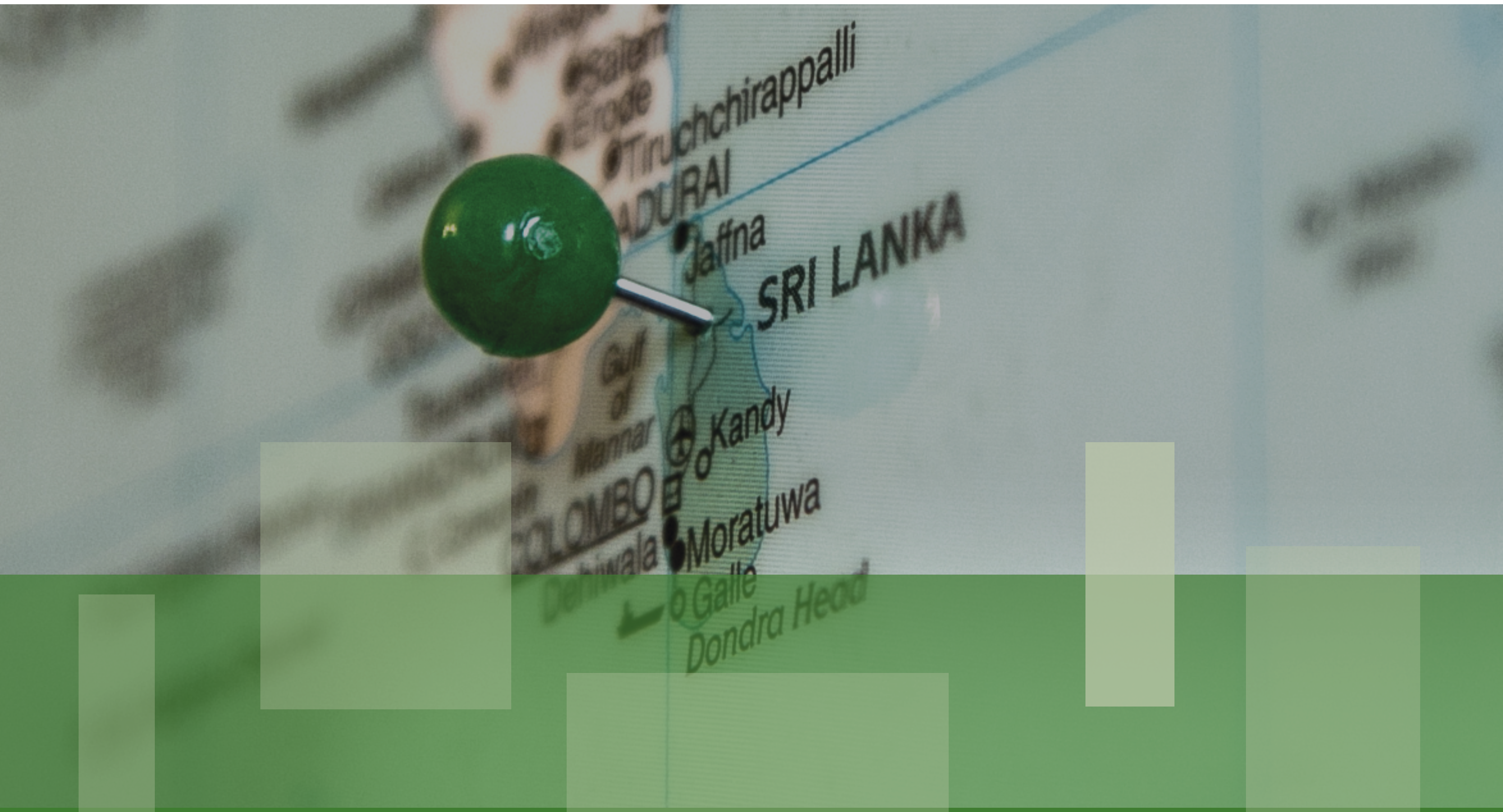

Country diagnostic on mutual and cooperative microinsurance in Sri Lanka

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IPS

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Polonnaruwa, Abhyapura Funeral Aid Society
Yakkala, Luwisawaththa Funeral Aid and Welfare Society
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FOREWORD

There is an enhanced level of awareness in the microinsurance market around the world surrounding how to achieve the United Nations Sustainable Development Goals (SDGs). In June 2016, the International Cooperative and Mutual Insurance Federation (ICMIF) launched the *5-5-5 Mutual Microinsurance Strategy* to develop mutual microinsurance in five countries, reaching out to 5 million uninsured low-income households in five years, which equates to 25 million lives impacted in total. This ambitious strategy demonstrates ICMIF's commitment to developing appropriate products and services to improve the resilience of poor people to disasters, and also to the SDGs.

Professor Thankom Arun

We are pleased to present the *ICMIF country diagnostic study on mutual and cooperative microinsurance in Sri Lanka*, prepared in partnership with the Institute of Policy Studies of Sri Lanka (IPS), Colombo. ICMIF has partnered with local ICMIF members Amana Takaful Ltd, Co-operative Insurance Company Ltd (CICL), Cooplife Insurance Ltd and Sanasa Insurance Company Ltd (SICL) for this country diagnostic.

This report on Sri Lanka is the fourth in the series, followed by reports on India, the Philippines and Kenya. In Sri Lanka, mutual and cooperative microinsurance has developed through the operations of social organisations at the grass roots level. The study finds that communities rely on community-based networks for risk management, which indicates further potential in the mutual and cooperative microinsurance market. However, the next level of growth for microinsurance requires a greater level of trust between lower-income communities and insurance providers, along with additional steps to enhance the knowledge and awareness of insurance among the target population.

This in-depth research provides a comprehensive picture of the current context of mutual and cooperative microinsurance providers in Sri Lanka.

Professor Thankon Arun
Chair of the ICMIF Academic Steering Committee on Financial Inclusion

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Over the years Sri Lanka's performance in poverty reduction has been commendable, recording a poverty headcount ratio of 6.7% in 2012/2013. However, significant regional disparities in the levels of poverty as well as the high concentration of a "non-poor" population just beyond the national poverty line, signal the presence of vulnerable groups in the society and the need to secure them against socio-economic shock. Insurance has the potential to provide the means of protecting oneself against unforeseen events and thereby reducing one's vulnerability. There are three key players in the Sri Lankan insurance industry: licenced insurance companies, informal insurance providers, and microinsurance initiatives of the public sector. However, insurance penetration levels in Sri Lanka appear to have stagnated at around 1%. Furthermore, traditional insurance may be beyond the economic capacity of poorer segments in the society, delineating the potential role of microinsurance which is tailored to the needs of the low-income populations.

Supply of mutual and cooperative microinsurance

In Sri Lanka, the mutual and cooperative microinsurance models can be observed in two forms, despite the fact the model is not addressed or defined in the country's insurance legislation: i) Formal (registered) insurance providers who have incorporated community-based organisations (CBOs) as a microinsurance delivery mechanism; and ii) CBOs that conduct microinsurance activities informally as a service to their members.

Of these, the informal providers conform more closely to a mutual and cooperative microinsurance model where the policyholders are actively engaged in the ownership, governance, and decision-making in the organisation. In the case of the formal providers in Sri Lanka, the scope for policyholders to engage in the management and governance spheres of the organisation is limited; they are largely involved in the distribution of the microinsurance products to the grass roots. Table 1 provides an overview of the following mutual and cooperative microinsurance providers that were selected as case studies:

- Sri Lanka Women's Development Services Cooperative Society (Women's Co-op)
- Polonnaruwa, Abhyapura Funeral Aid Society (FASP)
- Yakkala Luwisawaththa Funeral Aid and Welfare Society (FAWS)
- Cooperative Insurance Company Ltd (CICL)
- Cooplife Insurance Company Ltd (Cooplife)
- Sanasa Insurance Company Ltd (SICL)
- Amana Takaful PLC (ATPL)

Table 1.1: Overview of the case study organisations

		Geographical coverage	Unique mutual/ community-based feature	Number of members/ policyholders	Member profile	Microinsurance products
Informal	**Women's Co-op**	All nine provinces	▸ Entirely member-owned ▸ Profits redistributed indirectly via several welfare schemes	Approximately 100,000 members	Women from low-income households around the country	Four life and disability insurance products targeting the member and her family
Informal	**FASP**	One Grama Niladhari division	▸ Entirely member-owned ▸ Members pool their funds to meet funeral-related expenses	450 members	Members in the relevant community	One product that covers the member and the family
Informal	**FAWS**	Three villages in one Grama Niladhari division	▸ Entirely member-owned ▸ Members pool their funds to meet funeral-related expenses	200 members	Members in the relevant community	One product that covers the member and the family
Formal	**CICL**	All nine provinces	▸ Employs cooperative societies as a channel for marketing and distributing insurance products	13,290 policyholders	Members of cooperative societies as well as non-members	Four products including livestock insurance, funeral expense insurance, and children's health insurance
Formal	**Cooplife**	All nine provinces	▸ Fully owned by cooperative societies ▸ Employs cooperative societies as a channel of marketing and distributing insurance products	3,832 policyholders	Members of cooperative societies	Three products that provide life and health-related insurance
Formal	**SICL**	All nine provinces	▸ Have an island-wide network of cooperative societies (Sanasa societies) to distribute microinsurance	333,700 policyholders	Members of Sanasa societies and other CBOs as well as non-members	Eight products covering a range of risks including life, health and property, as well as agricultural insurance
Formal	**ATPL**	Eight provinces	▸ Follows a Takaful model which is a participatory model with mutual features	Approximately 13,000 policyholders	Diverse	Two products covering life and health insurance, as well as two products targeting the fishing and the dairy farming communities

Demand for mutual and cooperative microinsurance

The minimal demand for insurance among low-income households can be attributed to several reasons, key amongst which is the lack of affordability. Volatile income patterns prevent the poor from being able to pay high premiums consistently, and force them to prioritise their immediate needs over future risks. Their demand for insurance is further decreased due to lack of confidence and trust in insurance providers due to past experiences. The availability of free health services (under the Government's universal free health policy) and various government social protection schemes to vulnerable groups also contribute towards the low demand for insurance among-low income households.

More importantly, the high level of social organisation at the grass root level, denoted by the strong presence of community-based networks, also contributes to mitigating the need for insurance as a risk management strategy. This indicates the potential for mutual and cooperative microinsurance expansion in the country.

Key policy implications and recommendations

- **Regulation of the microinsurance sector:** Proper definition and classification of microinsurance could promote the provision of microinsurance and improve the country's insurance penetration. Additionally, a 'light-touch' regulatory approach to microinsurance (with special provisions for microinsurance, compared to stringent regulatory requirements for traditional insurers) could incentivise better participation in the microinsurance sector.

- **Supervision of the informal sector:** The informal sector comprises of a pool of insurance providers whose strength and reach are unknown. Although some have been successful in catering to the needs of the poor, their capacity to take on high risks is uncertain. As such, it is advisable for the country to adopt a supervisory or reporting/disclosure mechanism that would allow them to monitor informal providers' activities without imposing strict regulations that would impede their activity.

- **Minimising the overlap between government insurance initiatives and licenced insurance companies:** Drawing a clear distinction between the types of insurance business carried out in the form of government initiatives and of licenced insurance activities could help prevent the duplication of insurance services and promote the design of diverse products to suit the needs of the marginalised.

- **Build trust and bridge gaps in knowledge**: Insurance providers must take steps to build confidence and trust among customers through effective training of agents, greater customer care and open lines of communication. Low-income households would further benefit from financial literacy programmes.

1.0 BACKGROUND OF THE STUDY, RESEARCH OBJECTIVES, AND METHODOLOGY

1.1 Background

The International Cooperative and Mutual Insurance Federation (ICMIF) is a global representative body of the cooperative and mutual insurance sector, which exists to help strengthen its members' competitiveness by delivering unique market information, networking opportunities, leadership development programmes and global advocacy. One of ICMIF's aims is to help microinsurance delivered by mutual and cooperative insurers ("mutual microinsurance") reach scale in emerging markets in order to improve the living condition of low-income households by reducing their high levels of vulnerability. For this purpose, ICMIF has introduced the *5-5-5 Mutual Microinsurance Strategy* under which, ICMIF plans to develop mutual and cooperative microinsurance in five emerging markets, reaching out to 5 million new households (equating to 25 million lives) over the next five years[1]. Sri Lanka is one of the five countries thus selected for ICMIF's *5-5-5 Strategy*.

The Sri Lanka country diagnostic report presents the first step in the *5-5-5 Strategy* aimed at providing a clear picture of the mutual microinsurance landscape in Sri Lanka, in order to facilitate the drafting of an evidence-based country response strategy to fulfil ICMIF's goal.

1.2 Research objectives

The Sri Lanka country diagnostic report provides a detailed analysis of the mutual and cooperative microinsurance landscape in Sri Lanka. The primary objectives of this report are to understand the current context of mutual microinsurance in Sri Lanka particularly related to the demand, supply and regulatory aspects, to identify issues and challenges and to make recommendations for the development and growth of mutual and cooperative microinsurance in Sri Lanka.

1.3 Methodology

In order to achieve the above objectives, the country diagnostic was carried out in several phases including a regulatory analysis, demand-side and supply-side analysis and case studies of mutual and cooperative microinsurance providers.

The first step undertaken was a thorough review of the literature which attempted to understand the microinsurance landscape in Sri Lanka in terms of demand, industry regulation, as well as the presence, role and scope of mutual and cooperative microinsurance in the country; this included reviewing the relevant Acts and Laws and their implications on the provision of mutual and cooperative microinsurance. The literature review was followed by 11 in-depth interviews with national regulatory bodies, relevant civil organisations, donors, and other key resource persons. These interviews aimed at gathering information on the roles played by these bodies in the Sri Lankan insurance (and microinsurance) industry and gauging the scope for mutual and cooperative microinsurance in the country from different perspectives.

Following this, seven supply-side surveys were carried out with microinsurance providers in the country, in order to assess the supply-side perspective. These included formal microinsurance providers who employ community-based organisations (CBOs) in the distribution of microinsurance, formal insurance providers for whom microinsurance is not a primary business venture, as well as informal (ie not regulated by the Insurance Board of Sri Lanka) organisations who offer mutual and cooperative microinsurance services[2]. The supply-side surveys focused on gathering information on

[1] The governance of the 5-5-5 Mutual Microinsurance Strategy is overseen by the ICMIF Foundation, a registered charity in England and Wales (No. 1179919) which was formed by ICMIF in 2015.

[2] See Annex B for the list of organisations and individuals covered under key informant interviews and supply-side surveys.

these companies' experience with the provision of microinsurance and the types of microinsurance products and services offered, while also evaluating the scope for mutual and cooperative microinsurance from a supplier's perspective.

In order to examine factors that affect the demand for mutual and cooperative microinsurance, 12 focus group discussions (FGDs) were also carried out with persons from low-income households covering 12 districts in seven provinces in the country. These gathered information on the types of risks faced by low-income households, and the risk management strategies adopted by these households; the FGDs further investigated the attitude of low-income households towards insurance, and their utilisation of insurance as a risk mitigation measure.

Finally, seven case studies were conducted on mutual and cooperative microinsurance providers who could potentially partner with ICMIF in the implementation of its *5-5-5 Mutual Microinsurance Strategy*. These case studies include the selected organisations' expansion plans as well as an in-depth analysis of the selected organisations' microinsurance programme including, where available, anecdotes of policyholders.

Figure 1.1: Sources of information

Source: authors

1.4 Limitations of the study

Lack of a national definition for 'microinsurance': Sri Lanka has no national definition for 'microinsurance', which considerably hindered the data gathering process. There was a lack of consensus among the insurance suppliers about the term 'microinsurance'.

Lack of prior research: The dearth of prior research on microinsurance, especially mutual and cooperative microinsurance, presented a significant barrier, requiring the research team to conduct an extensive, exploratory investigation into a field that was hitherto little analysed.

Limited access to information: There were instances where certain cooperative and mutual microinsurance providers were not sufficiently forthcoming in terms of sharing data for various reasons. Further data limitations resulted due to the fact that some organisations were not in the practice of maintaining a separate portfolio for microinsurance business.

2.0 THE COUNTRY CONTEXT AND EVOLUTION OF MICROINSURANCE IN SRI LANKA

Located in the Indian Ocean, Sri Lanka is a lower middle-income country with a gross domestic product (GDP) per capita of USD 3,835 (in 2016). The economy grew at a rate of 4.4% in 2016, mainly driven by the expansion in industry and service-related activities. The industry sector reported a considerable growth of 6.7% compared to the 2.1% of the preceding year, while the growth in the service sector decelerated from 5.7% in 2015 to 4.2% in 2016. However, the most concerning is the agriculture sector which recorded a negative growth of 4.2%, further contracting its share in GDP from 7.8% in 2015 to 7.1% in 2016. The industry sector contributed 26.8% of GDP while the service sector's contribution accounted for 56.5% of GDP (CBSL, 2017).

Table 2.1: Sri Lanka at a glance

Population	21 million
Per capita GDP	USD 3,835
Growth rate	4.4%
Labour force participation rate (LFPR)	53.8%
Human development index (HDI)	0.776
Human development rank	73
Poverty head count ratio (HCR) (2012/13)	6.7%

Source: Central Bank of Sri Lanka (CBSL) Annual Report 2016 (CBSL, 2017)

Sri Lanka is home to 21 million people of whom 49% is male and 51% is female. Per 2012 estimates, the rural population accounts for 77.3% of the total population while the urban and estate sector population accounts for 18.3% and 4.4% respectively. The population growth rate (mid-year) is around 1.1%. The labour force, ie the economically active population, grew by 1.2% in 2016 while the labour force participation rate (LFPR) was 53.8%. The persistent gender gap in the Sri Lankan labour market is denoted by the female LFPR of 35.9% compared to the male LFPR of 75.1%. However, the unemployment rate decreased from 2015 to 2016, accompanied by drops in both male and female unemployment rates. The services sector recorded the highest share of total employment followed by the agriculture and industry sectors respectively (refer to Table 2.2). The working age population (age 15 and above) accounts for 74.8% of the total population. However, Sri Lanka's ageing population issue can be denoted by the fact that 16.5% of the working age population are elders (age 60 and above), indicating a low level of long run labour supply.

Table 2.2: Status of the labour market (2015 – 2016)

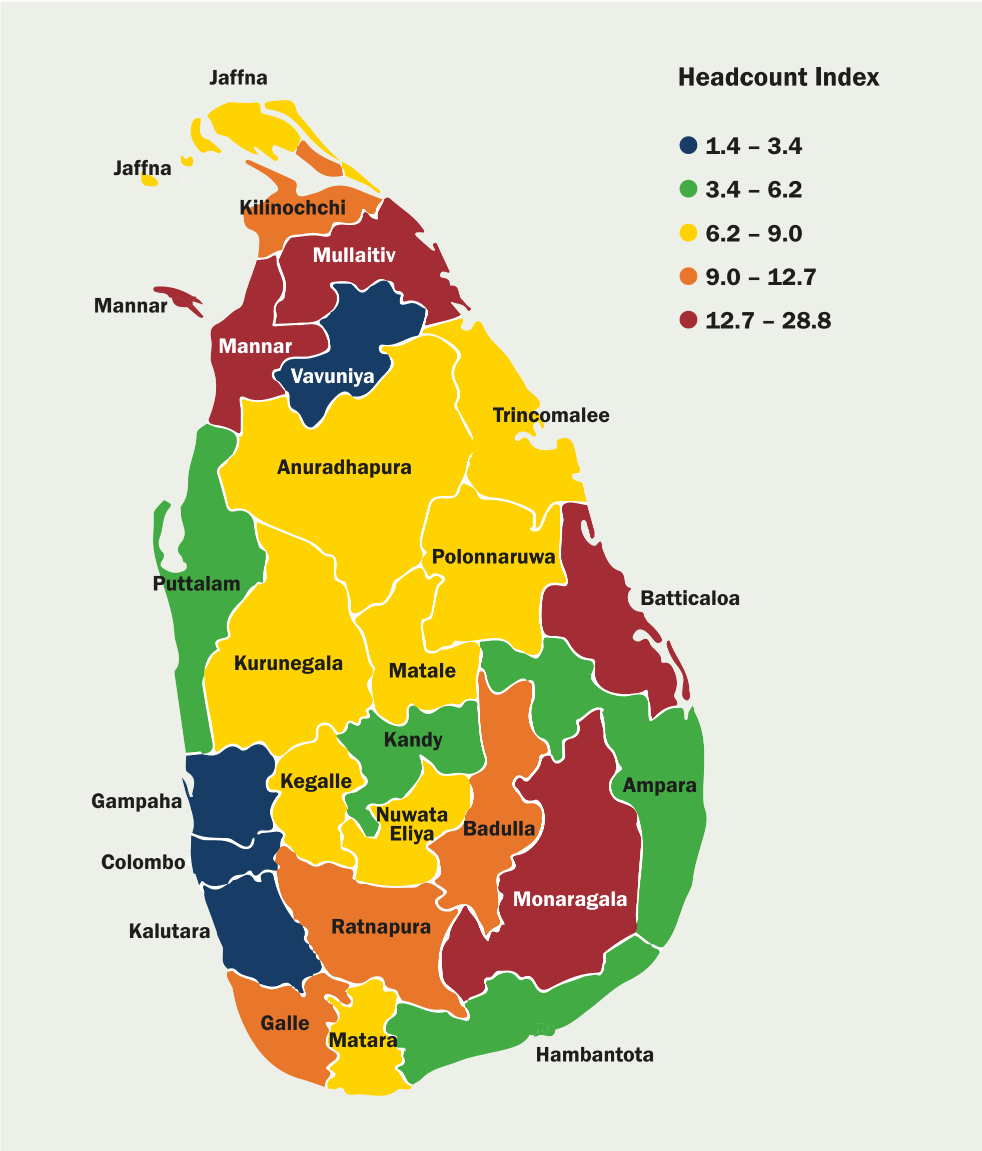
	2015	2016
LFPR	**53.8%**	**53.8%**
Female LFPR	35.9%	35.9%
Male LFPR	74.7%	75.1%.
Unemployment rate	**4.7%**	**4.4%**
Female unemployment rate	7.6%	7.0%
Male unemployment rate	3.0%	2.9%
Share of employment by sector		
Services sector	45.6%	46.5%
Agriculture sector	28.7%	27.1%
Industry sector	25.8%	26.4%

Source: CBSL Annual Report 2016 (CBSL, 2017)

Sri Lanka's achievement in human development is noteworthy compared to other South Asian countries. In 2015, Sri Lanka continued to be positioned in the high human development category, ranking at 73 among 188 countries, recording a Human Development Index (HDI) of 0.776 (UNDP, 2016). It had almost achieved the Millennium Development Goal of universal primary education with a net enrolment rate of 99.7% by 2012, for both females and males. Literacy rates of 15 to 24 year olds account for about 98% in 2012 across all sectors irrespective of gender. Moreover, Sri Lanka has made impressive progress in reducing child and maternal mortality rates which is considerably lower compared to other developing nations. The infant mortality rate stood at 9.4 in 2009 while the under-five mortality rate was 11.3 (UN, 2015).

Over the years, Sri Lanka's performance with regard to poverty has been commendable with a decrease in poverty headcount ratio (HCR) from 8.9 in 2009/10 to 6.7 in 2012/13. There are, however, significant regional disparities in levels of poverty (refer to Figure 2.1); for example, a district breakdown shows that the poverty HCR in Colombo is 1.4 compared to 28.8 in Mullaitivu (Department of Census and Statistics, 2011). This signals the presence of vulnerable groups in society and the need for action to secure them against socio-economic shocks. Insurance provides a means of protecting oneself against unforeseen events and thereby reducing one's vulnerability. However, traditional insurance may be beyond the economic capacity of poorer segments in the society. This is where microinsurance comes into play, as it is tailored to the needs of low-income populations.

Figure 2.1: Spatial distribution of poverty



Source: Department of Census and Statistics (2015)

Defined as insurance that "(i) operates by risk pooling (ii) is financed through regular premiums and is (iii) tailored to the poor who would otherwise not be able to take out insurance", (Dercon and Kirchberger, 2008) microinsurance has the potential to improve the overall insurance coverage in Sri Lanka. Microinsurance was first introduced to Sri Lanka to support the microfinance sector as a subsidiary service. Schemes which initially focused on loan protection and insurance for life savings have been extended to provide welfare benefits and health care products to low-income households (BASIX Consulting, 2016).

Although no provisions are made for mutual and cooperative microinsurance in Sri Lanka's formal insurance legislation, it is interesting to note the natural evolution of cooperative and mutual bodies as a consequence of the high degree of social organisation, especially at the grass root level. A prime example for this is the existence and prevalence of funeral aid societies (FAS), especially in rural communities. Established by the community for the purpose of pooling the community's funds to provide for death-related expenses, the historical origins of FASs are obscure, but their presence is still very much evident. In fact, the origins of Sanasa Insurance Company Ltd, a key cooperative insurance provider in Sri Lanka's microinsurance industry, can be traced to the All Lanka Mutual Assurance Organisation (ALMAO) which was established in 1991 amalgamating several community-based organisations (CBOs), including seven FASs.

It is in this context that this report studies the scope for mutual and cooperative microinsurance in Sri Lanka.

3.0 OVERVIEW OF THE MICROINSURANCE INDUSTRY

This section provides an overview of the microinsurance industry in Sri Lanka. Firstly, the chapter looks at the key players in the industry in the form of formal and informal insurance providers as well as various government programmes and initiatives aimed at risk mitigation and microinsurance. This is followed by an in-depth analysis of the regulatory framework pertaining to the provision of insurance in Sri Lanka. The chapter concludes with an examination of the regulatory framework on the provision of mutual and cooperative microinsurance in Sri Lanka.

3.1 Key players in the industry

The players in Sri Lanka's microinsurance industry can be classified into three groups: the formal insurance providers, the public sector microinsurance programmes and initiatives, and the informal sector. Each of these is discussed separately below.

The formal insurance sector

The formal insurance sector in Sri Lanka comprises of 30 registered (or licensed) insurance companies, 57 insurance brokers, and 45,492 insurance agents. Of the 30 licensed insurers, 15 are engaged in general insurance business and 12 are engaged in long-term insurance business, while the remaining three are composite insurers who are yet to segregate per regulatory requirement introduced in 2011. The industry recorded a growth in gross written premium (GWP) of 16% in 2015, increasing from LKR 105 billion (USD 0.8 billion[3]) to LKR 122 billion (USD 0.9 billion) (IBSL, 2015). Additionally, insurance density (ie per capita premium) reported a 15% increase from LKR 5,074 (USD 38) in 2014 to LKR 5,838 (USD 43) in 2015; and the total assets stood at LKR 456 billion (USD 3.4 billion) (IBSL, 2015). However, the penetration levels appear to have stagnated at around 1% (IBSL, 2015) indicating the presence of untapped potential in the market.

Insurance legislation in Sri Lanka does not define or address microinsurance, nor does it necessarily prevent the insurer from engaging in microinsurance activities. As such, in the case of Sri Lanka, there are instances of formal insurers carrying out microinsurance activities both as a business activity as well as a corporate social responsibility (CSR) activity.

Currently, the microinsurance coverage in the country (ie percentage of population covered by microinsurance) is a mere 0.34% compared to the 4.33% coverage in the region (Microinsurance Network, 2013). Even within the Sri Lankan insurance industry, the contribution of microinsurance is rather low; of the USD 465 million GWP reported in 2015, only USD 16 million[4] was attributed to microinsurance, accounting for only 3.4% of the total industry premium. A significant increase in the number of registered microinsurance policies issued has been recorded, with a 300% increase from 2013 to 2015. This spike in the sales of microinsurance products is a result of the increased number of life and personal accident covers sold in the market. Around 1.46 million microinsurance policies were sold in 2015, of which 98% were for life and personal accident coverage; microinsurance policies issued as a percentage of total population was 6.9% (BASIX Consulting, 2016). Figure 3.1 depicts a breakdown of types of microinsurance policies issued in 2015 (as a percentage of total microinsurance policies issued).

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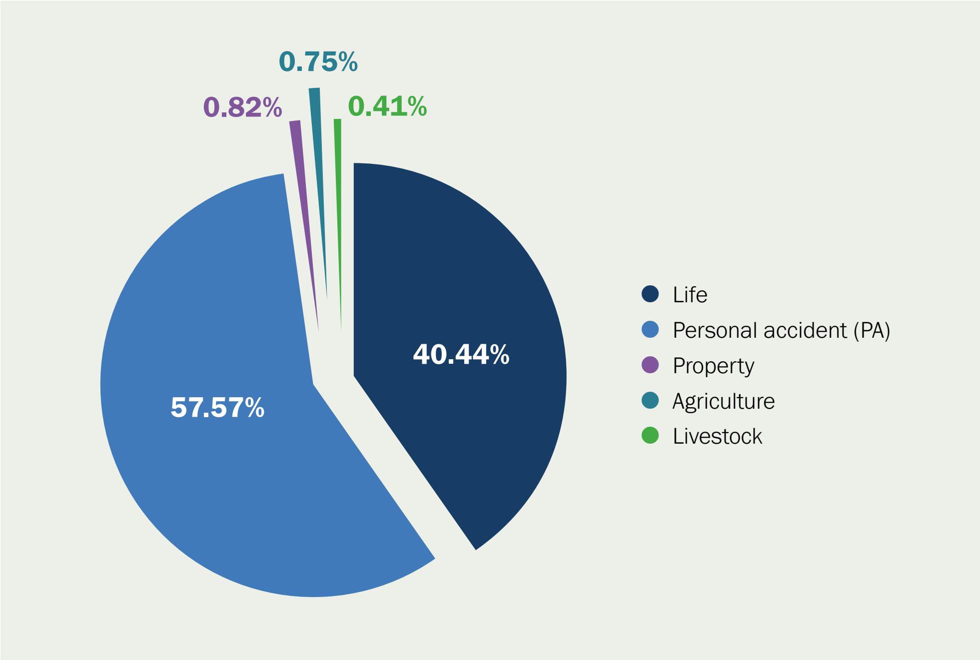
[3] At exchange rate of 1 USD = 135 LKR. This exchange rate is used throughout the report

[4] *The Landscape of Microinsurance in Sri Lanka 2016* report, undertaken by BASIX Consulting on behalf of the Microinsurance Network and the Munich Re Foundation.

Figure 3.1: Microinsurance industry - policies issued (2015)



Source: Authors' calculations based on Basix Consulting (2016), The Landscape of Microinsurance in Sri Lanka 2016 *(Table 1, page 8)*

One challenge identified in the provision of microinsurance is the cost of delivering low-premium products (BASIX Consulting, 2016). Given such financial constraints, many commercial insurers have resorted to mobile technology as a low-cost alternative for premium collection, to monitor operations, and to facilitate claims processing. For instance, in 2013, BIMA partnered with Dialog Axiata, the largest telecommunications network in Sri Lanka, and has managed to sell over 1.46 million microinsurance policies since its inception. The product's success in overcoming the psychological barriers associated with the poorer communities has been attributed to the simplicity of its design and the customer training provided at the enrolment stages (BASIX Consulting, 2016). Alternatively, companies like Ceylinco Insurance are working with the government to subsidise the premiums in order to provide affordable products to the low-income bracket of the market.

Potential market

The potential market for microinsurance would be the poor and the vulnerable communities in the country.

Estimates for 2016 show that although Sri Lanka's poverty headcount ratio was 4.1%, there is a high concentration of the population just beyond the poverty line, which remains highly vulnerable. For example if the value of the poverty line is increased by 10% from LKR 4,166 to LKR 4,583 (USD 31 to USD 34) then the poverty head count index increases by up to 6.1%; if the real per capita monthly expenditure decreases by LKR 100 (USD 0.7) then the poverty headcount index will increase by up to 4.5% (Department of Census and Statistics, 2017).

Microinsurance programmes and initiatives of the public sector

Although the official statistics indicate low levels of insurance (and microinsurance) coverage in Sri Lanka, it should be noted here that these statistics have failed to capture the contribution of the public sector, which has taken several initiatives to reduce the vulnerability of the poor via insurance. The Divineguma (Samurdhi) Programme is a prime example, catering to around 16.4% of households in the country (IPS, 2016), with approximately 1.45 million beneficiary families (Department of Divineguma Development, 2015). The programme is managed per the Divineguma Act No 01 of 2013 by the Samurdhi Department, operating under the Ministry of Social Empowerment and Welfare. Families covered by the programme receive monthly cash transfers valued between LKR 1,500 (USD 11) and LKR 3,500 (USD 26), depending on the size of the family; this amount is inclusive of a deduction of LKR 45 (USD 0.3) to a separate social security fund through which the beneficiary families are provided insurance coverage in the event of childbirth, marriage, hospitalisation and death (Department of Divineguma Development, 2015).

The public sector also offers insurance solutions to the farming communities in Sri Lanka (which accounts for a large proportion of rural Sri Lanka). Farmers are often vulnerable to natural disasters such as floods, droughts and landslides. Ergo, many government welfare schemes have been designed to protect the needs of farmers. The Agricultural and Agrarian Insurance Board (AAIB) – established by the Agricultural and Agrarian Insurance Act No 20 of 1999 – is the apex insurance provider to farmers in Sri Lanka. Operating under the Ministry of Agriculture, the AAIB caters to over 700,000 farmers offering a range of insurance policies and benefits, including retirement pensions, death and disability insurance, crop and livestock insurance. However, according to Heenkenda (2011), these schemes have not been developed using actuarial principles and as such are considered to be unsustainable; additionally the crop insurance related products are indemnity-based and rely on the individual's crop yield, therefore suffering from asymmetric information. Along with the existing fertiliser subsidy programme, in 2013 the AAIB introduced a compulsory crop insurance scheme. Due to its compulsory nature, the scheme achieved coverage of 72-90% in the 2014/20115 Maha and the 2015 Yala[5] harvesting periods.

The National Insurance Trust Fund (NITF), established by the National Insurance Trust Fund Act No 28 of 2006, is Sri Lanka's national reinsurer and also manages key insurance programmes in the country. These include a health insurance programme covering 700,000 households, an agricultural insurance programme, and a life and disability-cover programme for fishermen. In addition, NITF recently issued a national level policy to the Sri Lankan government which provides cover to all citizens in the event of natural disasters (BASIX Consulting, 2016).

Many other government schemes are tailored for low-income farmers, fishermen and migrant workers. However, these schemes continue to have low penetration due to low transparency, underestimation of claims, and the high associated administrative costs. Since many of these products are dependent on factors such as a farmer's individual yield, suppliers are often exposed to moral hazard and adverse selection (BASIX Consulting, 2016).

The informal sector

Apart from regulated insurers and public sector initiatives aimed at the provision of microinsurance, the available literature and primary research ascertain the presence of an informal sector of microinsurance providers. These include cooperative societies, community-based organisations (CBOs), non-governmental organisations (NGOs), and other village-level organisations such as funeral aid societies (FASs) that provide protection or security against risk to its members. Whilst some have established insurance products, others offer insurance services along with their loan protection schemes. Many of them do not identify themselves as insurers: insurance is carried out as a subsidiary service alongside their other financial services (thrift and credit). Some of these organisations are monitored by either the Department of Cooperative Development or the NGO Secretariat. Others operate autonomously as unregulated entities.

Microinsurance activities of the informal sector are an indicator of the high level of social organisation in Sri Lanka's rural societies. The best example for this is the wide-spread existence of FASs (refer to Box 1).

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[5] Yala and Maha are the two cultivation seasons in Sri Lanka. Maha season falls during the "north-east monsoon" from September to March (in the following year). Yala season is effective during the period from May till the end of August.

Box 1: Funeral aid societies

Funeral aid societies (FASs) are small, village level organisations that provide families with monetary support in the event of a death in the community. These societies exist in nearly every community in the country. They are among the most active and popular community-based organisations in Sri Lanka, with a high degree of participation due to their need-based approach of providing assistance to the community. The primary objective of a FAS is to create a fund in order to assist members and their families who need financial and moral support in the event of a death. As such, local FASs provide financial compensation and donate essential items such as tents, chairs and food in order to help families bear the cost of a funeral. Furthermore, these societies help bereaved family with making the necessary funeral arrangements. The exact form of an FAS in terms of the size, geographical reach, benefits paid and the membership fees tends to vary from one FAS to another. Nevertheless, their primary purpose remains to be a point for the community to rally together to improve their future security in the face of a family member's death (refer to Case Studies 2 and 3).

In Sri Lanka, the organisational structure of CBOs and FASs act as an effective conduit for risk management within rural communities. A study conducted by Heenkenda (2012) explores opportunities for using farmers' societies as financial intermediaries to build the link between farmers and microinsurance providers and to achieve widespread coverage for their products. The research demonstrates how the institutional setup of these societies fosters cooperation and active participation among farmers which helps achieve transparency as well as large-scale implementation and coverage of microinsurance.

NGOs such as the Sarvodaya Economic Enterprise Development Services Ltd (SEEDS) have capitalised on their extensive network of member-based societies already operating at the grass roots to deliver microinsurance products: SEEDS comprises 4,000 village level societies, offering loan protection schemes to 1 million of its members (Nasr, 2016).

The All Lanka Mutual Assurance Organisation (ALMAO) – which later was formalised as a formal insurance company under the name Sanasa Insurance Company Limited – was an informal insurance scheme that was founded based on a mutual model, operating via local organisations. Established in 1991, ALMAO operated via its village level partners and offered coverage to the rural poor in the event of death, disability, and hospitalisation. The success of the scheme necessitated the formalisation of the organisation which, according to Enarsson and Wirén (2006), led to a loss of ALMAO's low-income clientele owing to insurance regulations restricting the minimum premium to LKR 3,000 (USD 22) per year.

Organisations such as the Women's Development Federation (WDF) and Sri Lanka Women's Development Services Cooperative Society (Women's Co-op) are organisations that operate based on a network of CBOs established for the purpose of poverty alleviation via female empowerment. Among other services, these organisations offer various insurance solutions to their members. Women's Co-op, registered as a cooperative society, is an informal insurance provider in that its insurance activities fall beyond the scope and scrutiny of the Insurance Board of Sri Lanka. Similarly, WDF is registered as a NGO and can be considered as an informal insurance provider (these two organisations are discussed in detail in Chapter 5).

The next section on the stringent regulatory requirements of formal insurance providers sheds light on the necessary evolution and existence of an informal microinsurance sector in the country to provide for households with irregular and lower levels of income.

3.2 Regulation of the insurance industry in Sri Lanka

Overview of the Regulation of Insurance Industry Act No 43 of 2000

The formal insurance industry in Sri Lanka is governed by the Regulation of Insurance Industry Act No 43 of 2000 (RII Act). The Insurance Board of Sri Lanka (IBSL) was established by the Act with the aim of regulating, supervising, and developing the insurance industry. For the purpose of carrying out its statutory objectives, the IBSL has been empowered to register insurers, brokers, agents, and more recently loss adjusters (refer to Box 2), in addition to its supervisory, investigatory, and regulatory role. The IBSL is also responsible for advising the government on the development and regulation of the industry and the implementation of government policies and programmes in relation to the insurance industry. Accordingly, rules and guidelines with respect to the provisions of the Act have been issued by the IBSL. The Act also provides for continuing obligations which registered insurers are expected to comply with in respect of prudential requirements and business conduct. As such, this section aims to highlight the key features of the Act in order to provide insight into the current regulatory environment in Sri Lanka.

Registration of insurers

The Act prohibits any person from carrying out insurance business in Sri Lanka unless such person is registered under the Act. The registration is for the purpose of carrying out long-term insurance business or general insurance business. However, public sector insurance providers such as the Agricultural and Agrarian Insurance Board (AAIB), the Sri Lanka Export Credit Insurance Corporation, and the Social Security Board have been exempted from complying with the requirements of the Act. In addition, following the 2011 amendments to the Act, the National Insurance Trust Fund Board (NITF), established by the National Insurance Trust Fund Act No 28 of 2006, was deemed to be registered under the Act for the purpose of conducting insurance business and providing reinsurance services.

Box 2: Definitions (based on the RII Act No 43 of 2000 and the Act Amendment No 03 of 2011)

- **Insurer:** A person registered to carry out insurance business in Sri Lanka under the provisions of the RII Act.
- **Insurance business:** Includes both long-term and general insurance.
- **Long-term insurance business:** Primarily insurance related to human life (life insurance). This also includes accident covers, permanent disability insurance, annuities, and pension policies.
- **General insurance business:** All insurance business that does not fall under the definition of 'long-term insurance '. This includes marine, aviation, motor, fire, employers' liability policies etc.
- **Brokers:** Function as an intermediary for the placing of insurance business for and on behalf of an insurer, a policyholder or a proposer for reinsurance, with an insurer or reinsurer, in expectation of a payment by way of brokerage or commission.
- **Agents:** A person registered with an insurer or broker under the provisions of the RII Act, and who in consideration of a commission solicits or procures insurance business for the insurer or broker.
- **Loss adjusters:** A person who has specialised knowledge in investigating and assessing losses arising from insurance claims.

The IBSL is empowered to register entities as 'insurers' upon fulfilment of the registration criteria. Registration necessitates incorporation under the Companies Act No 17 of 1982 (or the Companies Act No 7 of 2007 in the current context) with a share capital of not less than LKR 500 million (USD 3,703)[6]. The applicant (for registration) is also required to submit the Memorandum and the Articles of Association of the company along with the prescribed particulars of the shareholders, directors and other relevant officers. Moreover, the applicant is required to deposit a (refundable) sum of LKR 50,000 (USD 370) in the case of long-term insurance business and LKR 200,000 (USD 1,482) for general insurance business[7] to the Treasury in the form of cash or government securities. The IBSL holds the discriminatory power to judge an applicant's suitability for registration as an 'insurer' under the Act. The IBSL also has the authority to conduct investigations in order to verify the accuracy of the details provided by the applicant and has the power to issue a license specifying the class[8] of insurance the applicant will be authorised to carry on. Moreover, the IBSL holds the right to cancel or suspend a license for the committing of violations specified by the Act.

Mandatory prudential and financial requirements for registered insurers

Licensed insurers are expected to maintain adequate financial resources as stipulated by the IBSL in order to continue their business activities. Prior to 2015, minimum capital requirements were determined by the IBSL based on the solvency margin rules[9] relevant to the class of insurance business undertaken. At present, these minimum requirements are determined based on the Risk Based Capital framework[10] introduced in 2015. It dictates that every registered insurer should maintain a minimum capital adequacy ratio (CAR)[11] of 120%, while ensuring the total available capital is at a minimum of LKR 500 million (USD 3,703)[12]. Maintaining a CAR of over 120% ensures that the available capital is commensurate to the risk that the insurer is exposed to ie the higher the risk, the higher the required capital. All insurers are also required to take adequate measures to safeguard themselves against risk ie to obtain reinsurance from either a local or foreign reinsurer authorised by the IBSL. The reinsurer is expected to have a minimum long-term investment grade credit rating[13]. In addition, a general insurance practitioner has to place 30%[14] of its liabilities with the NITF.

All insurers are required to submit audited financial reports to the IBSL at the end of every financial year. They are also expected to constantly disclose information related to reinsurance treaties, contracts, and arrangements related to business transactions. In the event of a default in compliance with the provisions of the Act (or any rules issued thereunder) or if the policyholders' interests are at stake, the IBSL holds the right to conduct investigations pertaining to the respective matter and to take necessary enforcement action.

The accounts and assets pertaining to the two classes of insurance (long-term and general insurance) had to be maintained separately prior to the Act Amendment[15] in 2011 which necessitated segregation of the two businesses into distinct corporate entities. While many of the general rules and regulations apply equally to both long-term and general insurers, certain statutory provisions call for each type of insurer to adhere to unique financial requirements and management procedures. For instance, insurers engaged in general insurance business are expected to maintain technical reserves (a portion of the profits set aside to service claims) commensurate to their liabilities as determined by the IBSL, while long-term insurers are not expected to do so.

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[6] Rule (1), Gazette Notification No 1711/25 dated 24 June 2011

[7] Rule (2), Gazette Notification No 1711/25 dated 24 June 2011

[8] Class of insurance business refers to general insurance business or long-term insurance business

[9] Solvency Margin (Long Term Insurance) Rules, 2002 and Solvency Margin (General Insurance) Rules, 2004.

[10] Gazette Notification 1945/19 dated 15 December 2015

[11] CAR is the ratio of total available capital (TAC) to the risk weighted credit exposures (RCR) of a company (CAR= (TAC/RCR)*100). Determination of TAC and RCR should be according to the rules issued by IBSL

[12] Rules (3) and (4), Gazette Notification No 1945/19 dated 15 December 2015

[13] Credit rating with a low risk of default eg BBB (Standard and Poor's Corp)

[14] As per the Gazette Notification No 1791/4 dated 31 December 2012

[15] Act (Amendment) No 3 of 2011

Insurers engaged in long-term insurance business have to follow specified procedures in terms of paying claims, underwriting, and protecting the rights of policyholders. Another unique requirement is the need to distribute at least 90% of the surplus (as determined by the actuary) to its participatory policyholders[16] (as a bonus payment) prior to transferring that surplus to other entities (eg shareholders) or for the purpose of investment. A long-term insurer also has the option of paying interim bonuses during the inter-valuation period to holders of matured policies.

With the objective of improving the transparency of insurance companies in Sri Lanka, registered insurers are now required to list on a stock exchange licensed by the Securities and Exchange Commission of Sri Lanka Act No 36 of 1987 (refer to Box 3).

Box 3: Recent amendments to the RII Act: Key features (as amended by Act No 3 of 2011)

- The IBSL was mandated to register loss adjusters.
- The NITF Board established by the NITF Act No 28 of 2006 was deemed to be registered under the RII Act to carry out insurance business in Sri Lanka.
- Insurers engaged in long-term and general insurance business are required to segregate into two separate companies with effect from four years after the Act Amendment is in operation.
- Every insurer registered under the RII Act is expected to list on a stock exchange licensed by the Securities and Exchange Commission of Sri Lanka Act No 36 of 1987 within five years from the date of operation of the Act Amendment of 2011 (given that the segregation requirement is fulfilled).

New rules:

- Gazette Extraordinary No 1945/19-2015: Introduction of the new Solvency Margin Rules (Risk Based Capital) 2015.
- Every insurer is required to place 30% of their liabilities with the NITF (reinsurance) as per the Gazette Extraordinary No 1791/4 dated 31 December 2012 (only general).

(Refer to Annex D for more a detailed discussion on the regulatory standards for the conduct of insurance business and circumstances which can result in the cancellation of the insurance licence.)

Regulatory backdrop for informal microinsurance providers

Cooperative societies registered under the Cooperative Societies Law No 5 of 1972 come under the purview of the Department of Cooperative Development. All matters related to policy development and laws are coordinated by the National Cooperative Council (the apex body of the cooperative movement in Sri Lanka). These cooperatives are exempt from the provisions of the Microfinance Act. The Department of Cooperative Development follows a decentralised monitoring system, where all cooperatives come under the supervision of their respective provincial council. The provincial councils can enact their own laws and regulations that may override the Cooperative Societies Law (powers given to the provincial councils under the 13th Amendment to the

[16] Long-term policies can either be participatory or non-participatory. A holder of a participatory policy is entitled to receive a portion of the surplus determined by the actuary

Constitution). However, functions such as registration, supervision, examination of annual audits, and dispute settlement come under the purview of the central authority.

While the Cooperative Societies Law sets standards for the registration of cooperatives and for the conduct of daily operations, it fails to specifically address the provision of microinsurance. The Act does not, however, bar any cooperative society from engaging in insurance activities as long as its objective is to empower its members; cooperative societies are given the freedom to engage in any activity that is beneficial to their members. The Department of Cooperative Development does not interfere with the daily operations of registered cooperative societies; its main concern is to ensure a cooperative society's financial stability through annual audits.

Non-governmental organisations (NGOs) registered under the NGO Secretariat also contribute to the informal insurance sector in Sri Lanka. These organisations come under the purview of the Voluntary Social Service Organisations Act No 31 of 1980 and the consequent Act (Amendment) No 8 of 1998. The NGO Secretariat is responsible for the registration of NGOs, the supervision of their activities, facilitating coordination between the Government and NGOs, and enforcing legal action against malpractice and fraud committed by NGOs. As per the Act, any organisation with the objective of providing relief and services in the face of adversity to the marginalised and poor may be registered as an NGO. The Act does not specify the type of activity that an NGO is permitted to engage in, as long as it is carried out in accordance with the stipulated regulations.

Thus, contrary to Sri Lanka's insurance legislature, in respect of regulation pertaining to registered cooperative societies and NGOs, the provision of microinsurance has continued uninterrupted and unhindered.

Implications of the regulatory framework on the provision of mutual and cooperative microinsurance in Sri Lanka

The RII Act does not address or define microinsurance or mutual microinsurance. Nevertheless, one can argue that microinsurance is subsumed by the definition of insurance in the Act although it does not expressly refer to it. It is important to note that the provisions of the Act do not necessarily prevent any registered insurer from carrying out microinsurance business, whether conducted as a CSR activity or a primary business activity. Key informant interviews with insurers and other stakeholders however revealed the practical bottlenecks to engaging in microinsurance/mutual microinsurance (discussed further under Chapter 6). Although mutual insurance is not prohibited in Sri Lanka, the current regulatory environment does not facilitate a purely mutual model. In general, under a mutual insurance model the customers are also owners who provide capital and own the residual value of the firm. Customers would also directly engage in the decision-making, design, development, and management of the products, services and/or institution. Thus, stringent capital requirements, governance standards and limitations on shareholders do not support a typical microinsurance policyholder to become involved in the business as either a shareholder (owner) or manager (discussed in detail in Section 6).

Yet, many insurers in Sri Lanka have incorporated mutual aspects into their business model. For instance, incorporating microfinance institutions, CBOs or other village level societies as distribution channels for the provision of microinsurance is a common practice amongst insurers. Product design in line with the immediate needs of the marginalised communities is arguably an aspect of mutuality. In addition, the obligation for long-term insurers to share generated surplus with its participatory policyholders could also be considered as a mutual feature encouraged via legislature.

Furthermore, recent developments in the microfinance sector have intimated the need for microinsurance regulation in the country: the Microfinance Act No 6 of 2016 allows for licensed microfinance institutions to engage in insurance business with the prior approval (or licensing) of the regulator (the IBSL). Whilst these provisions are not yet in practice, this has opened up discussions regarding the feasibility of such an initiative, given the current regulatory framework. In this regard, the common perception of the insurance industry and its stakeholders is that concurrent regulation or screening for microinsurance should be a natural consequence and that such developments are to be expected.

4.0 MUTUAL AND COOPERATIVE MICROINSURANCE IN SRI LANKA

The choice of the model is paramount to the success of the microinsurance scheme. The environment in which microinsurance providers operate is significantly different to that of traditional insurance business models. Thus, traditional delivery systems have failed to reach the grass roots. The challenge is in identifying the most effective combination of insurance providers and distribution channels to cater to the grass root levels of society (Ahlam, 2014).

Several microinsurance models have been identified around the world. One such model that is currently gaining ground in the world is the mutual and cooperative model of insurance which accounts for nearly 27% of the global insurance market (Patel, 2016). A majority of microinsurance providers have adopted the concepts and ideals of mutual insurance in some way or form. Mutual organisations generally fall into one of the following three categories: (i) stand-alone institutions, (ii) insurance business affiliated to a network of financial cooperatives, or (iii) networks of mutual insurance associations. Stand-alone institutions operate autonomously and provide insurance to its member policyholders. Affiliated insurance businesses are typically owned and controlled by a network of savings or credit cooperatives: they are initially established to provide insurance services to the members of the network or even to the individual cooperative as a whole, but may expand their services to cater to groups outside their membership. Networks of mutual associations are comprised of friendly societies or community-based associations whose sole concern is to provide insurance services to their members (Fischer and Qureshi).

The next section discusses in detail the six mutual and cooperative microinsurance providers in Sri Lanka that were selected for this study. Section 4.1 provides an overview of the profiles of the six organisations which conform to a mutual and cooperative microinsurance model to a certain extent, while Section 4.2 discusses the extent to which each organisation conforms to identified characteristics of a mutual microinsurance provider.

4.1 Profiles of surveyed microinsurance providers in Sri Lanka

The following organisations were surveyed for the purpose of examining mutual and cooperative microinsurance[17] in the Sri Lankan context:

1. Co-operative Insurance Company Ltd (CICL)
2. Cooplife Insurance Ltd (Cooplife)
3. Sanasa Insurance Company Ltd (SICL)
4. Amana Takaful Plc (ATPL)
5. Sri Lanka Women's Development Services Co-operative Society Ltd (Women’s Co-op)
6. Women’s Development Federation (WDF)

The organisations (1) – (4) are licenced insurance companies regulated by the IBSL. Since regulatory restrictions don’t allow formal insurers to conform to a purely mutual model of insurance, these organisations were identified for this study based on the fact that community-based organisations (CBOs) play a major role in their microinsurance business. Section 5.2 further analyses the extent to which each of these organisations conform to characteristics of a mutual and cooperative microinsurance provider as defined by ICMIF. Organisations (5) and (6) on the other hand, conduct microinsurance activities informally. These organisations conform more closely to a mutual model of microinsurance.

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[17] Companies were given the freedom to identify which of their products are microinsurance products

01. Co-operative Insurance Company Ltd (CICL)

CICL was incorporated by the cooperative movement in 1994 as an agent of the National Insurance Corporation to provide insurance products and services to cooperatives and their members. In 1998, CICL was registered as a private limited liability company and was licensed by the IBSL to operate as an insurance provider. The Registrar of Cooperatives gave CICL special permission to use the term "cooperative" in their name, despite being a registered private company.

A unique feature of CICL is that it is 99.9% owned by cooperative societies, with the shareholders consisting of 305 multi-purpose cooperatives (MPCs) and a further 2,450 rural banks across the country. These cooperatives have a combined membership of over 7 million members engaged in a range of micro and small to medium scale economic activity including the agriculture, fisheries, trading, and services sectors. In compliance with the regulatory changes in 2011, from January 2015, CICL became the holding company of their fully owned life insurance subsidiary (Cooplife). Accordingly, CICL now engages only in general insurance business. (Refer to Annex A – Case Study 4 for a detailed examination of the organisation.)

02. Cooplife Insurance Ltd (Cooplife)

Cooplife was established in 2015 as a fully-owned life insurance subsidiary of CICL in compliance with regulatory changes demanding the segregation of general and life insurance businesses. CICL currently owns 80% of Cooplife's share capital with the other 20% owned by cooperative societies. Cooplife has established service centres at the cooperative level: these centres include a small insurance unit with trained staff for the collection of premiums and other insurance services. Around 189 MPCs actively work with Cooplife. Members of MPCs are their main clients, but they also serve many other cooperatives such as Sanasa societies and non-governmental organisations (NGOs) as well as trade unions. (Refer to Annex A – Case Study 5 for a detailed examination of the organisation.)

03. Sanasa Insurance Company Ltd (SICL)

SICL was initially established as ALMAO in 1991 and was subsequently registered under its present name as a formal life insurance company in 2002. In 2005, SICL commenced general insurance activities as well. SICL is yet to comply with the mandatory segregation requirements introduced by the IBSL in 2011 whereby registered insurance providers are compelled to segregate their general insurance business and life insurance business. As such, unlike in the case of CICL and Cooplife, this report examines the life and general insurance activities of SICL in an aggregated form.

SICL operates through CBOs including Sanasa societies, funeral aid societies (FASs), debt collection societies and farmers' societies. These societies are routinely involved in the distribution of the SICL microinsurance business, with the societies acting as intermediaries in the sale of their microinsurance products. (Refer to Annex A – Case Study 6 for a detailed examination of the organisation.)

04. Amana Takaful Plc (ATPL)

ATPL is the pioneer of the Takaful concept in Sri Lanka. Commencing their operations in 1998, ATPL obtained registration under the IBSL as an insurance company in 2002. In 2006, the company listed on the Colombo Stock Exchange (CSE) and became a public listed company under its current name – Amana Takaful Plc; as of 31 December 2015, 24.23% of ATPL's shares were held by the public. In keeping with the mandatory segregation requirements of the IBSL, in 2015, Amana Takaful Life Ltd became a fully-owned subsidiary of ATPL, while the general insurance business was retained in its parental capacity. However, for the purpose of this study, ATPL's life and general insurance arms will be considered as one entity.

As a fairly new entrant to microinsurance which launched its microinsurance arm in 2014, ATPL's sole approach has been through informal village-level societies such as fishing societies, brick manufacturing societies, three-wheeler societies etc. These societies act as the intermediary between the members (policyholders) and ATPL. Every insurance agreement involves a commission which is devolved to the society as an incentive for selling insurance policies to their members. In order to facilitate this process, ATPL has established around 300 centres at village-level bookshops and stores. (Refer to Annex A – Case Study 7 for a detailed examination of the organisation.)

05. Sri Lanka Women's Development Services Co-operative Society Ltd (Women’s Co-op)

Women’s Co-op was initially established in 1989, and was nationally registered under the Cooperative Societies Law No 5 of 1972. Currently, it comes under the purview of the Department of Cooperative Development. The organisation aims to alleviate poverty at the household level via female empowerment. The basic unit consists of five to 15 women who create a women’s group at village level. Approximately 10 such groups create a branch; currently 169 branches have been established around the island. Since the inception of the organisation, every member is required to save LKR 5 (USD 0.04) on a monthly basis. Today, the membership is around 100,000 with around LKR 6 billion (USD 40 million) in savings.

In order to ensure active member participation, every member is expected to take leadership in a subject area. There are 12 subject areas dealing with a variety of issues including health, education, insurance, agriculture, entrepreneurship, disaster management and housing. Each small group will have these 12 leaders who will meet at the branch level once a month. For example, if a branch has 10 groups, the 10 health leaders of the 10 groups will meet on a monthly basis. This branch-level gathering elects five committee members including one branch level leader for the relevant subject who will represent the branch at the national level. For example, the branch level health leader will participate in the Health National Council where national level strategies are discussed.

The Women’s Co-op’s focus on improving the welfare of the members has resulted in social protection and risk management ventures such as establishing a disaster management unit, in order to help members who suffer from weather-related calamities, and more significantly, the establishment of five health centres where members who have joined the health insurance scheme can receive treatment at reduced costs. (Refer to Annex A – Case Study 1 for a detailed examination of the organisation.)

06. Women’s Development Federation (WDF)

The WDF was established in 1989 along with the ‘Janasaviya Programme’, which was aimed at alleviating poverty in Sri Lanka. WDF was registered as an NGO under the Voluntary Social Service Organisations Act in 2000 and currently comes under the purview of the NGO Secretariat. The organisation’s main objective is women’s empowerment through the provision of microfinance and welfare services to women at the low-income levels. The smallest unit is the women’s group which consists of five members. These groups combine to form women’s societies at village level and these societies come together to form the Janashakthi Bank Associations. Today, there are around 101 Janashakthi Banks operating in the Hambantota and Monaragala districts with a total membership of 78,000. The Janashakti Bank Associations make up the WDF. Appointed representatives from these banks form an Executive Committee. The Executive Committee, assisted by an Advisory Board, is responsible for all management decisions of the WDF.

The WDF is built on cooperative principles and services are carried out on a mutual basis. The organisation abides by their own Constitution: every Janashakthi Bank is required to convene a general meeting (attended by all members) at which the progress report and audit reports are approved. The constant vetting processes mandated by their Constitution ensure the transparency of the decision-making process.

WDF uses its network of groups, societies, and bank associations as a conduit for their microinsurance services. Many of their insurance products are linked to loans as a form of loan protection. However, their ‘Divisarana’ policy is a stand-alone insurance scheme which is offered to members. It provides coverage for death and hospitalisation and can be extended to the member-policyholders’ families as well.

4.2 'Mutual' features of the surveyed microinsurance providers

4.2.1 Establishment and legal identity

The organisations surveyed under the supply-side analysis include both licenced formal microinsurance providers and informal microinsurance providers. Table 4.1 lists the legal status of the organisations, as well as their regulatory authorities and the year in which they were legally established.

Table 4.1: Legal identity of the surveyed microinsurance providers

Organisation	Act(s)	Regulator	Year of establishment
CICL	Companies Act RII Act	IBSL	1998
Cooplife	Companies Act RII Act	IBSL	2015
SICL	Companies Act RII Act	IBSL	2002
ATPL	Companies Act RII Act	IBSL	2002
Women's Co-op	Cooperative Societies Act	Department of Cooperative Development	1996
WDF	Voluntary Social Service Organisations Act	NGO Secretariat	2000

Source: Supply-side surveys

Although SICL was legally established in 2002, it should be noted here that it was originally established as the All Lanka Mutual Assurance Organisation (ALMAO) in 1991. SICL is yet to comply with the mandatory segregation requirements introduced by the IBSL in 2011. In contrast, CICL and ATPL segregated their life and general insurance operations in 2015. Cooplife was established as a fully-owned subsidiary of CICL. Similarly, Amana Takaful Life Ltd became the fully-owned subsidiary of ATPL. (As noted in 4.1, both the general and life arms of ATPL have been surveyed as one organisation despite their segregation, in contrast to CICL and Cooplife.)

SICL, CICL, Cooplife and ATPL are licensed insurance providers operating under the purview of the IBSL. The Women's Co-op and WDF, on the other hand, can be considered as informal insurance providers as they operate outside the regulated insurance framework in Sri Lanka.

4.2.2 Role of policyholders

Policyholders play a definitive role in mutual and cooperative models of insurance. As such, this section examines the role played by policyholders in terms of decision-making and management, as well as in the design, development, and delivery of insurance products.

a) Ownership, decision-making and management

A mutual insurance provider follows a client-centric model, in which the policyholders (or the insured party) are also business participants (Microinsurance Network, 2015). They traditionally adopt the 'one member, one vote' principle, granting each member equitable ownership and collective power over business decisions (Fischer & Qureshi). Holding a mutual insurance product ideally grants the policyholder ownership rights and the opportunity to participate in the design, development, management, and delivery of products and services (ICMIF, 2016).

In Sri Lanka, formal insurance providers are required to list on a licensed stock exchange. This regulatory requirement was introduced in 2011. However, ATPL is currently the only formal insurance provider among the surveyed organisations to have complied with this law. ATPL is entirely owned by private shareholders with Amana Holdings Ltd and Amana Bank Plc holding 75% of the share capital. However, ATPL is a fairly new player in the microinsurance sector, launching their microinsurance arm in 2014. Their microinsurance products are sold solely to members of societies. Since ATPL's ownership is entirely in the hands of private stakeholders, the policyholders appear to have no direct involvement in decision-making.

In direct contrast to ATPL, CICL is almost entirely owned by cooperative societies. In fact, 99.9% of the share capital is held by 305 MPCs and other cooperative societies. Although the company was initially established to serve the cooperative movement, as at the end of 2015, 50% of CICL's general clientele were from outside the cooperative movement, therefore not all policyholders were members of cooperatives. Policyholders do not have a direct say in decision-making. However, given that 50% of policyholders belong to cooperatives and the fact that CICL's ownership is almost exclusively in the hands of cooperative societies, it is possible to conceive that these cooperatives are in a position to influence the decision-making process. As a fully-owned subsidiary of CICL, similar conclusions could be drawn regarding the policyholders' involvement in Cooplife's decision-making.

Similarly, SICL's clientele comprises of both members and non-members of cooperative societies. Policyholders have no direct involvement in governance, however, cooperatives are represented in their shareholder profile, with 31% of their share capital belonging to Sanasa societies and 9% to the Sanasa Federation. SICL is unique in that their Board members include Chairmen of the shareholder-societies, thus providing room for them to represent the interests of the societal policyholders.

In contrast to formal insurers where shareholders and policyholders hold separate identities, in cooperative societies, shareholders and policyholders are one and the same. As such, policyholders of WDF and Women's Co-op are directly involved in governance and management procedures.

b) Profit-sharing

By definition, the sharing of profits with policyholders is indicative of a purely mutual model of insurance. Any excess revenue contributes towards lowering the cost of the policies (ie lower premiums), or is paid back to the policyholders in terms of dividends, or into improving services and supporting the community as determined by the policyholders (Microinsurance Network, 2015). However, within the regulated sector, the extent of such practices is rather limited. In fact, CICL, Cooplife and SICL do not adhere to any voluntary profit-sharing practices except in the case of their participatory long-term policies as mandated by current insurance legislation (for a detailed discussion refer to Section 5.1). The Takaful model followed by ATPL is a participatory model with an in-built dividend-sharing mechanism. ATPL's policy is such that their non-claimant policyholders are entitled to a portion of their excess surplus after dividends are paid to their shareholders: the amount transferred to the policyholder is determined by the Trustees of the company.

WDF, on the other hand, adheres more strictly to a mutual model, and members (who include policyholders) are entitled to 25% of the profits/surplus in the form of dividends. WDF members are also privy to an additional share of surplus, albeit indirectly, due to WDF's policies such as the allocation of 5% of the profit to the common welfare fund, 8% as incentive for workers, and 1% as workers' health insurance.

Although Women's Co-op follows a member-owned model, they do not have a direct dividend-sharing policy. Rather, the profits are redistributed to members (who include policyholders) indirectly through the welfare services offered to members (profits are invested into providing healthcare, funeral benefits, and education assistance for members' children).

c) Design and delivery of products

A mutual microinsurance provider would typically involve their policyholders in the design and distribution of their products. In this regard, Women's Co-op and WDF can be considered as prime examples. In the case of Women's Co-op, the insurance products are initiated based on identified needs of the member base. Their extensive branch network is employed as the channel in delivering products to members. WDF follows a similar insurance product designing process. Their organisational hierarchy is similar to that of Women's Co-op and their network is mobilised for the distribution of insurance among members.

Contrastingly, the four formal microinsurance providers do not incorporate policyholders in their product designing processes. However, their classification as mutual and cooperative providers is based on their use of CBOs as a channel for microinsurance distribution. CICL accesses some of their clients via cooperative societies that act as intermediaries in the sales process. For example, their agriculture and livestock related insurance products are marketed via farmers' cooperatives. Their subsidiary, Cooplife also follows a similar procedure. ATPL's strategy is somewhat different in that village-level societies are their only channel of distribution when it comes to microinsurance. SICL also employs CBOs as a distribution channel, however, they are unique in that these operations are carried out through their in-built federation of societies (ie the Sanasa Federation) in addition to other CBOs.

4.2.3 Outreach and commitment to serving the marginalised

Mutual and cooperative insurance providers work closely with policyholders. The benefit of such an arrangement is that products and costs are sensitised to the needs of the customers. The organisational form allows for better accessibility in remote areas. Through the use of local societies, premium collection and claim settlement becomes simple and cost-effective. Cooperative insurance is also advantageous to the local community as it acts as a means of saving and capital accumulation, which is generally fed back into the local industries or to improve overall living standards (Fischer & Qureshi). Mutual organisations are better able to interact with the local community and have the opportunity to focus on ethics and broader social responsibility (AMICE). This subsection will examine the extent of the surveyed organisations' geographical reach as well as their commitment to serving marginalised segments of society.

a) Geographical presence

The extent of an organisation's branch network denotes its capacity to access the grass roots. Table 4.2 denotes the geographical coverage of each organisation. It should be noted here that the SICL and ATPL numbers include branches from both their life and general arms. Furthermore, in the case of the four formal organisations, the branches deal with both micro and non-microinsurance. Any comparison related to branch statistics should take into consideration the conceptual differences of the term 'branch' in the formal and informal context.

CICL and its life subsidiary, Cooplife have a combined branch strength of 110, significantly higher than that of SICL and ATPL. With the exception of ATPL, the formal insurers' branch networks extend island-wide. Among the informal providers, Women's Co-op has an island-wide presence, whereas WDF operates only in two districts.

Table 4.2: Geographical outreach of the surveyed organisations

Organisation	Provincial coverage	Number of branches
CICL	All nine provinces	68[18]
Cooplife	All nine provinces	42
SICL	All nine provinces	63
ATPL	Eight provinces (exception – Uva Province)	28
Women's Co-op	All nine provinces	249
WDF	Two districts (Hambantota and Monaragala) in two provinces	110 (Janashakthi Bank Associations)

Source: Supply-side surveys

[18] As of 2018

b) Commitment to serving the marginalised

An organisation's orientation towards serving low-income groups can be derived from its product design and portfolios. This discussion can be further complemented by an analysis of their operational focus in terms of their core values and long-term targets as well as their attitude towards the low-income population as a potential market. These characteristics can be observed to various extents among the selected organisations.

SICL's origins can be traced to their establishment as ALMAO, an amalgamation of FASs, and as such, it can be said that the company was founded with the aim of serving the grass roots. Since then, SICL has identified their target population mainly within the low-income and rural-based communities. In addition they have introduced single-premium products that are specifically tailored for low-income segments who are unable to commit to regular instalment plans. Certain policies give the policyholder the choice to pay premiums monthly, bi-annually, or annually.

CICL was also founded with the aim of promoting the cooperative movement. CICL's management is in line with cooperative principles since the majority of shareholders are cooperatives. Currently, 30% of CICL's insurance products cater to the low-income segments which demonstrate their contribution towards serving marginalised groups. Operating on a similar cooperative basis, Cooplife is likewise able to ensure that the interests of grass root communities are served. The absence of a minimum premium/price floor has also facilitated Cooplife's provision of more affordable products.

On the other hand, ATPL is a comparatively new entrant to the microinsurance industry, having started their microinsurance activities in 2014. Nevertheless, given that their sole approach to microinsurance distribution is via village-level societies, they have a stake in ensuring that their products cater to the needs of the grass roots.

Women's Co-op and WDF are entities that evolved from a community-based framework. Their insurance activities grew out of a necessity to address the needs of the respective communities. Their policyholders are also their members, and are thus in a position to ensure the affordability and the relevance of the insurance products.

4.2.4 Products

A mutual microinsurance product is sensitive to the needs of the policyholders, thus optimising the usage of the pool of funds. WDF is a prime example of this: their insurance product, Divisarana, initially included benefits in the events of marriage and childbirth; however, it was later realised that members face more pressing issues and so the insurance product was adjusted accordingly; 15,851 of WDF members have joined this scheme which provides an array of benefits in the event of death, hospitalisation, surgery, and cancer treatment for a monthly premium of LKR 50 (USD 0.4).

The majority of the microinsurance products offered by the surveyed organisations are life insurance products. Some of these products include additional benefits such as hospitalisation covers and disability benefits. For example, the Samagi Group Term Assurance offered by Cooplife includes an array of benefits such as an accidental death benefit, as well as a disability allowance. Some of the benefits also extend to the family members of policyholders.

Other products offered by the selected organisations include products that cover industry-specific risks: for example, CICL and SICL offer livestock insurance; ATPL has introduced a hull insurance scheme for fishermen as well as an insurance scheme for the dairy farming community; SICL also offers agricultural insurance.

An insurance product catered to the low-income population should ideally be affordable and simple with flexible payment options. Among the surveyed insurance providers' products, the product with the lowest annual premium (LKR 10 or approximately USD 0.07) was offered by Cooplife, while CICL had the product with the highest annual premium (LKR 12,000 or USD 89).

The selected organisations offered various premium payment options to its policyholders. The premium payment schemes are unique in the case of the informal organisations where the payment of premiums is entwined into their membership in the organisation. For example, the health insurance scheme offered by the Women's Co-op requires the member to contribute LKR 100 (USD 0.7) for 60 months in order to reap the full benefits of the scheme; members do not have the option of paying a one-off premium of LKR 6,000 (USD 44): emphasis is placed on building and strengthening the relationship between Women's Co-op and the member.

Low-income households are generally involved in irregular employment and this should be factored into the design of a microinsurance product. SICL can be cited as a good example as many of their microinsurance products are single-premium products; these products are sold to village-level societies which pay the single premium on behalf of their policy-holding members. The society in turn collects the premium from these policyholders on a monthly basis. In terms of affordability and flexibility, Women's Co-op which also offers single-premium products offer the members the option of borrowing from Women's Co-op in order to pay the premium and then repaying the loan in instalments.

4.2.5 Sustainability of the model and potential for growth

The sustainability of a mutual microinsurance model can be denoted by the fact that policyholders are less prone to pursuing risky and speculative activity (Broek, Buiskool, Vennekens, & Horst, 2012). Since the clients and the shareholders are essentially the same, conflict of interest is eliminated. The management is directly accountable to the policyholders, and do not have to face external pressure in servicing capital (AMICE). This hands-on approach to insurance facilitates the delivery of high quality products at a low price and has the advantage of working close to the poor, making it a viable option for the provision of microinsurance. Moreover, mutual microinsurance providers generally maintain a better level of trust and customer satisfaction. They are also more resilient to global economic crises and shocks compared to traditional providers, making it an effective tool for risk management among poorer communities in Sri Lanka (Abeysinghe, 2014).

The financial performance of an organisation is an indicator of its sustainability. Annex Table 9.1 provides information regarding a few selected performance indicators across the surveyed organisations. All selected organisations reported a growth in Gross Written Premium (GWP) from 2014 to 2015 (except for Women's Co-op for which information is unavailable). CICL, Cooplife, and SICL recorded a positive growth in profit (after tax) during that period, with SICL reporting the highest growth (376%). ATPL recorded a loss in both 2014 (LKR 426.5 million or USD 3.2 million) and 2015 (LKR 121.5 million ie USD 0.9 million), although the net loss decreased during the period. WDF reported a negative growth of 47.88% in 2015, with the profit decreasing from LKR 43.8 million (USD 0.3 million) in 2014 to LKR 22.8 million (USD 0.2 million) in 2015. It is important to note here that that these statistics pertain not only to microinsurance business as the formal organisations surveyed are not in the practice of calculating financial indicators for microinsurance business separately. Furthermore, WDF is not in the habit of calculating profit figures solely for insurance activities.

However, the number of microinsurance policyholders was available and was employed for the purpose of comparing the microinsurance business progress of the selected organisations. In the year 2016, SICL had the highest number of microinsurance policyholders (333,700) followed by Women's Co-op where one policy (of the four policies offered) was held by 59% of the total members (ie approximately 59,000 members). The number of microinsurance policyholders of WDF was 15,851 while ATPL and CICL had around 13,000 each. Cooplife had the least number of microinsurance policyholders at 3,832.

Mutual microinsurance and risk management

The risks faced by insurance providers can be broadly grouped into three categories, namely underwriting risk, operational risk, and investment risk. Underwriting risk refers to losses borne by the underwriter (insurer) due to an inaccurate assessment of risk or due to external factors that are out of the control of the insurer (for example, a natural disaster could result in an excess of claims that would not have been accounted for by the underwriter at the time of issuing the policy). Inaccurate risk assessments are caused by an asymmetry of information acting in favour of the policyholder – usually in the form of fraudulent or undue claims. Generally, insurers with inadequate reserves to service excess claims are subject to this type of risk. Operational risks are losses associated with the internal processes of the organisation, including human resources and information systems (Rahardjo, 2014). This type of risk is a consequence of managerial personnel acting against the interests of owners. Insurers could also face operational risks due to failures in management information systems and the inappropriate usage of technology. Investment risk refers to losses arising due to the volatility or uncertainty of a company's return on investment.

A mutual arrangement would mean that the bulk of the risk is borne by policyholders (The World Bank, 2013). Stock companies, in comparison, have better capacity to underwrite high-risk business ventures. Mutual microinsurance providers underwrite more predictable claims such as life insurance, with a significantly lower demand for capital (The World Bank, 2013). They may also be subject to operational risk, especially if the operators only benefit from surpluses but are not liable for any losses, leading to sub-optimal business decisions (The World Bank, 2013). They are also at risk of ownership being limited to a few members, resulting in a weak governance structure (Fischer and Qureshi).

The formal insurance providers considered for this study cited market risks connected to interest rate fluctuations as a major challenge. As premiums are based on long-term interest rates, high interest rate volatilities in Sri Lanka lead to losses when settling large volumes of claims. This has also led to investment risks causing a depreciation in the value of assets belonging to insurers. The formal insurers also referred to the inefficiency of staff members in selling products and collecting premiums. For instance, CICL involves employees of cooperative societies in collecting premiums and updating their online system. Despite frequent training, CICL's management has very little control over these inexperienced employees and this has led to numerous delays and inefficiencies in daily operations. The informal providers cited theft and misuse of funds as a major operational risk. These mutual organisations operate on trust, and they have limited capacity to impose legal action or demand compensation from these members to recover the costs.

The six surveyed mutual insurers have adopted various strategies to safeguard themselves against these recurring risks. The regulatory framework in Sri Lanka ensures the transparency of business transactions and management procedures, thus mitigating the underwriting and operational risks faced by regulated insurers to a large extent. The IBSL requires all regulated insurance providers to maintain adequate reserves to service claims. In addition, they are expected to obtain reinsurance from licensed reinsurers (see Section 4.1 for further details).

The NITF is the only national reinsurer in the country. All general insurers are required to place 30% of their liabilities with the NITF. All formal insurance companies (both life and general) selected for this study have placed their reinsurance with international reinsurers as well (as mandated by the IBSL). CICL, Cooplife, and SICL place their reinsurance with companies such as Hannover Re and GIC (General Insurance Company of India); ATPL has entered into reinsurance treaties with companies such as Swiss Re which offers retakaful options.

Informal insurance providers, on the other hand, do not have the resources to engage with formal reinsurance companies, nor are they legally compelled to do so. They have employed alternative risk mitigation strategies to minimise losses. For instance, Women's Co-op ensures that funds are managed within the small groups: the group leaders are responsible for the utilisation of the collected funds. Thus, the misappropriation of funds by any member may affect the group, but has little to no effect on the organisation as a whole. Moreover, the fact that these funds are collected for the mutual benefit of every member minimises the misuse of funds.

Asset management

Asset management and investment practices contribute towards the sustainability of an organisation and as such this section examines relevant strategies employed by the surveyed organisations.

In the case of ATPL which follows a Takaful model, there are many conditions placed on where the company chooses to invest. As a Shari'ah compliant entity, the management has to ensure that they invest in shares of companies that do not have sources of income from gambling, tobacco, alcohol and interest income. Moreover, they are only allowed to invest in Shari'ah compliant funds.

This is further complicated by the insurance regulations which mandate that 30% of the investment income of insurance companies must be invested in government securities; as interest income is prohibited, ATPL is unable to withdraw any returns from this investment. The inability to reap the benefits of a rise in interest rates has put ATPL at a disadvantage with its competitors.

SICL also identifies investment related regulations to be a challenge; for example, per insurance guidelines, investing in government securities is considered risk-free but if the company decides to invest in a licenced bank, there is a risk component which would lead to an increase in the RBC requirements. This hinders the company's ability to benefit from changes in the interest rates. Furthermore, insurance companies cannot lend money, they can only invest their excess income. As SICL opined, this would be beneficial in a situation where interest rates are rising, but decreasing interest rates could be problematic, especially considering that insurance products are designed based on a fixed rate of interest which is projected 20-50 years into the future and actuarial certificates are not issued on an annual basis.

Informal insurance providers, on the other hand, have more freedom in managing their assets and excess income as evinced by Women's Co-op where the main form of investment is lending to members; excess funds are invested in bank deposits.

Future prospects

This section examines the future direction of the surveyed organisations in terms of their microinsurance activities.

As a new entrant to the microinsurance industry, ATPL believes there is considerable scope for expanding their microinsurance activities. Currently ATPL accounts for 9% of the formal insurance industry, and 40% of ATPL's income is from the non-Muslim sector. Their survey-based approach to product design has revealed that policies such as health insurance, boat insurance, funeral insurance, and life insurance policies for families are in high demand.

CICL is planning on developing an agricultural insurance product with the support of the DFCC Bank and the Regional Rural Development Bank and has sought technical assistance from their reinsurer for this purpose. CICL has further recognised the potential of the SME sector as a target microinsurance market.

On the other hand, Cooplife has adopted an innovative strategy to promote the sales of their microinsurance products. Cooplife has identified that in the case of microinsurance, insurance agents are less willing to collect low premiums. In order to address this inefficiency, Cooplife has recently introduced a mobile platform for premium collection. Customers are however still adapting to this system.

SICL finds that, in order to expand their microinsurance activities, they need to activate a new network of societies in the country. There are currently discussions on the possibility of merging SICL with the Divineguma Social Protection programme which would award them access to a ready-made and extensive network of CBOs[19]. In keeping with global developments in the insurance industry, SICL has been the pioneer in the introduction of index-based insurance in Sri Lanka, in the form of their weather index-based crop insurance scheme; this is currently operating as a pilot project, based on the success of which, the product will be launched on a larger scale.

In the case of the two informal insurance providers, there are plans on increasing the membership. However as insurance, for both these organisations, is one of several welfare schemes for their members (as opposed to the main line of business in the case of the formal providers), there are no direct plans to increase insurance coverage. Especially, in the case of the Women's Co-op, there are plans to increase the membership from 100,000 to 300,000 with the assistance of the government.

[19] The Divineguma/Samurdhi network consists of around 40,000 village level societies operating in all 25 district with over 3 million members

5.0 DEMAND FOR MUTUAL AND COOPERATIVE MICROINSURANCE IN SRI LANKA

In order to assess the demand for mutual microinsurance among low-income households, 12 focus group discussions (FGDs) were conducted in 12 districts and seven provinces across the country (Table 5.1). The purpose of the FGDs was to determine the risks faced by low-income households as well as to understand the risk protection strategies employed by these households. In addition, our discussions aimed to identify major challenges to insurance penetration in the market as well as the perception and experience with insurance among low-income households in the country. Each focus group consisted of approximately nine to 12 participants.

Table 5.1: FGD locations by province, district and division

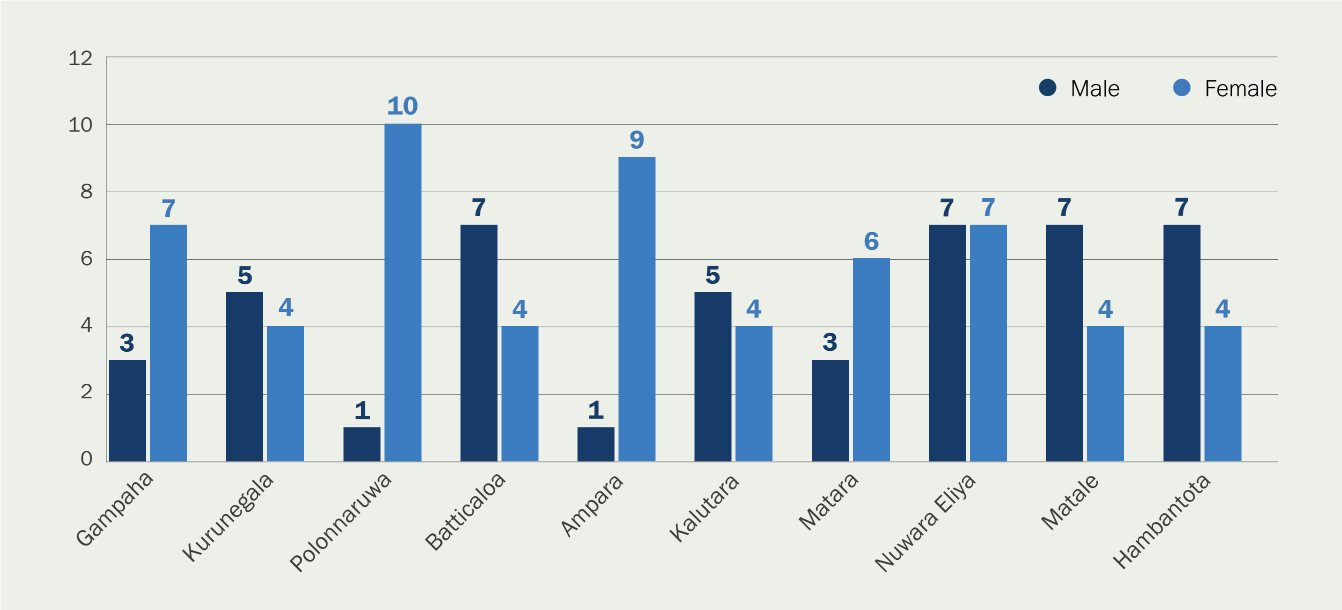
Province	District	Division
Western	Gampaha	Kirindiwela
Western	Kalutara	Egaloya
North Western	Kurunegala	Weerambugedara
North Central	Polonnaruwa	Medirigiriya
Eastern	Batticaloa	Kiran
Eastern	Ampara	Uhana
Southern	Hambantota	Ambalantota
Southern	Matara	Eduwa-Maduwa
Central	Nuwara Eliya	Nuwara Eliya
Central	Matale	Dambulla
Northern	Kilinochchi	Jayapura
Northern	Jaffna	Ariyalei

5.1 Demographic profile of participants

Participants from low-income households were selected with the guidance of local government officials present at the grass root level. Out of the total number of participants, the majority were female (56% of participants were female, while 44% of participants were male). Figure 5.1 provides a comprehensive overview of the gender breakdown of participants in each district.

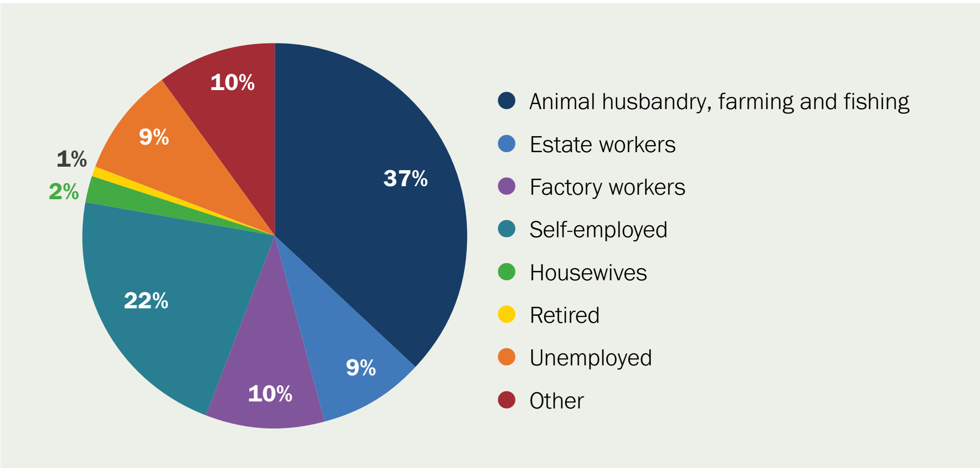
A disaggregation of participants by age reveals that the majority were between the ages of 40 to 60. As demonstrated by Figure 5.2, a large percentage of the participants were engaged in agriculture and fishing, with 10% employed as factory workers, and 9% as estate workers.

Figure 5.1: Breakdown of participants by gender in each district*



** Excludes Northern Province due to unavailability of data*

Figure 5.2: FGD participant by occupation*



** Excludes Northern Province due to unavailability of data*

Nature and scope of FGDs

Throughout the FGD, questions were raised to gain an understanding of participants' perception of and experiences with insurance. Examples of questions contained in the demand side questionnaire include:

- What are the risks that you and your household mostly face (or have faced during the last year or so)? How do/did you manage these risks?
- Are there any other welfare societies in the village? What are they? How many of you are members of these societies? What are the benefits and payments?
- What do you know and think of insurance/microinsurance? How important do you think insurance is in helping you to deal with your risks?
- Who amongst you hold any insurance policies from insurance companies?

- What are the reasons for you not to use insurance as a risk management mechanism?

Based on the structure of these questions, our findings are grouped under three major sub headings: risks and risk management strategies, awareness of and experience with insurance, and major constraints to insurance adoption.

5.2 Risk and risk management strategies

5.2.1 Risks

According to our findings, risks faced by low-income households can be categorised under two main sub-themes; a) livelihood risks; and b) personal risks. Livelihood risks varied across districts and were dependent on the primary occupation in the district. For example, among farming communities, it was noted that indeterminate weather conditions and threats from wild animals caused the most significant threats to livelihood. In nearly every district, participants cited floods and droughts as a major risk to the community. Participants in these communities also faced threats by wild animals who caused significant crop damage. For instance, peacocks were cited as major threats to farmers in the Dambulla, Kalutara and Hambantota districts, while elephants were frequently cited as major threats to livelihood in Ampara and Batticaloa districts.

Fishing communities such as those in Batticaloa also cited adverse weather conditions as a major risk. According to participants, excess rain impeded their ability to fish at certain times of the year due to flooding in the lagoon. It was noted that during these times, some fishermen turned to agriculture to mitigate shortfalls in income.

Box 4: Risks faced by low-income households in Sri Lanka

Livelihood risks:

a) Vulnerability to fluctuations in the weather as well as climate related extreme events

b) Threats from wild animals (eg birds feeding on harvest, animal attacks)

Personal risks:

a) Death

b) Disability

c) Hospitalisation

Surprisingly, those who were not engaged in either fishing or farming activities also noted risks faced by fluctuating weather conditions. For example, coconut oil producers and spice sellers in Matara underscored the importance of good climate conditions for the success of their businesses. Other risks cited by participants across districts include landslides and death of livestock.

"I make coconut oil. I use unripe coconuts to make oil. The climate change affects me a lot. I dry the coconuts in the sun so the weather matters a lot."

Female participant, Matara

Unlike risks to livelihood, we found that personal shocks were common to all participants, irrespective of geographical region or other demographic characteristics. Across all districts, households were affected by family-related shocks such as disability or death of a family member or primary income-earner. This discovery is consistent with studies such as Galappattige et al (2011), which showed that family-related shocks were the most common among poorer segments in the country. In addition, we found that health shocks and their associated medical costs were also revealed as significant sources of stress among low-income households.

5.2.2 Risk mitigation mechanisms

According to our findings, the primary risk management strategy adopted by low-income households was the utilisation of financial services offered by both formal and informal financial institutions. Borrowing was the most common practice among a vast majority of participants. However, the types of loan, loan amounts and preferred loan institutions varied across districts. For instance, in Ampara, the majority of participants took out loans in small groups from community-based societies such as women's societies and Samurdhi societies. In other districts such as Dambulla and Batticaloa participants turned to more formal financial institutions. In nearly all districts we found that participants also relied heavily on informal loans from friends and family.

In many instances, participants noted significant difficulties in paying off loans, typically because of high interest rates. It was revealed that, as a result, many participants were forced into borrowing from other institutions to pay off current loans.

"What happens to most women is that they borrow from one person and borrow from yet another person to pay off that debt. So it's a never-ending cycle. So the income of the household isn't left for the children. These lenders get all the money."

Female participant, Polonnaruwa

Asset pawning was another important risk coping mechanisms among participants. During periods of income shortfalls, a significant number of families pawn gold jewellery in order to mitigate risk. We found this to be particularly common in the Nuweraeliya and Mullaitivu districts.

"These days, the cows haven't given birth to any calves, so there is no milk to sell; no means of making money. Because of this, I have had to pawn my jewellery and find some money."

Female participant, Polonnaruwa

Membership in community-based organisations (CBOs) was another notable risk management strategy adopted by individuals in these communities. CBOs such as funeral aid societies (FASs), women's societies and elderly societies were active in nearly every district and played a key role in the provision of social assistance. It was evident that these community-based networks played a pivotal role in meeting the needs of households during times of hardship and loss.

We found that FASs were among the most active and popular organisations at the village level with a high degree of participation due to their need based approach of providing assistance. In the event of a death, the local FASs donated money and provided essential items such as tents, chairs and food in order to supplement funeral costs. We found that FASs were active in nearly every village community, although their structure and reach varied from organisation to organisation. It was evident that FASs were viewed as a huge source of relief among these low-income communities.

Other organisations such as women's societies also played a key role in social protection in the village. These organisations were primary sources for loans in the community. Many of our FGDs revealed a clear preference for borrowing from the women's societies due to a higher level of trust placed on these organisations. Typically, loans from these organisations were also more affordable due to lower interest rates. A detailed description of select CBOs, and their services, is provided in Table 5.2.

Table 5.2: Profiles of select informal CBOs

District	Name	History and structure (membership fee)	Benefits/services
Hambantota	Farmers' society	Established in 1960. Members pay a membership fee of LKR 100 (USD 0.7) per year	Construction of roads, water pipes and other pathways in the fields
	Funeral aid society	Membership fee: LKR 300 (USD 2) in the event of a death	Monetary compensation of LKR 6,000 (USD 44); provision of chairs/benches
	Women's society	Current membership: 28. Members meet monthly	Provision of loans with low interest rates, life-skills training programmes for members (eg cooking, weaving), monetary compensation in the event of death
Kurunegala	Funeral aid society	Members pay a membership fee of LKR 25 (USD 0.2) per month and LKR 200 (USD 1.5) in the event of a death. Current membership: 150	Monetary compensation of LKR 5,000 (USD 37) in the event of death; provision of chairs, tents and food to help with funeral related costs
Polonnaruwa	Funeral aid society*	Established in 1976. Current membership: 200. Membership fee dependent on the level of membership (typically ranges from LKR 100 – LKR 450 or USD 0.7 - USD 3)	Monetary compensation depending on the level of membership ranging from LKR 20,000 - 130,000 or USD 148 – USD 963; provision of chairs, tents and other funeral related items
Dambulla	Elders' society	Current membership: 110. Membership fee: LKR 20 (USD 0.1) per month	Organise religious pilgrimages, donate a sum of money (typically LKR 3,000 or USD 22 in the event of death)
	Funeral aid society	Membership fee: LKR 70 (USD 0.5) a month; initial membership fee: LKR 20,000 (USD 148)	Monetary compensation; provision of chairs and tents and donation of coffin
Kalutara	MILCO	Members have to provide milk for three months in order to be eligible for membership in the society	Monetary compensation of LKR 50,000 (USD 370) in the event of the death of a family member
	Funeral aid society	Membership Fee: LKR 100 (USD 0.7)	Provision of food, flags and tents
	The Shakthi (Tea Society)		Provision of loans to members
Ampara	Funeral aid society	Current membership: 50. Membership fee: LKR 1,000 (USD 7) every six months (each harvesting period)	Monetary compensation of LKR 15,000 (USD 111), meals and assistance digging the grave
	Women's society	Membership fee: LKR 10 (USD 0.1) per week and LKR 200 (USD 1.4) per month	Provision of loans in small groups to members
Matara	Funeral aid society	Membership fee: LKR 60 per (USD 0.4) month or LKR 700 (USD 5) annually	Monetary compensation of LKR 10,000 (USD 74) in the event of death and provision of tents and cooking pots
	Elders society	Membership fee: LKR 120 (USD 0.9) annually	Monetary compensation of LKR 1,200 (USD 9) in the event of a death

Interestingly, we found that women had the highest rate of participation in these CBOs. This was especially notable in the Gampaha and Polonnaruwa districts, where women were responsible for and active in almost every village level society.

5.3 Usage and awareness/knowledge

5.3.1 Insurance usage

Out of the total sample, only 18% of participants were currently insurance policyholders. 82% were no longer policyholders, or had never been insured before. A disproportionate percentage of the sample had no previous experience using insurance. Our findings reveal that life insurance and health insurance were the most popular policies adopted by low-income households. It was further revealed that most participants' experiences with insurance was in the form of loan protection.

5.3.2 Awareness and perception

Our findings indicate some awareness among participants of the existence of insurance products. However, in many instances, it was evident that awareness did not translate into a comprehensive understanding of how insurance worked. Surprisingly, we found that participants who had previously held insurance policies were also unaware of exactly how the schemes worked.

The lack of understanding was a major source of frustration among participants. For instance, in many districts participants were not aware that infrequent payments would lead to a lapse in coverage. As a result, many discontinued payments with the hope of resuming payments when they could afford it again. In other instances, we found that participants had limited knowledge of the conditions and circumstances under which the insured will be compensated. Many expressed frustration at the inability to claim benefits.

"We were only able to pay the premium for two months and then we stopped. But we lost cover because of that!"

Female participant, Polonnaruwa

"Sometimes, if we can't show them a receipt, we don't get the money. That is when we fall into trouble."

Female participant, Dambulla

"I don't have insurance. My husband bought a policy around 15 years ago, but we couldn't continue to pay the premium. Now we don't even have the money that we already paid."

Female participant, Polonnaruwa

Despite the lack of understanding of insurance mechanisms, however, it was evident that participants had good knowledge of the insurance providers who operated in the region. Table 5.3 provides a comprehensive overview of some of the insurance providers mentioned in the FGDs.

Table 5.3: Active insurance providers

Name	Active districts
LOLC	Polonnaruwa, Gampaha
Janashakthi	Hambantota, Polonnaruwa
Commercial bank	Hambantota, Polonnaruwa,
Sri Lanka Insurance	Matara, Kalutara
Ceylinco	Matara, Hambantota, Ampara, Kalutara
AIA Insurance	Hambantota, Kalutara
Corporative Insurance Company	Kilinochchi

With respect to perception, we found that participants did not feel it was important to utilise insurance as a risk management strategy. Many felt that insurance was not beneficial to them in the long run. This can be attributed to the fact that low-income households are forced to prioritise their immediate needs over the potential costs associated with risks in the future.

"That is the problem. Sometimes we don't have money to eat, so if we don't pay regularly we will not get anything. So, insurance is of no use to us."

Male participant, Kilinochchi

Furthermore we found that overall participants had negative experiences with insurance agents, which has further contributed to a reluctance to purchase insurance policies. Participants cited many instances where insurance agents sold false policies to members of the community. It was revealed that in many instances, members of the community were unable to locate the agents, or their offices, once they had been sold the policy. Table 5.4 illustrates some of these shared experiences which had negatively affected their perception of insurance in their districts.

Table 5.4: Experiences with insurance agents/companies

ANECDOTES

"There is a corporation called Best Life, they recently opened an outlet here in Dambulla. They operate outside of the law and many people get caught out by them (mostly women). I tell people not to go there. It's a pyramid scheme organisation and after sometime, you don't find their offices."

Male participant, Dambulla

"I will never get caught out by them (insurance agents) again. They come from house-to-house to sell policies. They come to collect the premiums, and after some time, we can't even find them, we cannot even find their office."

Male participant, Kurunegala

"I have a friend in Hambantota who bought a policy from an agent. She tried to contact them, but no one answered the telephone numbers that were given. She even went to the office, only to find out that it had been closed down."

Female participant, Hambantota

"Yes, that happened to me as well. I paid around LKR 5,400 (USD 40) and then they (insurance agents) never came back. Now every time someone comes to our house, we chase them away."

Female participant, Gampaha

"One family who lived here moved to Vavuniya where one girl committed suicide due to the misbehaviour of an officer. He came many times to collect the installments when the girl was alone at home. The people in the area started talking badly about the girl."

Female participant, Mullaitivu

"One of the other members of the village convinced me to get the policy. He said it was a good thing to have insurance. When I lost my money, I went to his house and told him off. Now he also doesn't fall prey to these agents. I took his word for it because he was one of the villagers."

Female participant, Gampaha

Notwithstanding these negative experiences, we found some cases where the participants acknowledged the benefits associated with insurance.

"A young man in the village passed away recently. He had a life insurance policy so his wife received 7 lakhs[20] from the insurance company. In situations like this, that kind of money is very important. His wife was unemployed, and had never worked before so this was a huge source of relief to her."

Female participant, Dambulla

"I think it's good to have insurance, but it's difficult to buy insurance and pay premiums regularly. I would buy it if the premiums were cheaper."

Male participant, Matara

Despite this knowledge and acceptance, however, it was evident that the majority of participants were still unconvinced of the necessity to purchase insurance policies.

5.4 Major constraints to insurance adoption

Overall, we found insurance penetration to be very low among low-income segments of the population. Our findings suggest that the lack of affordability is the biggest impediment to the adoption of insurance. Volatile income patterns prevent the poor from being able to pay high premiums consistently, and force them to prioritise their immediate needs over future risks. Even in instances where participants acknowledged the benefits of insurance, they collectively agreed that unpredictable income patterns prevented them from considering insurance as a viable risk management option.

"A lot of people do not have the opportunity to buy insurance. They don't have a permanent job and it's difficult to pay premiums. They do small, temporary jobs and use it for subsistence. They are unsure if they can pay premiums so tend not to get insurance."

Male participant, Kurunegala

The lack of trust stemming from negative experiences was also a significant reason why participants were reluctant to take out insurance policies (see Table 6.4 for examples).

In addition, we found the provision of government welfare services weakened the demand for insurance among low-income households. In almost all of the districts, participants relied heavily on social protection schemes and welfare services administered by the government. For instance,

[20] *LKR 700,000 or USD 5,185*

the majority of participants took advantage of the universal healthcare system, while many were recipients of Samurdhi, the government's major social protection programme. The reliance on government services and assistance in times of emergency negated the need for insurance. Furthermore, participants were of the opinion that it was the government's duty to provide them with adequate compensation in times of hardship, despite the fact that many agreed that government assistance had been inadequate in the past. This culture of reliance contributes considerably to the lax attitude toward insurance among the poor.

Finally, we found the existence of informal community-based networks to be a significant reason why low-income households do not feel the need to take out insurance from formal insurance companies. As discussed previously, community level organisations play a key role in providing important social services to members of the community. This has, in turn, rendered the importance of insurance as a social protection mechanism.

"I was hospitalised in December. I was paralysed and I couldn't speak. I didn't have much money, but everyone in the village helped out. They all came to see me. That's what it is like around here – people might be poor, but they won't hesitate to help. Not just people, but also societies and CBOs. Some even forgave my loans. There is a real sense of community. There is no rich/poor divide; if someone dies, the FAS will definitely help out. The government does not help us; we depend on the good will of the people of this village."

Male participant, Dambulla

5.5 Conclusion

It can be concluded from the research findings that low penetration in the microinsurance market is attributed to the target-population's inability to meet premium payments due to volatile income patters, lack of trust and awareness due to negative experiences with insurance agents, and the strong presence of grass root level community-based networks. As such in order to improve insurance penetration, it is important to bridge gaps in knowledge and build trust to dispel existing negative attitudes towards insurance providers.

It could be inferred from the demand-side analysis that there exists a gap for livelihood related microinsurance in the market. Low-income households which depend heavily on irregular/seasonal forms of income cited many risks to their livelihoods which exacerbate their vulnerability. As varied as the specifics of the reported risks were, it is possible to identify two common livelihood-related risks faced by many of these communities; i) wild-life related risks, and ii) climate-related risks. The presently available agriculture microinsurance schemes (both public and private) appear ineffective in addressing these vulnerabilities, as most FGD participants expressed unawareness or disdain towards them.

Furthermore, the reliance of community-based networks as a prominent risk-management strategy among these households signals the potential for introducing and extending mutual and cooperative microinsurance activities among these communities.

6.0 CHALLENGES, CONSTRAINTS AND RECOMMENDATIONS

6.1 Challenges and constraints to the provision of microinsurance

A major constraint hindering the growth of the microinsurance sector is the lack of policies and regulatory mechanisms to facilitate microinsurance. Reviews of available literature, as well as discussions with suppliers of microinsurance providers agree that the lack of provisions in insurance law for microinsurance in Sri Lanka is a major concern. Current regulatory requirements are arguably more suitable for traditional providers and could be considered too stringent in the case of smaller scale microinsurance providers. According to a study conducted by BASIX Consulting (2016), minimum capital and reinsurance requirements have prevented registered insurers from entering the microinsurance market: currently, the minimum capital requirement is LKR 500 million (USD 3.7 million) and 30% of a registered insurer's liabilities should be placed with the national reinsurer, NITF. Insurers who are currently involved in microinsurance also found these stringent regulations to be a disincentive to expanding these microinsurance activities. For example, additional high costs associated with recently introduced regulatory requirements such as Risk Based Capital (RBC) regulations, and the segregation of life and general insurance businesses were cited by microinsurance providers as key regulatory hurdles deterring them from expanding their low-premium business ventures.

These concerns were shared by the formal cooperative and mutual microinsurance providers in Sri Lanka. However, the informal mutual and cooperative microinsurance providers' insurance activities are not thus hindered by regulatory concerns. Nevertheless, the prospects for insurance business expansion are rather limited for these organisations. A key reason for this is their reluctance to partner with formal insurance providers. For example, by opting for a group insurance policy which could result in risk transference to a third-party, improving financial sustainability and capacity; many informal, community-based organisations feel that the profit-maximising outlook of formal insurance companies is potentially damaging to their welfare-maximising endeavours.

Formal insurance suppliers (including mutual and cooperative microinsurance suppliers) further cited the nature of the government's presence in the microinsurance industry to be a deterrent to expanding their microinsurance business. For example, AAIB, the main role of which is to provide agricultural insurance has now entered the motor insurance market as well, while the national reinsurer, NITF has also entered the market as an insurance provider. Insurance companies in the private sector find it difficult to compete with such government bodies that can provide services at subsidised prices. Furthermore, low-income households are habitually highly reliant on government assistance in times of disaster; they expect government aid as a matter of course, and thus are not motivated to purchase insurance to face possible risks.

In addition to the government's assistance, low-income households were found to be highly reliant on community-based networks as a risk management strategy. The high level of social organisation in village communities points to the availability of room for growth for mutual and cooperative microinsurance providers, yet to be fully exploited. This can be explained by the fact that the success of these organisations is extremely dependent on the integrity of the members. The risks of these informal organisations are not transferred to a third-party, and are completely borne by the members. One dishonest member can create considerable trouble for the entire organisation. This has resulted in these organisations exercising extreme caution when extending the member-base.

The low demand for insurance among low-income households also contributes to impeding the growth of the microinsurance industry. A major reason for the low demand is the lack of insurance awareness among low-income households. Additionally, these households express high levels of mistrust towards insurance companies due to past experiences. Furthermore, the microinsurance industry targets the low-income households which can often be characterised by highly irregular and seasonal income patterns; the inability of such households to commit to periodical premium payments has also contributed to shrinking their demand for insurance. In addition, the high level of social organisation in the country's grass root level, denoted by the strong presence of community-based networks has also mitigated the need for formal insurance (including formal mutual and microinsurance) as a risk management strategy.

As a business venture that involves direct human interaction, the quality of human resources play a key role in the success of insurance business. This is particularly important in the case of microinsurance business where the field officers may be the only form of contact and information for low-income households in rural areas. However, interviewed microinsurance suppliers found the current availability and quality of human resources to be less than satisfactory. One provider also felt that microinsurance business was not sufficiently profitable to offer employees attractive benefits in order to improve retention rates within the company. The usage of technology in the microinsurance industry also seems rather low and out-dated. The formal providers of mutual and cooperative microinsurance also face these challenges.

However, interpersonal relationships are a strong-point for informal providers of cooperative and mutual microinsurance. Nor are they hindered by the problem of low-compensation, as the employees are generally also part of the organisation. Nevertheless, a major human resources issue faced by informal organisations is the lack of technical knowledge and expertise.

6.2 Policy implications and recommendations

- **Defining microinsurance:** New developments in the microfinance sector and the large presence of microinsurance within the formal and informal sector indicate the need for a proper definition and classification for microinsurance in Sri Lanka. This would significantly help promote better participation in microinsurance and help improve the overall penetration levels.

- **Special regulatory provisions for microinsurance:** Across the world, regulatory requirements for traditional insurers are too stringent for microinsurance providers. Thus, creating a level playing field for microinsurance by employing a 'light-touch' regulatory approach may be favourable to all providers of microinsurance and incentivise better participation from both the formal and informal spheres. A 'light touch' regulatory approach would mean that stringent capital requirements, restrictions on owners and employees, and strict operational procedures will have to be relaxed to a certain extent (in a manner that doesn't compromise the interests of policyholders and the development of the industry). In order to facilitate such supervision, the IBSL will have to improve its network by opening up branches or units across the island. This would also mean that microinsurance activities will have to be managed separately to that of regular insurance.

- **Supervision of the informal sector:** The regulatory discrepancies with regard to informal insurance providers need to be addressed. The informal sector comprises of an opaque pool of insurance providers whose reach and strength is unknown. They have been offering insurance services for years without regulatory constraints or interruptions. Although some of them have been successful in catering to the needs of the poor, their capacity to take on high risk is uncertain. It is important to have a supervisory or reporting/disclosure mechanism that would allow them to monitor the activities of these informal providers, without imposing strict regulation that would impede their activity.

- **Minimising the overlap between government initiatives and formal insurance activities:** The competition between private and public providers demonstrates a need for clear distinctions for the type of insurance business the two sectors are allowed to engage in (to avoid an overlap). Drawing this distinction could, to a certain extent, prevent the duplication of insurance services and promote the design of diverse products to suit the needs of the marginalised. In setting such boundaries, the capacity of the insurance provider in terms of efficiency in serving the public should be considered. The capacity of a sector or insurance company to provide a certain class or sub-class of insurance should be judged in terms of available resources, distribution networks, efficiency in servicing claims, and capacity to underwrite risk, without any bias towards a particular group of insurers or sector.

- **Bridge gaps in knowledge:** Low-income households would benefit greatly from financial literacy programmes and awareness campaigns which aim to expand community knowledge on the benefits, terms and conditions of insurance products. Effective distribution channels such as TV, radio, and social media should be utilised to disseminate such information. Furthermore, insurance companies should also take on a bigger role in developing key campaigns to educate the public.

- **Build trust:** In order to dispel existing negative stereotypes of insurance, providers should maintain open communication lines with customers. Regular contact, check-ins and greater customer care services would help build trust in the services offered by insurance companies. In addition, insurance providers should ensure the effective training of agents, who are most often the distribution channel for insurance products.

7.0 SUMMARY

Undertaken as part of the ICMIF's *5-5-5 Mutual Microinsurance Strategy*, this country diagnostic report analyses in depth the mutual and cooperative microinsurance landscape in Sri Lanka in terms of the regulatory framework, demand, and supply.

Through a perusal of insurance legislation and discussions with relevant government officials, the report concludes that mutual and cooperative microinsurance is a sector that has been overlooked in the current regulatory framework. First and foremost, there is no official definition of 'microinsurance', requiring microinsurance providers to comply with the same set of stringent legal requirements as traditional insurance providers; the present insurance legislation does not make any allowances for microinsurance providers whose lower premium products would invariably result in a lesser premium income per product compared to traditional insurance providers. However, nor does the current legislation actively prevent the operation of microinsurance business; the model of mutual and cooperative microinsurance is not addressed in the country's insurance legislation, but in the case of informal mutual and cooperative microinsurance providers (ie entities that are not regulated by the Insurance Board of Sri Lanka) the relevant legislation has allowed them the space to carry out any activity that benefits its members, even though the subject of insurance is not specifically addressed. This has led to the perpetuation of informal microinsurance activities carried out by community-based organisations (CBOs), beyond the scope of the formal insurance industry regulation.

As a result, the research found two main types of mutual and cooperative microinsurance providers in the country: i) formal insurance providers who have incorporated microfinance institutions, CBOs, and other village level societies in reaching low-income households and, ii) CBOs that operate microinsurance schemes as a venture aimed at improving member welfare. In order to explore the nature of mutual and cooperative microinsurance supply in Sri Lanka, this study surveyed six such providers: four formal insurance providers and two CBOs. A main thrust of this exploration was to identify the extent to which these organisations conform to 'mutual' features. The CBOs appear to adhere more closely to mutual features in that the ownership, decision-making powers and day-to-day management rest in the hands of the members of the organisations who are also the intended insurance policyholders. This is in contrast to the formal organisations where the CBOs were generally employed as a channel for delivering microinsurance services.

The study next undertook an analysis of the demand-side dynamics of mutual and cooperative microinsurance among low-income households in Sri Lanka via a series of FGDs covering 12 districts and seven provinces around the country. These revealed that low-income communities are highly vulnerable due to livelihood risks and personal risks. Their demand for formal insurance is tempered due to low awareness and lack of confidence. Instead, these communities rely on community-based networks for risk management (eg funeral aid societies) which points to the existence of untapped potential in the market for mutual and cooperative microinsurance. In the face of unexpected events, these communities would resort to borrowing money or pawning assets, or await government assistance.

The report recommends that in order to promote microinsurance coverage in the country, it is necessary to absorb the microinsurance sector in the formal insurance regulatory framework; key steps towards this would be to provide an official definition for 'microinsurance' and offer special regulatory provisions for microinsurance suppliers. It is further important to address the regulatory discrepancies with regard to informal insurance providers, ensuring that such organisations are also supervised in order to protect the interests of policyholders as well as the stability of the entire industry. Additionally, the study recommends minimising the overlap between the government's insurance-related initiatives and formal insurance activities. Finally, given the patent benefits of insurance to vulnerable, low-income households, it is necessary to improve knowledge and awareness on insurance, while also building trust between low-income communities and insurance providers.

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ANNEX A

Case study 1: Sri Lanka Women's Development Services Co-operative Society

Overview of the organisation

- **Reason for introducing mutual microinsurance:** To ensure member welfare by improving their ability to face unexpected events
- **Geographical coverage:** Island-wide (all nine provinces)
- **Unique mutual/community-based feature:** This is an entirely member-owned organisation for women and the profits are redistributed among the members indirectly via an array of welfare schemes
- **Organisation's willingness to scale:** Projected increase of membership from 100,000 to 300,000
- **Number of current members:** 100,000 (approximately)
- **Uninsured members:** Contribution to the insurance schemes is voluntary
- **Member profile:** Women from low-income households around the country

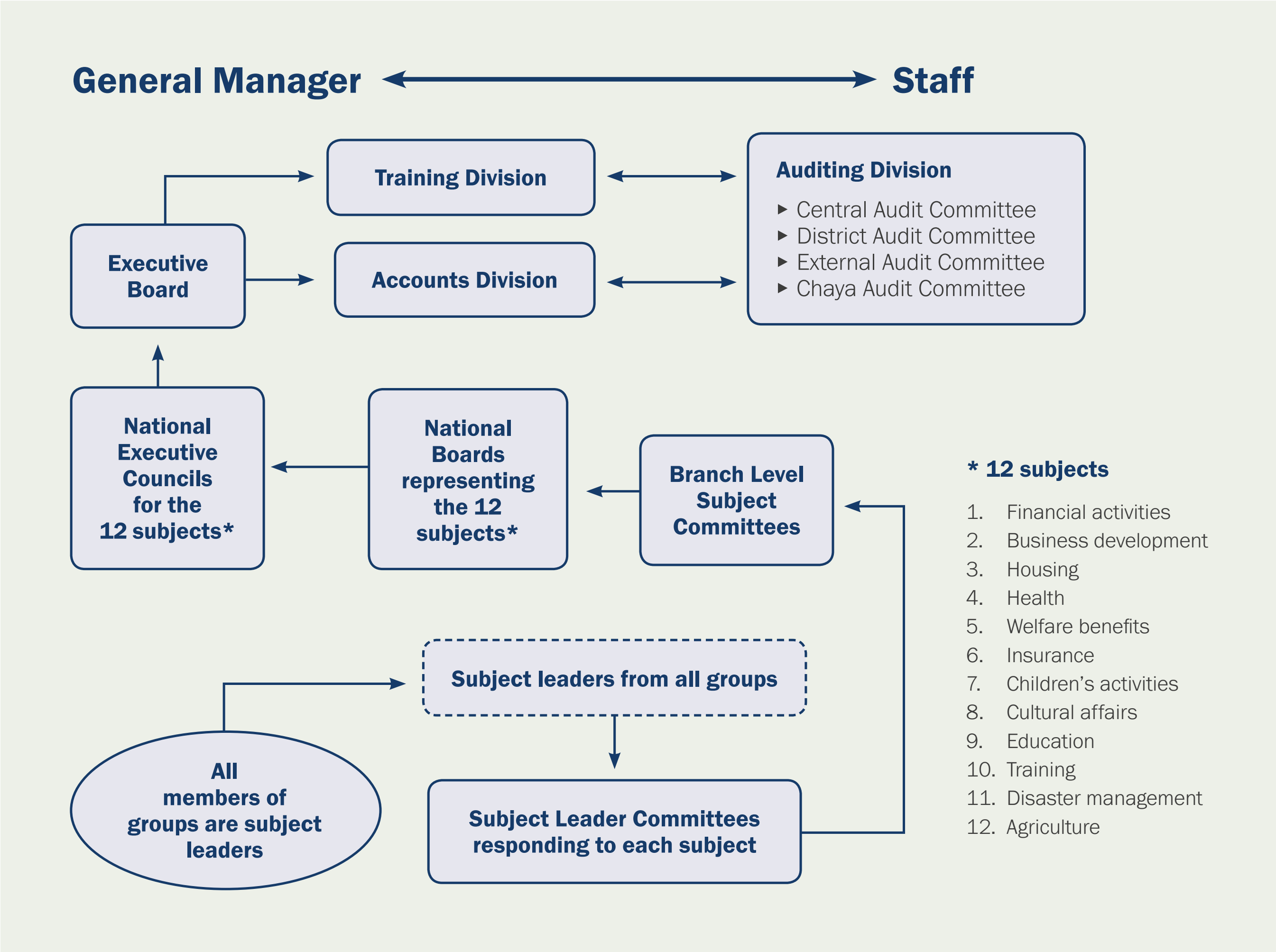
Brief overview of the organisation

Sri Lanka Women's Development Services Co-operative Society (Women's Co-op) was initially established in 1989, and was nationally registered under the Cooperative Societies Law No 5 of 1972. Currently, it comes under the purview of the Department of Cooperative Development. The organisation aims to alleviate poverty at the household level via female empowerment. The organisation was founded by Mr Nandasiri Gamage, who is currently the General Manager of the Women's Co-op.

Women's Co-op is a thrift and credit cooperative society which has evolved into undertaking several other programmes aimed at improving the welfare of its members; these include livelihood development activities, children's education activities, the establishment of health centres, and the establishment of a disaster management fund as well as several insurance programmes, all of which are funded by the accumulated funds of the organisation. The Women's Co-op, which was initially established with eight members, currently has a membership base of around 100,000 women island-wide.

The basic unit consists of five-15 women who create a group at the village level. Approximately 10 such groups create a Women's Co-op branch; currently 169 branches have been established around the island. Since the inception of the organisation, every member is required to save LKR 5 (around USD 0.04) on a monthly basis, and today Women's Co-op has accumulated around LKR 6 billion (USD 0.04 billion) in savings. Annex Figure 1.1 illustrates the organisational structure of Women's Co-op.

Annex Figure 1.1: Women's Co-op – organisational structure



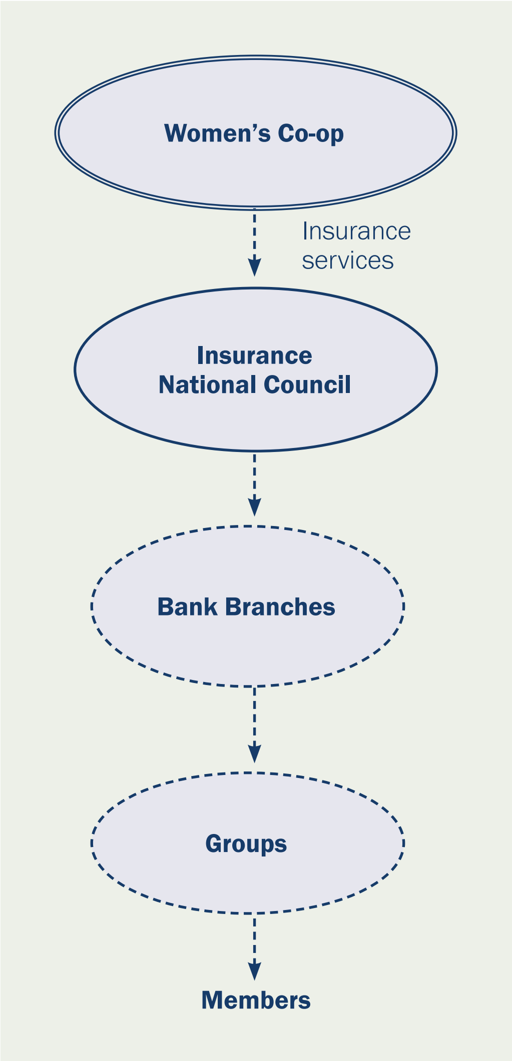
Source: Authors, based on supply-side surveys

Overview of the insurance programme

Description of the insurance programme

The insurance products of the Women's Co-op are purely mutual in that there is no transfer of risks to a third party. The funds collected within the organisation are utilised in paying the benefits. There were no external parties involved in the introduction of these insurance schemes. The Women's Co-op gradually introduced their insurance schemes once they felt the organisation was financially strong enough to carry them out.

Annex Figure 1.2: Women's Co-op – microinsurance distribution channels



Source: Authors, based on supply-side surveys

Policyholders are also shareholders. As such the policyholders are directly involved in the governance and management of the Women's Co-op, including its insurance activities. Although Women's Co-op follows a member-owned model, they do not have a direct dividend-sharing policy. Rather, the profits are redistributed to members (who include policyholders) indirectly through the welfare services offered to members, ie profits are invested into providing healthcare, funeral benefits, and education assistance for members' children etc. The insurance products are initiated based on identified needs of the member base. The Women's Co-op's extensive branch network is employed as the channel in delivering products to members. (Refer to Annex Figure 1.1.)

As an entity that evolved from a community-based framework, the Women's Co-op's insurance activities grew out of a necessity to address the needs of the community. As their policyholders are also members, the Women's Co-op is in a position to ensure the affordability and the relevance of the insurance products. Their aim in introducing insurance services was to improve member welfare. The first insurance scheme to be implemented was a welfare scheme which compensated the member (or the member's family) at the event of the death of the member or her spouse. This death benefit scheme has been there since the inception of the Women's Co-op, paying a rather small amount of LKR 3,000 (USD 22), which subsequently increased to LKR 10,000 (USD 74). In 2000, this scheme was properly established under the name 'Subhani'. (Refer to Annex Table 1.1 for detailed descriptions on each of the insurance products.)

Annex Table 1.1: Insurance products of Women's Co-op

Product name	Risk covered	Percentage of policy-holding members	Premium	Benefits
Subhani *Target group: members*	Death of member, her husband, her parents, her parents-in-law and her unmarried children	Majority	A member can open this account only 18 months after joining the Women's Co-op. A Subhani account can be opened with LKR 25,000 (USD 185) which entitles the member to a death benefit payment of LKR 50,000 (USD 370). However, members belonging to 'A' grade branches can increase this deposit amount to LKR 35,000 (USD 259), becoming entitled to a death benefit of LKR 100,000 (USD 741)	Death benefit of LKR 50,000 – LKR 100,000 (USD 370 – 741)
Surakhitha *Target group: members*	Death and full paralysis/disability of the member	46.47%	One-off payment of LKR 17,500 (USD 130). Only members aged 18-60 are eligible	LKR 400,000 (USD 2,963) is given for the member to cover her outstanding loans at the Women's Co-op. Any balance money is deposited in her children's savings accounts
Rakhitha *Target group: members' husbands*	Death, full paralysis, disability of the member's husband	58.53%	A member can buy a maximum of two policies for a total one-off premium of LKR 5,560 (USD 41) per policy	LKR 50,000 (USD 370) per policy A fixed deposit is established under the member's name
Pathi *Target group: members' husbands*	Death and full paralysis/disability of the member's husband	24.81%	Husband needs to be aged 18-64, with the one-off premium ranging from LKR 10,000 (USD 74) to LKR 60,000 (USD 444) based on the husband's age	LKR 400,000 (USD 2,963) is given for the member to cover her outstanding loans at the Women's Co-op. Any balance money is deposited in her children's savings accounts

Source: Supply-side surveys

Since their introduction, the reception of the schemes has been really good. The insurance products have helped the members feel more confident about their ability to face unexpected events. Most members have opted to purchase at least one policy, with only a minority of people who haven't joined a single policy, mostly due to reasons such as being above the eligible age limit. The implementation has been successful in all areas.

Other programmes aimed at risk mitigation

Disaster Management Unit

This was established following the floods in 2016. Until then, there were no centralised disaster management mechanisms; the branches each followed their own disaster management programmes. Following the devastation of the floods in 2016, a disaster management fund was established at the Women's Co-op Colombo head-office, consisting of funds collected from the branches. This fund was depleted after providing relief to the members affected by floods. There are discussions on establishing a more long-term fund for this purpose.

Health Care Unit (Arogya)

The Women's Co-op has established five health centres from where the members can receive a wide array of services including outpatient treatment, emergency treatment, laboratory and ECG facilities, as well as access to a pharmacy. The employees of the health centres are also Women's Co-op members or members' family members.

In order to be eligible for the full benefits, a member needs to have contributed LKR 100 (USD 0.7) over 60 months to their Arogya (health) account; they can't make a one-off payment of LKR 6,000 (USD 44) and become instantly eligible for the full benefits. This highlights the fact that the members need to show their commitment to the organisation in order to reap the full benefits. There are five groups of health benefit recipients. Group one are those who have contributed for 12 months (one year): in this case the member bears 80% of the cost of treatment at the health centre while the branch to which she belongs bears 20% of the cost. Group two are those who have contributed to the scheme for 24 months (two years) and they bear only 60% of the cost of treatment. Members in group three who have contributed to the scheme for three years bear 40% of the cost of their treatment, while group four, having contributed for four years, contributes only 20% of the cost. Group five, having completed the 60 months of payment are entitled to receive treatment entirely free of charge.

Annex Figure 1.3: Women's Co-op Health Centre

Source: Authors

In addition, in the case of cancer, the member is entitled to receive LKR 50,000 (USD 370). In case of kidney issues, LKR 400,000 (USD 2,963) is given for kidney transplants or LKR 50,000 (USD 370) for dialysis. In the case of heart problems leading to by-pass surgery, the member received LKR 400,000 (USD 2,963). Women's Co-op pays the salaries of the doctors and technicians employed from the money accumulated in their health fund.

Impact of the model

MEMBER ANECDOTES

"I joined the group four years ago. The group system works really well. If some emergency takes place, like a child falling ill, and we don't have money at hand, we can easily meet the group leader and borrow some money. There is a strong sense of belonging."

"I bought land for a house thanks to the women's bank. We feel a sense of security, for ourselves as well as for our children, thanks to the Women's Co-op. This has enabled us to live without having to beg for money."

"I joined the group four years ago. This was a really big help to me when my father died. I got a lot of help to do his final rites. At that point, I hadn't completed the full deposit as it was only about one year after I joined. Therefore I didn't receive the full benefits. I had only deposited LKR 3,000 (USD 22) at that point and so I received only LKR 7,500 (USD 56), but that was also a really big help to me"

"I joined about six years ago. I joined because the group leader told me about all the benefits. I received a lot of help thanks to the Arogya deposit, because both my children have wheezing issues, which costs me a lot of money for medicine. Because of Arogya, I receive medicine worth LKR 5,000 (USD 37) every month. I underwent an operation as well."

"It has been about 21 years since I joined the Women's Co-op. My name is Niranjala Sudharshani. I joined because of my mother and her positive perception of the programme. Later I joined the auditing unit at the branch, following which I joined the district auditing unit and then the central auditing unit. I took classes and made various sacrifices for the Women's Co-op, but I received so much more in return. As a member, a wife, and a mother, any progress I have made in my life is thanks to the Women's Co-op. Today, I am very proud to say that I work as the financial secretary of the branch"

"My name is Muwina Meera. It has been about eight years since I joined the Women's Co-op. I have received a lot of things from the Women's Co-op, especially from the health care programme. I have also received loans"

"My name is Ramani Weerakoon. I am part of the education and training programme of the Women's Co-op. It has been about four years since I joined and I've received a lot of benefits. I received death benefits when my father passed away. I have taken many loans, for example, for my children's education. I've received many benefits"

Business case of the model

Up to this point, there have been no issues related to the sustainability of the model. There have been no instances where claims could not be paid due to insufficiency of funds. Furthermore, there is no necessity to carry out any specific awareness programmes; all communication happens through the group leaders who inform the members about the existence or introduction of programmes and initiatives.

Currently, the organisation has not identified any necessity for external organisations in supporting the sustainability of the Women's Co-op or its insurance programmes.

Success factors and key challenges

The success of the model is largely due to the nature of the support provided by the organisation in empowering the low-income households. It has helped these communities to pool their meagre funds together and become stronger as a whole. Facilities such as the insurance schemes, the health benefits, the easy access to loans as well as the strong sense of community and belonging that is fostered by the Women's Bank have contributed to the success and the continuance of the organisation. The organisation has contributed to instilling a sense of security in its members which has enhanced the members' commitment.

A major risk faced by the Women's Co-op is that now there are many members who have taken considerably big loans. If they fail to successfully repay these loans, their group members will also have to bear the burden. The two insurance schemes 'Pathi' and 'Surakhitha' are expected to mitigate this risk to a certain extent.

Plans for expansion

Women's Co-op takes pride in its self-sufficiency. There are plans to increase the membership from 100,000 to 300,000 with the assistance of the government. As insurance is one of several welfare schemes for the members (as opposed to the main line of business), there are no direct plans to increase insurance coverage.

The biggest problem faced by the Women's Co-op in the expansion of its membership base is the difficulty in transportation when accessing rural areas, because the members have to bear the cost of transportation out of their pockets. Generally, the practice is such that the Women's Co-op responds to requests from communities for the establishment of a women's group in their area; this is a result of word of mouth and the Women's Co-op tends to refrain from taking proactive steps to attract more members. This approach is based on the Women's Co-op's principle that the people themselves must feel the need for this, as opposed to being told about it.

As the proposition for the extension of membership was issued from the government, the Women's Co-op expects the assistance of the government in the upcoming expansion of its membership.

Case study 2: Polonnaruwa, Abhayapura Funeral Aid Society[21]

Overview of the organisation

- **Reason for introducing mutual microinsurance**: To pool the funds in the community for the purpose of providing for funeral-related expenses in the families of the members
- **Geographical coverage:** Abhayapura GN Divixsion, Polonnaruwa
- **Unique mutual/community-based feature:** This is a community-based mutual model where the community members pool their funds to meet funeral-related expenses
- **Organisation's willingness to scale:** Limited scope as it's intended for the immediate community
- **Number of current members:** 450 (approximately)
- **Uninsured members:** All members are covered
- **Member profile:** Members in the community

Brief overview of the organisation

The Polonnaruwa, Abhyapura Funeral Aid Society (FASP) was first formed in 1976, almost 41 years ago. It is registered under the Voluntary Social Services Organisations Act. At present, the society has over 450 members, and its benefits extend to all members and their family members. In order to be eligible for membership, one needs to be below 40 years of age, and should have been a resident in the Abhayapura GN division in the Polonnaruwa District for at least 10 years. Only one member per family can join the society.

Overview of the insurance programme

Description of the insurance programme

FASP operates at the community level through a model of mutual risk sharing. As such, members of FASP pay a monthly membership fee to the society, which is then added to a common pool. In the event of an emergency, these funds are utilised to compensate the family for their loss, as well as to support the family's funeral expenses.


[21] This case study is compiled from the information gathered on a funeral aid society that the research team encountered during a FGD on the demand for microinsurance

FASP has established a hierarchical structure of membership and the benefits received are dependent on the level of membership. At the outset, members start out in Level 5 and graduate up through the levels to Level 1. On average it takes two years for a member to graduate from one level to the next. The total annual membership fee is LKR 2,000 (USD 15), collected bi-annually. In addition, a fee of LKR 100 (USD 0.7) is collected from each member in the event of a death. A member becomes eligible to receive benefits after six months of membership. The monetary benefit received by the members ranges from LKR 35,000 (USD 259) for Level 5 membership to LKR 130,000 (USD 963) for Level 1 membership. This includes the money given by the society as well as the additional money collected from the members in the event of death. In addition, all members receive other benefits for hosting the funeral service such as chairs and tents.

Further to providing the affected family with monetary compensation and funeral services, members in the organisation also take on other responsibilities. For instance, members have formed groups to undertake the digging of the grave and preparation of the food. In order to ensure the delegation of such responsibilities among all the members and promote participation, sub-committees have been developed within the FASP; for example there are several food committees which take turns preparing food for the funeral house. If the member cannot participate on their due date, they need to nominate a family member to take their place or be fined by the FASP.

The administration of FASP is dedicated to a monitoring committee, which is headed by a chairperson. Members of the community like teachers and principals from village schools serve on the monitoring committee. The committee is responsible for the management of finances as well as investigations into the inappropriate use of funds. The committee also issues fines for failure to meet payments or fulfil responsibilities.

Impact of the model

MEMBER ANECDOTES

"They gave me LKR 60,000 (USD 444) in cash and they also provided the food, benches and tents for the funeral."

Female participant

"My mother-in-law lives in another village, but she is also covered by my membership. She will get LKR 5,000 (USD 37) if there is a funeral. But people living in my own house will get all the benefits that I am eligible for."

Female participant

"My society lets us borrow money as well. I borrowed LKR 26,000 (USD 192) with a small interest of 1.5%."

Female participant

Business case of the model

The funeral aid society (FAS) model functions to meet the needs of the community and to provide a social safety net. Given the length of time it has been established, it appears that the model is financially sustainable. Since members of the society pay for all of the services provided, and share the risk, it is self-sustaining. Furthermore, the society does not incur any costs associated with carrying out awareness programmes. All members of the community are well informed about how the society works, and how it benefits them. Delegation of responsibilities to members – such as digging graves and making food – also reduce the service costs associated with these traditional funeral activities.

Success factors and key challenges

The high rate of participation can be cited as one of the main reasons for the success of the society. A majority of individuals in low-income communities are members of FASs. FASP's success is also due to the established hierarchical structure, which incentivises individuals to commit to their responsibilities and regularly pay membership fees in order to graduate to higher benefit schemes. FASP's stringent rules governing payments and membership fees also contribute to its success. Failure to pay the fee for two months in a row results in a cancellation of membership. Additionally, a fine is incurred if a member fails to fulfil his/her responsibilities. Currently, the society has not identified any challenges to its sustainability and continuance.

Plans for expansion

Despite having limited information on this, it can be inferred from information provided at the FGDs that room for expansion is restricted. Due to the 'one-member-per-household' membership requirement, a vast majority of the community automatically become beneficiaries of the society. Furthermore, FASs generally serve the needs of the immediate community. In the case of FASP, the society covers one GN Division, thus limiting the scope for geographical expansion.

Case study 3: Yakkala, Luwisawaththa Funeral Aid and Welfare Society

Overview of the organisation

- **Reason for introducing mutual microinsurance:** To pool the funds in the community for the purpose of providing for funeral-related expenses to the families of the members
- **Geographical coverage:** Three villages in the Yakkala North GN Division in the Gampaha District
- **Unique mutual/community-based feature:** This is a community-based mutual model where the community members pool their funds to meet funeral-related expenses
- **Organisation's willingness to scale:** Limited scope as it is intended for the immediate community
- **Number of current members:** 200 (approximately)
- **Uninsured members:** All members are covered
- **Member profile:** Members in the community

Brief overview of the organisation

The Yakkala Luwisawaththa Funeral Aid and Welfare Society (FAWS) was founded in 1987. It is registered under the Voluntary Social Service Organisations Act. It was established by the people in the community primarily for the purpose of providing assistance to the members' families in the event of a funeral of the member or approved dependents. Thus, FAWS provides assistance in the form of monetary as well as non-monetary benefits and is committed to becoming a source of strength for the bereaved household in their hour of need.

The benefits paid at the beginning were small. At the inception there were about 50 members and the monthly membership fee was only LKR 5 (USD 0.04). The membership, the membership fees, as well as the benefits paid have increased over the years. The membership grew as the people in the village understood the service provided by the organisation. Currently there are around 200 members in the organisation. Including the dependents (members' family members covered by the funeral aid scheme), FAWS has more than 400 beneficiaries.

Overview of the insurance programme

Description of the insurance programme

The coverage of the organisation extends to three villages in the Yakkala North GN Division: Luwisawaththa, Gemunupura, and Siynae Uyana. In order to be eligible for membership, one needs to be over 18 years of age and be a permanent resident in the area covered by FAWS. In the event of a member's death, the membership will be passed on to the member's spouse. At the point of joining, a new member needs to pay at least six months' membership fee along with a registration fee of LKR 500 (USD 4). The monthly membership fee is LKR 100 (USD 0.7), but the members are encouraged to pay this on a bi-annual basis. Non-payment of the membership fee for four consecutive months will lead to the cancellation of membership.

FAWS aims at providing compensation in the event of the death of the member and any dependents nominated by the member. The dependents that can be nominated by the member are:

- Member's spouse
- Member's unmarried children
- Two of the member's parents and parents-in-law (ie among these four people, the member can nominate only two persons)

A member becomes eligible for monetary compensation in the event of a funeral one year after joining the organisation; until then, a member can receive only non-monetary benefits such as chairs, speakers, flags, and a hut. There are five tiers of membership, and the monetary compensation received increases along with the duration of membership (refer to Annex Table 3.1).

Non-monetary benefits are granted for any funeral service held at the member's residence (even if it's not of one of the nominated dependents). The service provided by the organisation should not be measured solely in terms of these tangible benefits. In the event of a death, the organisation becomes a point for consolidating the community and a source of strength to the affected party.

Annex Table 3.1: Schedule of monetary compensation

	Duration of membership	Monetary compensation
Tier 1	Between one to two years	LKR 3,000 (USD 22)
Tier 2	Between two to three years	LKR 4,000 (USD 30)
Tier 3	Between three to four years	LKR 5,000 (USD 37)
Tier 4	Between four to five years	LKR 7000 (USD 52)
Tier 5	More than five years	LKR 15,000 (USD 111) at member's death LKR 14,000 (USD 104) at a dependent's death

Source: Constitution of The Yakkala Luwisawaththa Funeral Aid and Welfare Society

This is a purely mutual programme whereby the policyholders (ie beneficiaries) are also the owners. The community pools its funds as a measure of risk mitigation. The payment of claims is borne entirely from the pooled funds. The risk is not transferred to a third party. The management and all day-to-day activities are carried out by the policyholders/members. Any changes made to the scheme (eg membership fees, benefits) are subject to the needs of the immediate community. All members are eligible to receive the benefits.

Impact of the model

MEMBER ANECDOTES

"I lost my father three months after I lost my mother. FAWS gave me everything I needed; chairs, sound systems etc. All of the members came and helped out with the funeral arrangements. They also helped out with food. Even those in the village who weren't a part of the FAS helped out. I also received a sum of LKR 14,000 (USD 104). FAWS allowed me to keep all of the stuff they had donated to me until the end of the funeral. In addition, they gave me more than the allotted amount of chairs, 50 chairs were not enough so they gave me more. Normally, they give the 50 chairs to everyone for free, but you can pay a minimal sum and get extra chairs"

Business case of the model

FAWS pays the benefits from the funds collected by the society. Since the inception of FAWS 30 years ago, there have been no instances where the claims could not be paid (or were delayed) due to insufficiency of funds. Annex Table 3.2 shows that the funds collected by FAWS in the form of membership fees have increased considerably during the period from 2010 to 2016. The total amount paid as funeral aid has also increased alongside (regardless of the fact that the number of funerals for which assistance was provided in 2016 was less than in 2010).

Annex Table 3.2: Performance indicators of FAWS

	2010	2016
Membership fees collected	LKR 52,390 (USD 388)	LKR 135,900 (USD 1,007)
Benefits paid	LKR 35,000 (seven funerals) (USD 259)	LKR 86,000 (six funerals) (USD 637)
Cash balance (total income-total expenditure)	LKR 98,278 (USD 728)	LKR 55,106 (USD 408)
Fixed deposit balance	LKR 159,822 (USD 1,184)	LKR 411,250 (USD 3,046)
Total assets	LKR 488,120 (USD 3,616)	LKR 977,250 (USD 7,239)

Source: Annual General Meeting Reports (2010, 2016), The Yakkala Luwisawaththa Funeral Aid and Welfare Society

The organisation's policy is to deposit the maximum payable compensation for three funerals in a savings account at the Yakkala Rural Bank. The excess funds are invested at fixed deposits held by state banks. Annex Table 3.2 shows the considerable increase in the value of fixed deposits of FAWS as well as its total assets over the period between 2010 and 2016.

Image: FAWS Community Hall

Since its inception FAWS has not relied on any external parties such as the government or non-governmental organisations (NGOs). However, the land on which they built their community hall was donated by a private donor in the area.

Success factors and key challenges

A key success factor is that the members are well aware that the service provided by the organisation exceeds the tangible benefits stated by the constitution of FAWS. The organisation provides relief at a time when the affected party may find it overwhelming to deal with the situation: the monetary benefits help with meeting the unexpected cost of a funeral; the other benefits such as chairs and a tent also contributes to lessening the hassle of arranging the funeral service; more importantly, the organisation helps with making the necessary arrangements for the funeral, dealing with the details, and becomes a point for the community to come together in assistance of the bereaved.

The biggest challenge vis-à-vis the sustainability of FAWS is the low levels of youth participation. It is important to nurture the next level of leadership in order to ensure the smooth functioning of the organisation and its future prospects. However, the present office bearers are mostly retired public and private sector workers who have been involved with FAWS for a long time. The organisation has found it difficult to encourage active youth participation.

As an organisation established to improve the welfare of its members, the success of FAWS is highly dependent on the members' personal commitment to the community's welfare; all members must understand the potential of the organisation to improve the welfare of the community as a whole, look beyond personal gains, and fully commit to the vision of the organisation. However, there have been cases where members with sickly and elderly parents joined the organisation for a short time, claimed the benefits when their parents passed away, and then left the organisation. As an attempt to avoid such cases, FAWS follows a thorough vetting process when admitting a new member and has implemented the tier-system of benefits, denoted by Annex Table 3.1, where the benefits received are tied to the duration of membership.

Plans for expansion

The coverage of FAWS is geographically limited to three villages in the Yakkala North GN Division. As such, the scope for expanding the number of members is rather limited. There are no immediate expansion plans, either in terms of the number of members or the benefit amounts.

Furthermore, FAWS does not see any benefits in collaborating with formal insurance providers. Two such insurance companies, SICL and CICL have presented proposals for collaboration; under this each and every member of FAWS would have to purchase an insurance policy and pay premiums; in return, the companies would provide compensation for a stated number of funerals per year (for example four to five funerals). The cost of any additional funeral would be borne by FAWS. Upon consideration and deliberation, FAWS concluded that the organisation's best interests will not be served by such agreements and rejected the proposals.

Case study 4: Co-operative Insurance Company Ltd (CICL)

Overview of the organisation

- **Reason for introducing cooperative microinsurance:** To support the cooperative movement in Sri Lanka
- **Geographical coverage:** Island-wide (all nine provinces)
- **Unique mutual/community-based feature:** CICL employs cooperative societies as a channel of marketing and distribution of their insurance products
- **Organisation's willingness to scale:** Yes, in terms of new products, number of new members, new areas etc
- **Number of microinsurance policyholders:** 13,290 (in 2016)
- **Uninsured members:** N/A
- **Member profile:** Members of community-based organisations (CBOs) as well as non-members

Brief overview of the organisation

Co-operative Insurance Company Ltd (CICL) was incorporated by the cooperative movement in 1994 as an agent of the National Insurance Corporation to provide insurance products and services to cooperatives and their members. In 1998, CICL was registered as a private limited liability company and was licensed by the Institute of Bankers of Sri Lanka (IBSL) to operate as an insurance provider. The Registrar of Cooperatives gave CICL special permission to use the term "cooperative" in their name, despite being a registered private company.

A unique feature of CICL is that it is 99.9% owned by cooperative societies, with the shareholders consisting of 305 multi-purpose cooperatives (MPCs) and a further 2,450 rural banks across the country. These cooperative societies have a combined membership of over 7 million members engaged in a range of micro and small to medium scale economic activity including agriculture, fisheries, trading, and service sectors. In compliance with the regulatory changes in 2011, from January 2015, CICL became the holding company of their fully-owned life insurance subsidiary (Cooplife). Accordingly, CICL now engages only in general insurance business.

As an organisation established to support the cooperative movement, the management of CICL is in accordance with cooperative principles. CICL relies on the cooperative society network in Sri Lanka for the distribution of their insurance products.

Human capital

CICL has 68 branches and 164 service centres across the country[22]. The number of employees per branch ranges from three to 20, while the service centres have a total staff strength of 550. In addition, CICL has employed 122 field officers, 2,000 agents, and 57 insurance brokers. CICL established the Cooperative Insurance Academy in 2015 to train their employees in areas such as insurance and risk management, sales, marketing, and personal development. They are currently in the process of registering the Academy under the Vocational Training Authority as a specialised training provider for the insurance sector.

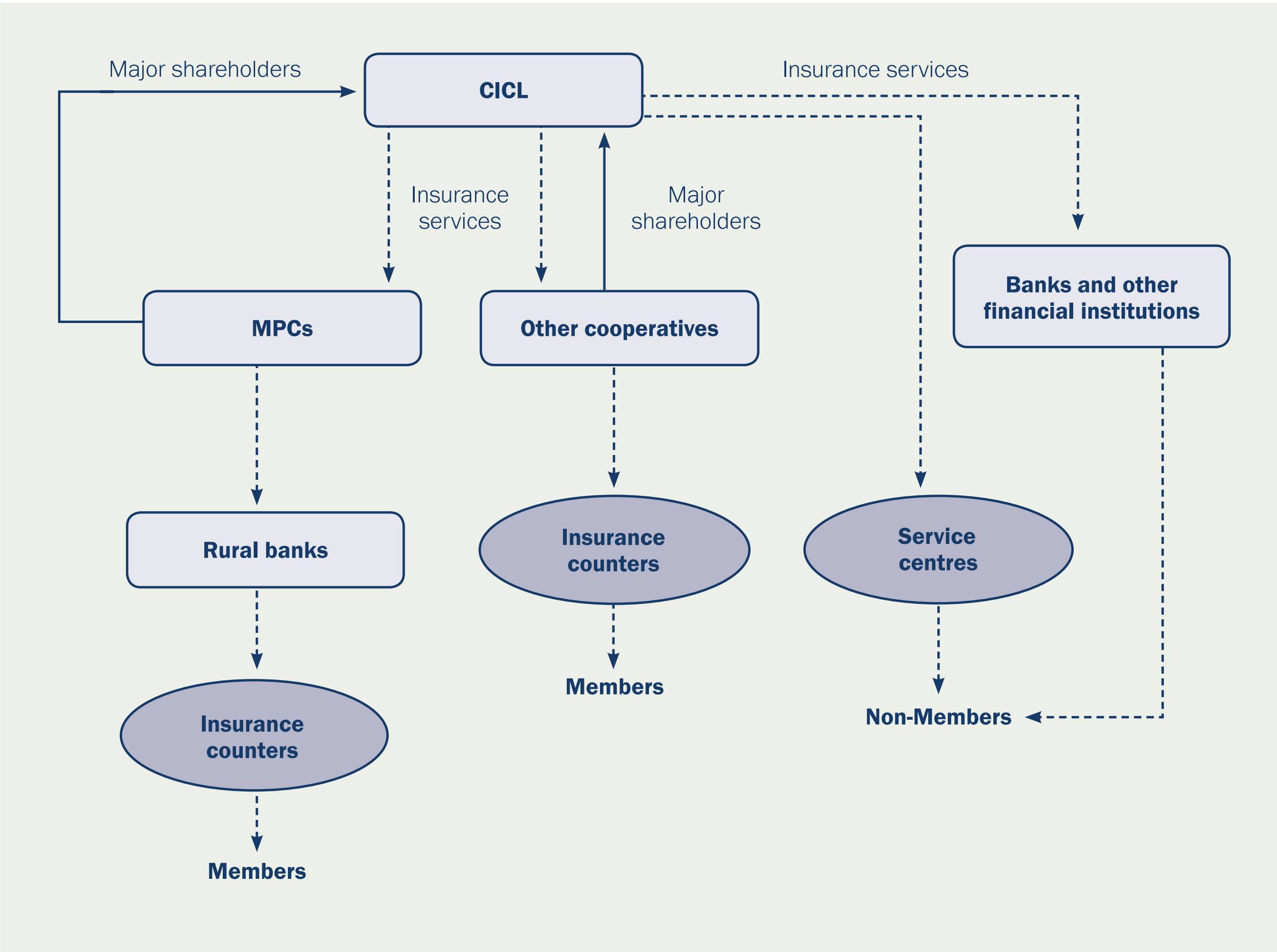
[22] As of 2018

Overview of the insurance programme

Description of the insurance programme

Although initially established to serve the cooperative movement, as at end of 2015, only around 50% of CICL's general clientele was from a cooperative background, ie CICL accessed these clients via cooperative societies. Annex Figure 4.1 denotes the distribution of CICL's microinsurance policies. Members of MPCs are accessed through rural banks, while other cooperative members are accessed through the respective societies. Non-members are accessed through their many service centres and branches. CICL utilises cooperative societies as a marketing avenue for their products. In such cases, cooperative societies act as agents on behalf of CICL. Since CICL lacks reach in the remote areas, the cooperatives have set up separate insurance counters at their head offices, at supermarkets or at the rural banks in order to collect premiums and sell policies to members. CICL provides the cooperatives with computers and access to their online system (real-time) which allows them to update the central system with information regarding the issued policies and allows them to deposit the premiums in CICL's account. Claims processing, underwriting etc is done at the head office in Colombo. Non-members obtain policies through their service centres or branches. Service centres issue only a limited number of policies due to the lack of human resources/capacity. CICL has found its microinsurance business to be relatively less sustainable, but are trying to cater to village level societies to the best of their ability.

Annex Figure 4.1: CICL microinsurance distribution channels



Source: Authors, based on supply-side surveys

Mutual features and the current outreach of the model

CICL is a licensed insurance provider operating under the purview of the IBSL with 68 branches operating throughout the island. It is almost entirely owned by MPCs and other cooperative societies. Policyholders are not necessarily shareholders, nor are all policyholders also members of a shareholding cooperative society. However, given that 50% of policyholders belong to cooperatives and the fact that CICL's ownership is almost exclusively in the hands of cooperative societies, it is possible to conceive that these cooperatives are in a position to influence the decision-making process. CICL does not adhere to any voluntary profit-sharing practices, except in the case of their participatory long-term policies as mandated by current insurance legislation. The classification of CICL as a mutual/cooperative microinsurance provider for the purposes of this study is based on CICL's practice of employing CBOs as a channel for microinsurance distribution. Approximately 30% of CICL's insurance products cater to the low-income segment. Annex Table 4.1 lists the CICL's microinsurance products.

Annex Table 4.1: CICL microinsurance product details

Product name	Risk covered	Number of policyholders	Annual premium (per product)	Benefits (average)
Coop Shakthi Cooperative Microinsurance	Protects the bank from financial losses arising due to death and total permanent disability of loan holder	12,864	LKR 2,540* (USD 19)	LKR 7,140,578 (USD 52,893)
Live Stock Insurance	Protects the farmers from financial losses arising due to death of cows and goats	303	LKR 6,810* (USD 50)	LKR 1,571,227 (USD 11,639)
Funeral Expenses Insurance	Provides for funeral expenses	40	LKR 12,307* (USD 91)	LKR 875,000 (USD 6,481)
Children's Health Insurance Policy	Health insurance policy for children aged three-16 plus lump sum benefit in the event of guardian's death	83	LKR 1,500 (USD 11)	N/A

**Average value as the premium varies depending on the type of risk insurers and the information provided by the policyholder*

Source: Supply-side surveys

Business case of the model

CICL's gross written premiums (GWP) grew by 24.5% from 2014 to 2015, reporting a 72.6% growth in profit after tax. The number of microinsurance policyholders has increased by approximately 40% during this period (refer to Annex Table 4.2). CICL does not believe in using expensive mass media to advertise their products. They generally rely on word-of-mouth and a good reputation. In the past year, CICL did not incur any advertising expenses. They were able to use their extensive networks to sell their insurance products. Clients are informed about the products through the cooperative societies, sales staff, and centres at the village level.

Currently, CICL is not a recipient of any financial support from the government, non-governmental organisations (NGOs), or any other donors. The company is holding discussions with a foreign reinsurer on developing new microinsurance products. They have also employed a local organisation to study the current environment and the industry. Malaysian actuaries are hired to perform CICL's actuarial calculations. In addition to reinsuring 30% of their liabilities at the NITF per regulatory requirements, CICL also reinsures with Indian, South African and Malaysian reinsurers with high credit ratings

Annex Table 4.2: Performance indicators of CICL

Year	GWP	Profit after tax	No of microinsurance policyholders
2014	LKR 1,403 million (USD 10 million)	LKR 71.8 million (USD 0.5 million)	9,305
2015	LKR 1,728 million (USD 13 million)	LKR 123.9 million (USD 0.9 million)	12,972
2016	N/A	N/A	13,290
Growth (2014 – 2015)	**25%**	**73%**	**40%**

Source: Supply-side surveys

Success factors and key challenges

A key factor behind the success of CICL is that it has, since inception, relied on the cooperative society network in Sri Lanka to promote their products. They have been aided in this by the special permission they received to use the term "cooperative" in their name, despite being a registered private entity. Channelling their insurance products via cooperative societies has facilitated access to various industry and employment related groups which have established cooperative societies.

Despite the reach afforded to CICL via the network of cooperative societies in Sri Lanka, the cooperative movement has become stagnant in the recent past. People from rural areas lack the necessary financial discipline to focus on risk mitigation and are highly reliant on the government to bail them out in times of disaster. This has diminished the competitive advantage presented by CICL's access to the grass roots.

Furthermore, CICL has found that, under the current regulatory environment, microinsurance is not a profitable business venture. Government interference has hindered CICL's ability to sell their products to low-income communities; for example, government bodies such as AAIB, the main role of which is to provide agricultural insurance has now entered the motor insurance market as well, while the national reinsurer, NITF has also entered the market as an insurance provider. CICL finds that it is difficult for a private insurance provider to compete with such government bodies who can provide services at subsidised prices. Furthermore, the introduction of the Risk-Based Capital (RBC) regulations, as well as its rigid, quick implementation, in CICL's opinion, was beyond the capability of Sri Lanka's premature insurance industry, and left the insurance companies struggling to keep up. In addition, CICL is still struggling from the after-effects of the segregation of life and general insurance business, which is also a rather recent regulatory mandate. High costs associated with the segregation, as well as the inability to combine life insurance related characteristics in the CICL's insurance products, have stunted the company's potential. Overall, the new regulatory conditions have caused CICL to increase their premiums to sustain their business, potentially losing some of their low-income clients.

Additionally, reinsurers are not willing to cover CICL's low-income products, as the premium charged is insufficient to cover the reinsurance premium. For example, CICL's marine products cost less than the reinsurance premium. Therefore, despite the benefits to the low-income fishing communities, CICL is unable to continue selling the product.

In terms of operational challenges, CICL depends on the employees of cooperatives to manage their service centres and insurance counters. These employees are trained by CICL on how to collect premiums and update the online system. However, since they are not CICL's internal staff, CICL has little control over their recruitment and work. Many of the service centres in places like Monanragala and Bandarawela had to close down due to the inefficiencies of the workers and the lack of an insurance focus. They plan on replacing these employees with their own staff who are more reliable and have the right training. Furthermore, CICIL is not satisfied with their current management information system (MIS), which is an essential ingredient in the smooth functioning of any insurance business. CICL is planning on developing their own information system in the future; however, the cost of installing a new system is extremely high.

Plans for expansion

CICL's main focus is to promote their non-motor insurance products and to increase it by at least 20%. More than 80% of their sales are motor insurance products. They are willing to explore the possibility of accessing new areas and launching new products.

Case study 5: Cooplife Insurance Company Ltd

Overview of the organisation

- **Reason for introducing cooperative microinsurance:** To support the cooperative movement in Sri Lanka
- **Geographical coverage:** Island-wide (all nine provinces)
- **Unique mutual/community-based feature:** Fully owned by cooperative societies, and utilises the cooperative society network as a channel of distribution
- **Organisation's willingness to scale:** Yes, in terms of products and services provided
- **Number of microinsurance policyholders:** 3,832 (in 2016)
- **Uninsured members:** N/A
- **Member profile:** Members of community-based organisations (CBOs)

Brief overview of the organisation

Cooplife Insurance Company Ltd (Cooplife) was established in 2015 as a fully owned life insurance subsidiary of Cooperative Insurance Company Ltd (CICL) in compliance with regulatory changes demanding the segregation of general and life insurance businesses. CICL currently owns 80% of Cooplife's share capital. As a fully-owned subsidiary of a company with a stated commitment to serving the cooperative movement in Sri Lanka and adhering to cooperative principles, Cooplife also takes into account the special needs of the cooperative societies when designing its insurance products.

Cooplife has established service centres at the cooperative level. These centres include small insurance units with trained staff for the collection of premiums and other insurance services. Around 189 multi-purpose cooperatives (MPCs) actively work with Cooplife. Members of MPCs are Cooplife's main clients, but they also serve many other cooperatives such as Sanasa societies and non-governmental organisations (NGOs) as well as trade unions. Cooplife does not identify itself as a microinsurance provider, but offers many low-premium products which cater to the low-income segments.

Human capital

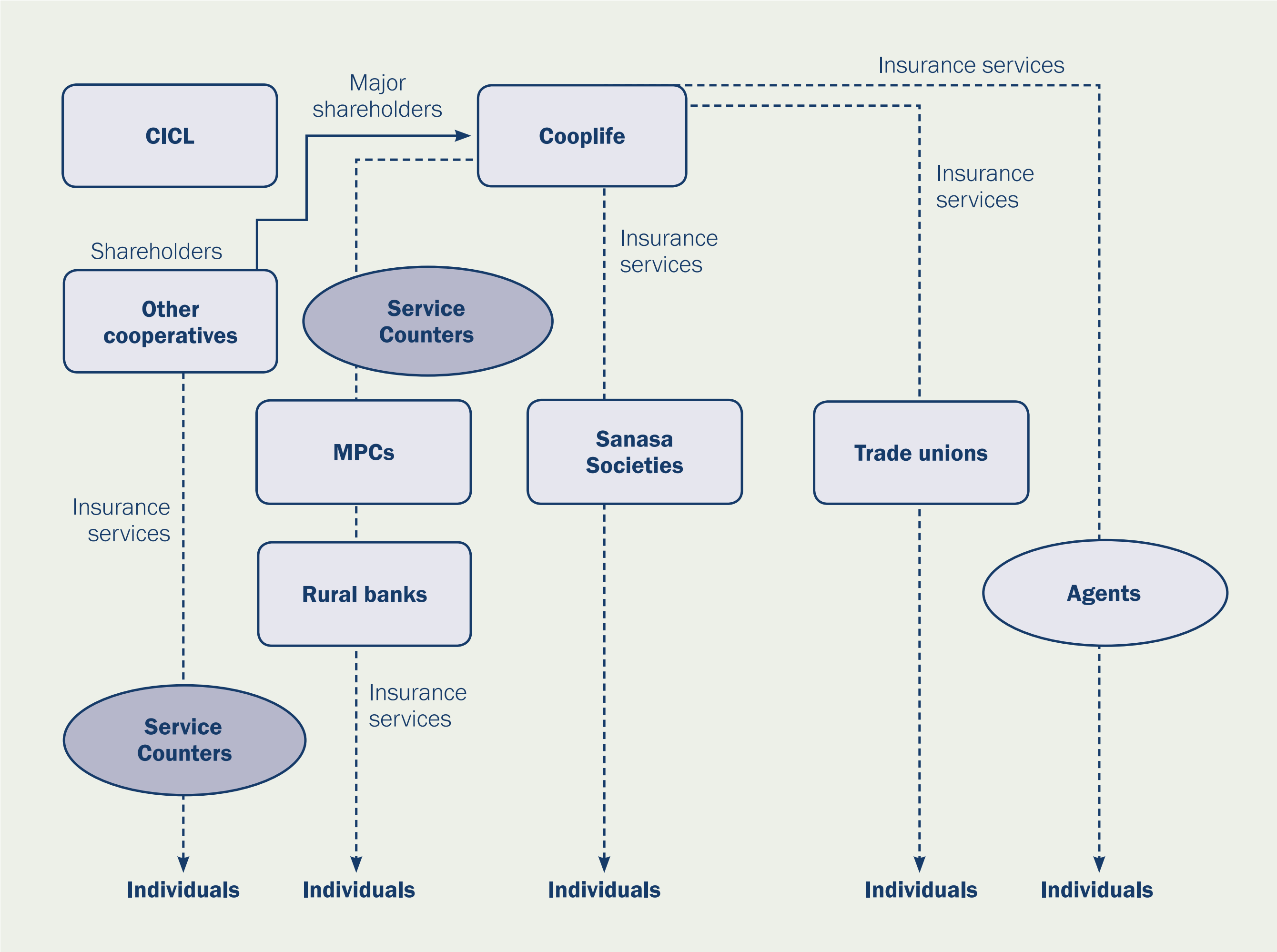
Cooplife has established 42 branches across the country. They have a combined staff strength of 899, which includes six senior managers, 655 field officers, and 84 clerical staff. They train their staff at their own cost and encourage further training at the Sri Lanka Insurance Institute. Their marketing staff are sent for training at the Sri Lanka Institute of Marketing and they also bear the examination costs for their accountants' professional qualification examinations.

Overview of the insurance programme

Description of the insurance programme

As mentioned above, Cooplife insurance operates via the service centres the company has established at the cooperative level. Cooplife has employed the cooperative society network as a channel of distribution and marketing for their insurance products (refer to Annex Figure 5.1).

Annex Figure 5.1: Cooplife microinsurance distribution channels



Source: Authors based on Supply-side surveys

The microinsurance products offered by Cooplife are mainly credit insurance or loan insurance products which includes a life insurance element for the borrower. Cooplife offers group products for cooperatives as well as individual policies for members of cooperatives. In the case of the group products, the society obtains the insurance cover from Cooplife on behalf of the members and the premiums are deducted from the monthly deposits of the members. Annex Table 5.1 provides a detailed overview of the microinsurance products offered by Cooplife.

Annex Table 5.1: Microinsurance products of Cooplife

Product name	Risk covered	Number of policyholders	Annual premium (per product)	Benefits
Samagi Endowment Plan *Target group: those with a monthly income of LKH 7,000 (USD 52)*	Life cover, accidental death benefit, funeral expenses, hospitalisation per day benefit (for breadwinner and spouse/families, available for two children as well)	2,699	For breadwinner only LKR 500 (USD 4); for family of four LKR 750 (USD 5.6) per month	Life cover LKR 50,000 (USD 370); accidental death benefit LKR 50,000 (USD 370); funeral expenses LKR 5,000 (USD 37); hospitalisation benefit LKR 400 (USD 3) per day
Samagi Group Term Assurance *Target group: Members of Beliatta MPC*	Life cover, accidental death benefit, total and permanent disability due to accident or sickness	One policy covers 1,900 members	LKR 10 (USD 0.07) per person to LKR 800 (USD 6) per person depending on age at entry	LKR 5,000 (USD 37) to LKR 2 million (USD 0.02 million) depending on the type of cover
Samagi Yathartha *Target Group: Married people*	Life cover, accidental death benefit, funeral expenses for bread winner and spouse	539	Single premium of LKR 5,000 (USD 37) for 20 years	Life cover LKR 15,000 (USD 111) to LKR 40,000 (USD 296); accidental death benefit LKR 15,000 (USD 111) to LKR 40,000 (USD 296); funeral expenses LKR 5,000 (USD 37) to LKR 10,000 (USD 74)

Source: Supply-side surveys

Mutual features and the current outreach of the model

Cooplife has established 42 branches covering all districts in the country and in 2016 there were 3,832 microinsurance policyholders (refer to Annex Table 5.2 for a gender breakdown of the microinsurance client profile of Cooplife.) There is no active participation of the members of the cooperative societies in the product design process which is handled mainly by the marketing team and the actuarial team. Similar to the CICL, Cooplife does not adhere to any voluntary profit-sharing practices except in the case of their participatory long-term policies as mandated by current insurance legislation. However, the fact that the company's ownership is in the hand of cooperative societies contributes to ensuring that the interests of the grass root communities are served. Furthermore, the absence of a minimum premium or price-flow has also resulted in Cooplife providing some of the most affordable microinsurance products to its market.

Annex Table 5.2: Cooplife microinsurance client profile

Year	Total	Male (%)	Female (%)
2014	2,855	38	62
2015	3,114	36	64
2016	3,832	28	72

Source: Supply-side surveys

Business case of the model

Key Performance Indicators (KPIs) (refer to Annex Table 5.3) denote that Cooplife's GWP grew by 23% during 2014 to 2015, reporting a 63% growth in the profit after tax. The number of microinsurance policyholders has also increased by 9%. The supply-side surveys further revealed that in 2016, Cooplife's policy sales growth was 23%, compared to the 9% in 2015.

The biggest risk faced by Cooplife is caused due to the instability of interest rates. As Cooplife is involved in long-term insurance business, actuaries formulate the premiums based on long-term interest rates. Due to the high volatility in the Sri Lankan market, these calculations may be misleading. There have been instances where the premium was insufficient to cover the risk due to very low interest rates. Cooplife's reinsurer is the Malaysian branch of Hanover Re. However, as reinsurers are unwilling to cover Cooplife's health insurance policies, the company is unable to offer a hospital bill cover, and instead offers only a per-day hospitalisation benefit.

Annex Table 5.3: Performance indicators of Cooplife

Year	GWP	Profit after tax	No of microinsurance policyholders
2014	LKR 402 million (USD 2.9 million)	LKR 16.8 million (USD 0.1 million)	2,855
2015	LKR 495 million (USD 3.6 million)	LKR 27.4 million (USD 0.2 million)	3,114
2016	N/A	N/A	3,832
Growth (2014-2015)	23.02%	63.10%	9%

Source: Supply-side surveys

Cooplife depends on their existing reputation and word-of-mouth in order to sell their products. They occasionally advertise on print media. For the most part, the regional officers/agents are responsible for creating awareness about their products. However, in order to promote Cooplife's policy for school children, the company took a different approach by holding an art completion for students on the theme of insurance and risk management.

Success factors and key challenges

Cooplife emphasises the importance of improving the skills of its workforce and strictly follows the recruitment standards set by the IBSL when hiring employees. They also train their staff at their own cost, encourage further training at the Insurance Institute, and fund the employees registered for the Certificate course and the Diploma offered by the Institute. Cooplife's marketing staff is sent for training at SLIM (Sri Lanka Institute of Marketing). Cooplife also pays the examination fees for their accountants to obtain professional qualifications. Cooplife's best performing district is the Kurunegala District in the North Western Province. This success is credited to the skilled staff working at the respective service centres.

Cooplife has identified the role played by technology in promoting the sales of low-premium products. As agents are less willing to collect low-premiums, the use of mobile technology is slowly becoming a low-cost alternative. Cooplife has recently started publicising premium collection via Mobitel's mobile banking platform, MCash which allows the client to pay premiums via their mobile phones. Payment details are sent to the policyholder via SMS. However, customers are still getting accustomed to this process.

Cooplife is of the opinion that the current regulatory environment presents considerable barriers for the growth of microinsurance in Sri Lanka. Although many steps have been taken to promote the concept of microinsurance (eg campaigns, conferences, workshops, etc), no steps have been taken to create a conducive regulatory environment for microinsurance. Furthermore, due to the segregation of life and general insurance business, Cooplife faces competition from CICL when selling certain products as their target market tends to overlap, for example, CICL's short-term loan protection products versus Cooplife's long-term loan protection products.

In terms of operational barriers, Cooplife finds that the existing commission-based insurance channels are not suitable for microinsurance as the commission component in the premium would compromise the product's affordability, a necessary feature of a microinsurance product. Furthermore, agents have a lot of power in terms of selling insurance products; misappropriation of premiums is a common challenge faced by Cooplife. Additionally, high administrative costs have contributed to lowering the profits of the organisation.

Furthermore, microinsurance policies tend to lapse due to irregular premium collection/payment. Microinsurance clients generally do not have the ability to come to the office and pay their premiums, therefore the field officers play an important role in making sure the policies are sustainable. If the field officers fail to collect the premiums, more often than not the policies would lapse. There are also instances of the client not having the money to pay the premiums when the officer comes to collect it.

Cooplife faces the most competition in selling health insurance products. Many of their competitors have links to hospital chains (as a part of their Group). The actuaries also advise them against complex health insurance covers which have higher underwriting risk.

Plans for expansion

Cooplife does not intend to increase the number of branches because they wish to first ensure the profitability of the existing branches, as the growth rate in life insurance is slow and continuous, as opposed to general insurance. Cooplife's average premium value is around LKR 2,000 (USD 15). The profit margins are very low. As such, Cooplife is cautious about opening new branches. In terms of expanding the services available, Cooplife is in need of technical assistance for product development, especially for their microinsurance (or low-premium) products.

Cooplife is also in need of a reliable Management Information System (MIS). An automated system is required for the productivity analysis of all agents and products, to monitor lapses, to calculate any dues etc. Cooplife is unable to switch to a new system due to the high costs. A custom system would cost around LKR 300 million (USD 2.2 million). The Board is also unwilling to invest such a large amount at the expense of their dividends. Cooperatives are not familiar with the concept of investing for business ventures. The shares of the company are bought using the depositors' money from rural banks. Therefore, the main concern of the cooperative is to ensure the depositors are paid at least 7%/8%: they expect dividends of around 10% from Cooplife. If they fail to do this, the Department of Cooperative Development will not allow cooperatives to invest in their company.

Case study 6: Sanasa Insurance Company Ltd

Overview of the organisation

- **Reason for introducing cooperative microinsurance:** To provide microinsurance to low-income households through community-based organisations (CBOs) and village-level societies
- **Geographical coverage:** Island-wide (all nine provinces)
- **Unique mutual/community-based feature:** Reliance of own network for the distribution of microinsurance.
- **Organisation's willingness to scale:** Yes, in terms of products/services provided and CBOs accessed
- **Number of microinsurance policyholders:** 333,700 (in 2016)
- **Uninsured members:** N/A
- **Member profile:** Members of Sanasa societies and other CBOs as well as non-members

Brief overview of the organisation

Sanasa Insurance Company Ltd (SICL) is a public limited liability company, incorporated in Sri Lanka under the Companies Act No 07 of 2007. SICL is an insurance company affiliated with the Sanasa movement, and its vision is to assist their clients in mitigating their risks in order to improve their living conditions and secure economic development.

SICL was inaugurated in October 1991 with a participatory membership of 182 members of Sanasa Societies and FASs. The organisation was initially established under the name All Lanka Mutual Assurance Organization (ALMAO), until it was formally registered under its current name in 2002. Its formation was motivated by a survey which sought to identify the most popular voluntary organisations in several districts in the country. The survey revealed the success of voluntary organisations such as FASs, and informed the decision to introduce an insurance scheme titled "Ahethuka Wipath Awaranaya" (which can be translated into 'risk coverage against unfortunate perils'). Under the insurance scheme, beneficiaries received coverage for death, accidents, occupational hazards, poisoning, fire, lighting, floods and snakes bites.

Since its inception, Sanasa Insurance Company has expanded its insurance activities to cover an increasing percentage of the poor population in Sri Lanka. Currently, SICL has operations around the country.

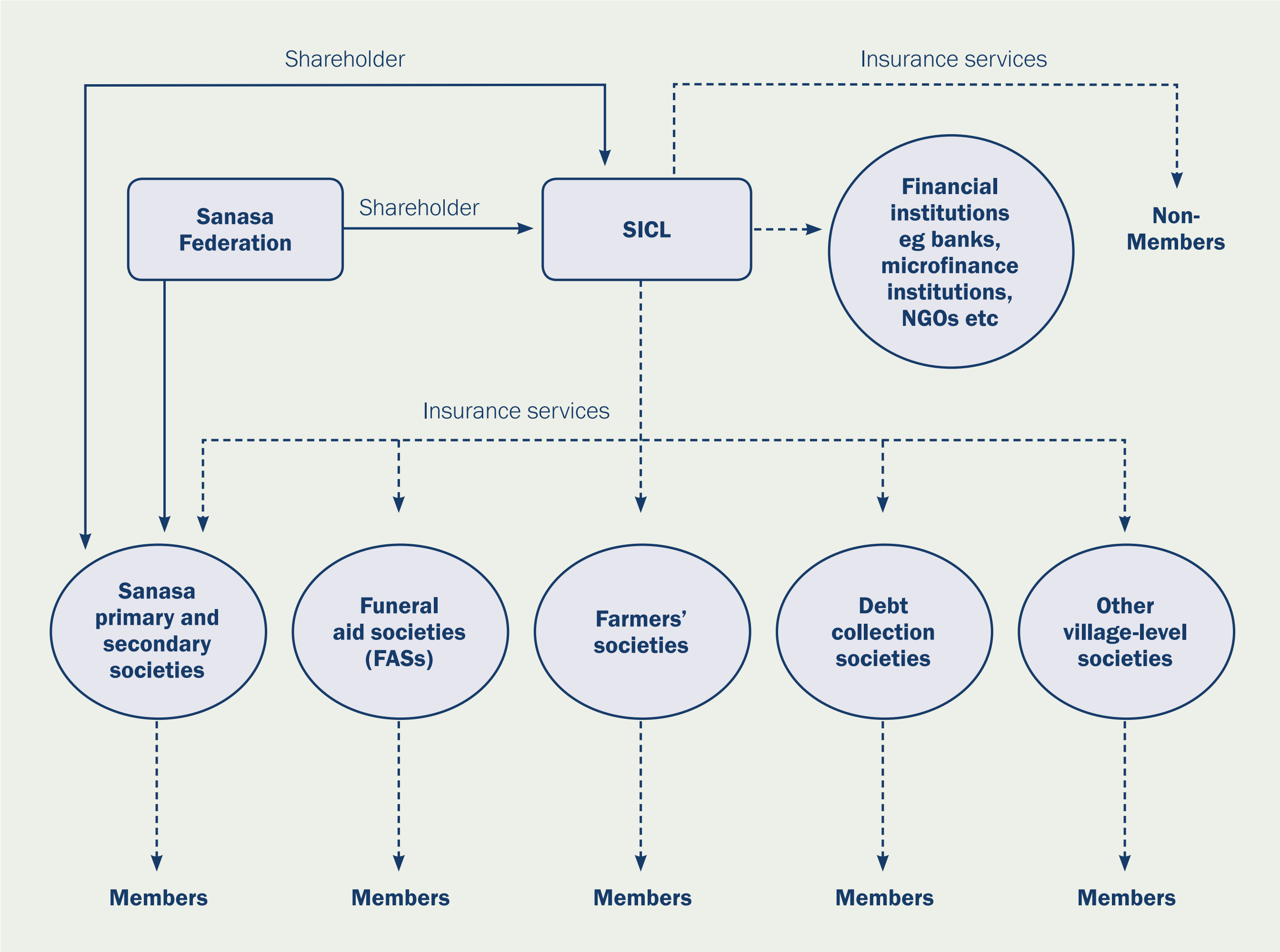
Human capital

The total number of staff members is 349, with 86% working in a non-managerial capacity. The Sanasa University has been established to offer a range of qualifications related to insurance including a 'Bachelor of Science Special Degree in Insurance and Risk Management'. The courses are available for both Sanasa employees and others.

Overview of the insurance programme

Description of the insurance programme

Annex Figure 6.1: SICL microinsurance distribution channels



Source: Authors based on supply-side surveys

Most of SICL's microinsurance products are provided as a single-premium policy, where the policy is paid to SICL through a single payment in the beginning of the term, rather than over a long period of time. In SICL's model, the insurance products are sold directly to CBOs and village-level societies, which pay the single premium on behalf of their policy-holding members and, in turn, collect the premium from these policyholders on a monthly basis. These societies that thus act as intermediaries between SICL and the grass root communities include Sanasa societies, funeral aid societies, debt collection societies, farmers' societies etc (refer to Annex Figure 6.1). The single premium scheme is beneficial to SICL due to the irregular nature of income among their low-income beneficiaries. Low-income communities regularly experience intervals of income shortfalls, and are therefore more likely to lapse on payments. This system helps prevent the insurance policy from lapsing in times of insufficient income.

SICL offers a variety of microinsurance products aimed at low-income households in the country. These include life, general, funeral and agricultural insurance policies. An overview of their microinsurance products is provided in Annex Table 6.1.

Annex Table 6.1: Microinsurance products of SICL

Product name	Risk covered	Number of policyholders	Annual premium (per product)	Benefits
Pension	Death and total permanent disability	2,421	Premium depends on the age at which a person joins the scheme. Monthly premium starts at LKR 1,000 (USD 7) if enrolled at age 18.	Benefit varies depending on the sub-policy selected as well as the age at which the policyholder would prefer to start receiving pension. Pension benefits range from LKR 2,305 (USD 17) to LKR 26,220 (USD 194). If the policyholder dies, a nominated person will be entitled to this pension. Per one sub-policy, in case of death of the policyholder, spouse is entitled to an additional lump sum death benefit ranging from LKR 688,831 (USD 5,103) – LKR 2,933,988 (USD 21,733).
Life	Death, personal accident, total permanent disability, permanent and partial disability benefit, critical illness, hospitalisation	249,797	One time premium: LKR 2,200 (USD 16)	Benefits depend on the age at which the policyholder buys the policy. Coverage ranges from LKR 5,000 (USD 37) – LKR 50,000 (USD 370)
PAB (personal accident benefit)	Death and total permanent disability due to an accident	6,320	N/A	N/A
Property (society, shop Insurance)	Fire allied perils and burglary (combined product)	1,916	N/A	N/A
Health	Hospitalisation cover and outdoor patient care	11,819	Premium depends on the age	N/A
Funeral Aid	Funeral expenses and death benefits	42,783	N/A	N/A
Child insurance product for employee family members	Hospitalisation per day benefit, scholarship benefit, personal accident benefit for child and guardian	1,038	Annual premium LKR 750 (USD 5.6)	Hospitalisation benefits range from LKR 750 (USD 5.6) – LKR 1,500 (USD 11) per day for 21 days. Grade 5 scholarship benefit: LKR 5,000 (USD 37) if the child passes the exam and LKR 10,000 (USD 74) if ranked among the top 10 of the country. If the child gains admission at a state University: LKR 10,000 (USD 74). Accident cover: Child's death or permanent disability: LKR 25,000 (USD 185). In the case of accidental death/full permanent disability of guardian: the child will receive LKR 125,000 (USD 926)

Product name	Risk covered	Number of policyholders	Annual premium (per product)	Benefits
Agriculture insurance	Weather index insurance (WII) Indemnity insurance Livestock insurance	17,606	WII: premium is based on the land area and the cost of cultivating one acre. Livestock insurance: premium is based on the assessment of cattle's value by the agent.	WII: Benefits are proportional to the deviation of rainfall (the index) from the specified threshold level. By paying an extra LKR 120 (USD 0.9) per month, the policyholder is entitled to the following additional benefits: Hospitalisation: LKR 200 (USD 1.5) per day for a maximum of 10 days. House damaged by fire/natural disasters: LKR 50,000 (USD 370) PAB: Insured: LKR 150,000 (USD 1,111). Spouse: LKR 100,000 (USD 741). Funeral aid: LKR 10,000 (USD 74). Livestock: The policyholder can claim in the event of: drowning, wild animal attacks, disease natural disasters, fire, suffocation, pregnancy related issue etc

Source: Supply-side surveys

Mutual features and the current outreach of the model

SICL's clientele comprise of both members of cooperative societies as well as non-members. Policyholders have no direct involvement the governance of SICL. However, cooperative societies are represented in shareholder profile, where 31% of capital belongs to Sanasa societies and 9% belongs to the Sanasa Federation. SICL is unique in that their Board members include Chairmen of the shareholder-societies, thus providing room for them to represent the interests of the societal policyholders. SICL does not adhere to any voluntary profit-sharing practices except in the case of their participatory long-term policies as mandated by current insurance legislation. SICL employs CBOs as a distribution channel; however, the company is unique in that these operations are carried out through their in-built federation of societies (ie the Sanasa Federation) in addition to other CBOs. SICL's island-wide presence is established by its 63 branches which cover all the districts in the country.

Business case of the model

Annex Table 6.2 shows that from 2014 to 2015, SICL's GWP has grown by 6.7% accompanied by an exponential growth of profit after tax of 375.7%. However, the company has made a loss during the year 2016. SICL's microinsurance policyholders have grown by 9% during the period from 2015 to 2016.

Annex Table 6.2: Performance indicators of SICL

Year	GWP	Profit (loss) after tax	Number of microinsurance policyholders
2014	LKR 631.4 million (USD 4.7 million)	LKR 21.98 million (USD 0.2 million)	N/A
2015	LKR 673.2 million (USD 5 million)	LKR 104.56 million (USD 0.8 million)	269,714
2016	N/A	LKR 64.24 million (USD 0.5 million)	333,700
Growth	**6.7% (2014-2015)**	**375.71% (2014-2015)**	**9% (2015-2016)**

Source: Supply-side surveys

At present, there do not seem to be any issues related to the sustainability of the model. SICL's single-premium model has helped the company minimise issues related to lapses in payments, enhancing the company's financial sustainability. SICL further plays a minimum role in the carrying out awareness programmes as policyholders are members of cooperative societies and other village level organisations. As such, dissemination of information about microinsurance policies occurs organically through the CBOs and their agents, which help the company in minimise its advertising expenditure.

SICL is financially well established and the organisation has relied on donor funding in previous years. For example, SICL has received support from the International Labour Organisation (ILO) in the form of technical expertise to implement the Weather Index Project. In addition, SICL has also previously received assistance from the World Bank in order to improve its actuarial services.

Success factors and key challenges

A major reason for the success of this model is the distribution channel. The organisation reaches members through CBOs, which have a high rate of participation at the village level. As such, the organisation has access to large and active grass root networks, and does not need to invest time and energy in carrying out awareness campaigns. In addition, the organisation's single premium policies help enhance the financial sustainability of the model.

In terms of regulatory challenges, SICL finds the new RBC framework to be a major impediment to the provision of microinsurance in Sri Lanka. One of the major reasons for this is the additional costs, such as actuarial costs, incurred by the organisation.

Furthermore, SICL finds that the organisation's financial resources are insufficient to attract and retain employees. According to supply-side interviews, SICL feels that microinsurance business is not sufficiently profitable to offer employees attractive benefits in order to improve retention rates within the company.

In addition, SICL cites the expectation of government aid in times of adversity as one of the major social/cultural reasons for the low-penetration in the market, particularly among the poor. SICL also identified strong family and community bonds as a factor that mitigates the adoption of insurance as a risk-management option among low-income households. In addition, SICL also cites the lack of awareness as a major barrier to the expansion of microinsurance in Sri Lanka.

Plans for expansion

SICL has plans to expand its microinsurance services to reach a larger percentage of the poor population in Sri Lanka. As part of this plan, SICL hopes to merge SANASA Insurance with Sri Lanka's main social protection programme, Divineguma. Through this merger, SICL expects to gain access to a larger network of low-income households. While these steps are vital to its expansion activities, SICL has also identified key areas for development where external assistance is welcome. For example, SICL identified the need for greater technical assistance to help expand their insurance activities.

Case study 7: Amana Takaful Plc

Overview of the organisation

- **Reason for introducing mutual microinsurance:** Fill the void in Islamic financing options in Sri Lanka's insurance industry
- **Geographical coverage:** Eight provinces (excluding Uva)
- **Unique mutual/community-based feature:** ATPL follows a Takaful model, which is a participatory model with mutual features.
- **Organisation's willingness to scale:** Yes, in terms of products/services provided and community-based organisations (CBOs) accessed
- **Number of microinsurance policyholders:** 13,000 (approximately)
- **Uninsured members:** N/A
- **Member profile:** Diverse

Brief overview of the organisation

Amana Bank is the first licensed commercial bank in Sri Lanka to conduct its operations in keeping with the principles of Islamic financing. Accordingly, Amana Takaful (ATPL) – the bank's insurance arm – provides insurance policies within the guidelines of Shari'ah. Its values are reflected in the 'Takaful' insurance concept, which is based on the principles of reciprocity and partnership. Therefore, by definition, the Takaful model is a participatory model which demonstrates features of mutuality. Amana Takaful is a free standing Licensed Insurance Company listed on the CSE. Amana Bank similarly, is a free standing Licensed Commercial Bank. Both these units are not sub-ordinate to each other.

The emergence of Takaful can be traced to the recurring need for an insurance scheme that matched the principles of Islamic banking. Traditional insurance contains features which contradict the essential values of an Islamic financial contract. "Takaful insurance" was therefore established in Sri Lanka to fill this void by providing alternate Islamic financial options.

ATPL was first incorporated in 1999 as a public company with the technical assistance of Takaful Malaysia. Later, in 2006, the organisation was listed on the Colombo Stock Exchange under its current name – Amana Takaful Plc. In keeping with the new regulations of the IBSL, the company segregated the business into Life (Family) and Non-Life Units in January 2015. The Family Takaful operation (Amana Takaful Life Ltd) became a fully-owned subsidiary of ATPL, while the Non-Life business was retained in its parental role. In 2016, the Life entity was listed, in which 10% of the shares were offered to the public through an IPO.

Human capital

ATPL's family (life) and general arms share HR, finance, marketing, and IT services (as permitted by the IBSL). ATPL currently has a staff strength of 320 (comprising of 171 executive, 32 non-executive, 100 middle management, and 17 senior management workers), including 258 full-time employees of whom 58 provide shared services for both their life and general businesses. They have around 28 branches in Sri Lanka, with each branch having a branch administrator, a manager, a sales administrator, an underwriter, and sales executives. The branches are responsible for the distribution of products, settling claims, and conducting awareness programmes at village-level. Moreover, ATPL has established a training centre called the Takaful Academy for Skills and Knowledge (TASK Academy) which provides training to their life and general staff members in subjects ranging from product design, to distribution and underwriting.

Overview of the insurance programme

Description of the insurance programme

Under its microinsurance arm, ATPL offers a series of products aimed at low-income communities. These products are tailored specifically to mitigate risks faced by specific segments of the low-income population such as farmers and fishermen. An overview of ATPL's insurance products is provided below (Annex Table 7.1)

Annex Table 7.1: Microinsurance products of ATPL

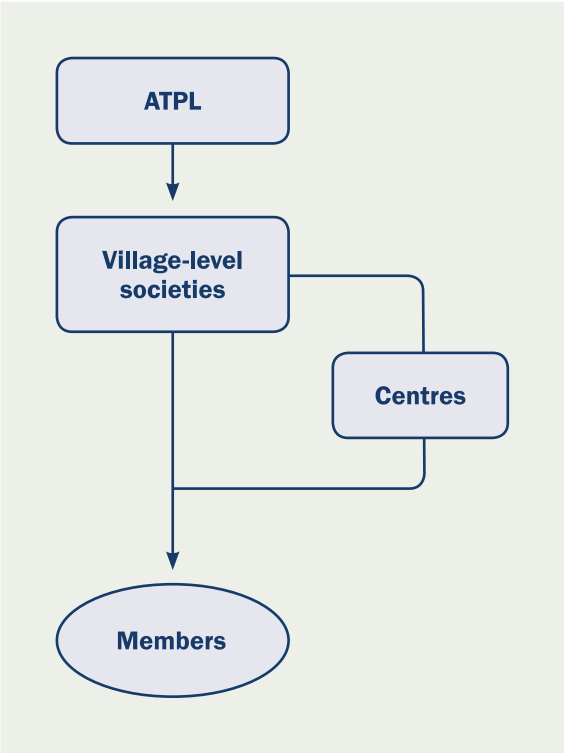
Microinsurance product (type of insurance)	Coverage (types of risks)	Target population	Premium	Coverage
Navodhaya	Life Cover	Plantation sector employees		Natural death cover: LKR 50,000 (USD 370), Accidental death cover: LKR 50,000 (USD 370), Permanent total disability(sickness): LKR 50,000 (USD 370) Permanent total disability(accident):LKR 50,000 (USD 370) Hospitalisation cover: 15,000 (USD 111), Medical expenses cover: 10,000 (USD 74)
Samudra Shakthi	Hull insurance (covers a broad range of damages on a vessel's hull, machinery, and equipment)	Fishing communities		
Kiri Govi Diriya	Protects against risks faced by individuals engaged in animal husbandry	Dairy farming communities		
Suwasiri	A one year hospitalisation cover		2% premium (LKR 2,222 ie USD 17)	LKR 100,000 (USD 741) for hospitalisation with the exception of pregnancy. LKR 50 (USD 0.4) is paid for up to 14 days at the hospital (even at a government hospital) to compensate for the lost daily wage

Source: Supply-side survey

According to the organisation's annual report, ATPL is engaged in research endeavours aimed at understanding these risks further, in order to improve targeting and increase its base. ATPL's insurance products are designed with the input of target populations. The organisation utilises survey based design methods to identify needs of the target population.

The primary distribution channel ATPL utilises to sell microinsurance products is informal village-level societies (refer to Annex Figure 7.1). At present, ATPL operates its microinsurance activities via approximately 300 village level centres, which comprise of bookstores and telecommunication centres that act as intermediaries to sell insurance products to the community. The organisation has found a higher success rate with informal village level centres due to the increased level of trust attached to these societies. In addition, the organisation works with certain government bodies to expand its reach. For instance, the organisation works through the Assistant Director of Fisheries to sell boat insurance and life insurance products to fishermen. This has been very successful given the director's influential position among the members of the fishing community

Annex Figure 7.1: ATPL microinsurance distribution channel

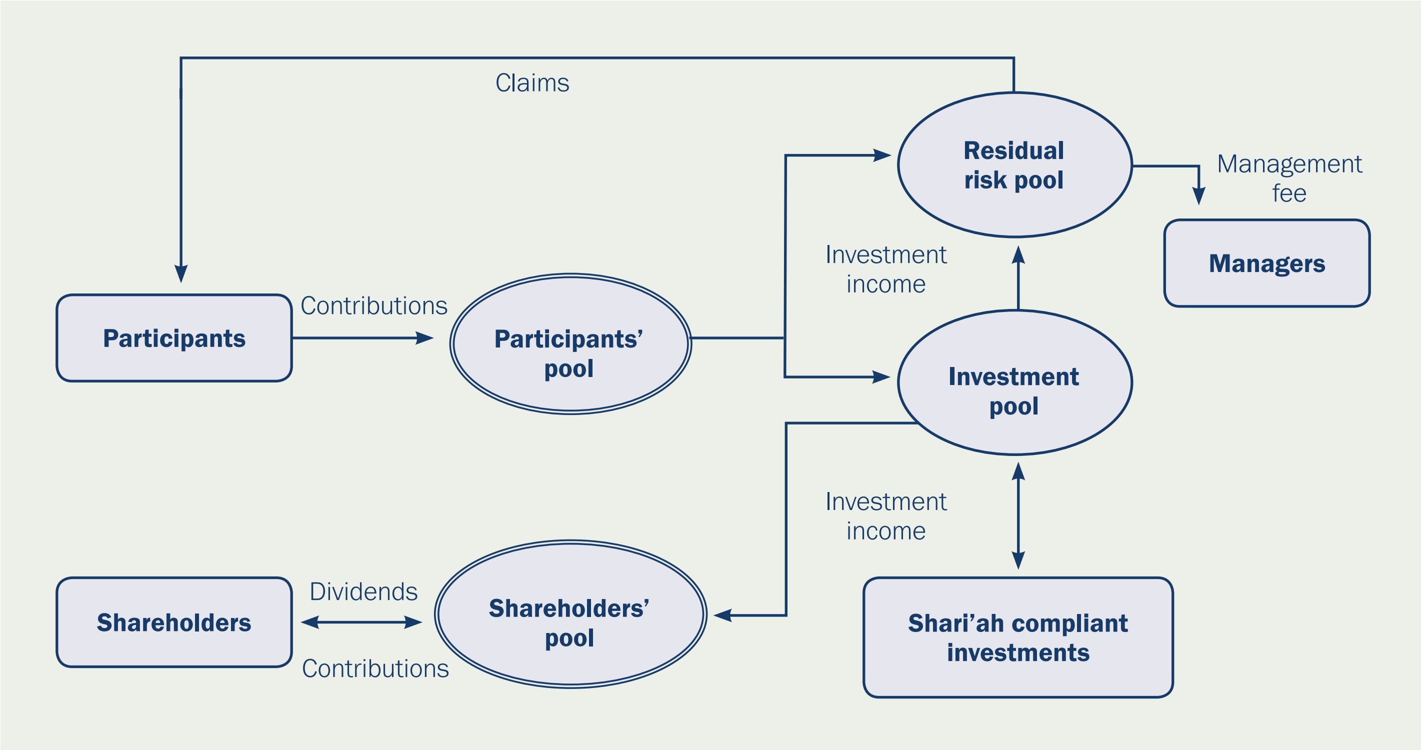


Source: Authors based on supply-side survey

Mutual features and the current outreach of the model

Takaful is by nature, a mutual model. When premiums, ie 'contributions' are paid by the clients, it is added to the participant pool which is subsequently divided into two other pools known as the residual risk pool and the investment pool. Funds from the participant pool are used to pay claims and for the management of the organisation. A portion of these funds are invested. The second pool is known as the shareholders' pool. Returns from the investment income are shared amongst the shareholders' pool and the risk pool. A unique feature of the Takaful model is that any surplus declared by the trustees is paid to non-claimant policyholders. These surpluses are paid on an annual, quarterly, or monthly basis. However, due to losses in the last two years, ATPL's ability to make these payments has been compromised. Apart from this entitlement to a portion of the surplus, policyholders do not appear to have a direct involvement in the decision-making of the organisation. (Refer to Annex Figure 7.2 for an illustration of ATPL's Takaful model.)

Annex Figure 7.2: ATPL's Takaful model



Source: Authors based on supply-side survey

Since its inception, ATPL has expanded its geographical reach to 28 locations across the country. The organisation is currently active in eight provinces (with the exception of Uva) across the island. At present, ATPL accounts for 2% of the formal insurance industry. Although it is assumed that most of its beneficiaries are Muslim, it has been revealed that 40% of their income comes from the non-Muslim sector.

Business case of the model

In order to mitigate the organisation's own risk exposure, ATPL transfers its risks to a third party reinsurer – Swiss Re. Organisations such as Swiss Re are preferred due to the provision of Shari'ah compliant Retakaful options (Retakaful is the Islamic alternative to the reinsurance industry)

Annex Table 7.2: Performance indicators of ATPL

Year	GWP	Profit (loss) after tax	Number of microinsurance policyholders
2014	LKR 2,055.30 million (USD 15 million)	(LKR 426.5 million) (USD 3.2 million)	N/A
2015	LKR 2,475.74 million (USD 18.3 million)	(LKR 121.5 million) (USD 0.9 million)	N/A
2016	N/A	N/A	13,000 (approximately)
Growth	**20.5%**	**N/A**	**N/A**

Source: Supply-side surveys

ATPL is a recent entrant to the microinsurance industry. Furthermore, ATPL is not in the practice of maintaining a separate portfolio for their microinsurance arm. As such, assessing the financial sustainability of ATPL's microinsurance business is problematic. Select key performance indicators listed in Annex Table 7.2 illustrate that although the GWP (for both micro and non-micro business) has increased from 2014 to 2015, the company has made losses in both the years. This has restricted ATPL's ability to share surplus with non-claimant policyholders per their Takaful model.

In 2016, there were approximately 13,000 microinsurance policyholders and ATPL estimates that microinsurance products accounted for 56% of total growth in 2016.

Success factors and key challenges

ATPL is the ideal (and the only) option for those who would prefer to purchase insurance from a company that adheres to principles of Islamic financing. This is a key competitive advantage held by ATPL.

However, due to its Shari'ah compliance according to which reaping or indulging in interest income is taboo, ATPL is unable to reap the benefits of changes in interest rates, unlike their competitors.

As a recent entrant to the microinsurance industry, it is important for ATPL to promote awareness about their products, but the company has found that media advertisements are not sufficiently successful in achieving this end. They aim to increase awareness and promote their products via village level CBOs.

However, ATPL feels that many of the underserved communities in Sri Lanka lack confidence and trust in insurance schemes and insurance providers. As an additional barrier for ATPL, Takaful insurance is commonly misconceived to be solely for Muslim communities, thus leading to thus leading to confusion in the minds of potential clients.

Plans for expansion

According to information gathered through the key informant interviews, as a new entrant to the industry, that ATPL hopes to expand their services to develop more microinsurance products and to reach larger segments of the target population.

ANNEX B

Annex Table 8.1: List of key informant interviews

Name	Designation	Organisation	Description
Mr Ranil Angunawela	Director, Legal and Enforcement	Insurance Board of Sri Lanka (IBSL)	Regulator
Mr M M Bandula	Assistant Commissioner	Department of Co-operatives	Regulator
Dr Asanka Thilakarthna	Secretary/Assistant General Manager	National Cooperative Council	Network of cooperatives
Mr Manjula De Silva Chairman	Chairman	National Insurance Trust Fund	National reinsurer
Mr Dirk Perera	Chairman	Insurance Association of Sri Lanka (IASL)	Network of providers/insurers
Mr Imran Nafeer	Secretary	Lanka Microfinance Practitioners' Association (LMFPA)	Network of providers
Mr Mohommed Riyaz	Programme Manager, Disaster Risk Reduction and Humanitarian Programme	Oxfam International	Donor
Dr Jagath Alwis	Former Chairman	Insurance Association of Sri Lanka (IASL)	Key resource person
Ms Rathnija Arandara	Operations Officer	International Finance Corporation (IFC)	Donor
Ms Subhashi Dissanayake	Country Director	We Effect	Cooperative development organisation
Mr V Baskaran	Assistant Director - Department of Supervision of Microfinance	Central Bank of Sri Lanka (CBSL)	Supervisor/regulator of microfinance institutions

Annex Table 8.2: Supply-side survey organisations

Organisation	Description
Sanasa Insurance Company (Pvt) Ltd	Cooperative microinsurance provider
Co-operative Insurance Company Ltd (CICL)	Cooperative microinsurance provider
Cooplife Insurance Ltd	Cooperative microinsurance provider
Amana Takaful	Mutual microinsurance provider
HNB Assurance Ltd	Provides microinsurance to cooperatives
Sri Lanka Women’s Development Services Co-operative Society	Society providing microfinance services to its members (sole focus is not insurance)
Women's Development Federation	Society providing microfinance services to its members (sole focus is not insurance)

ANNEX C

Annex Table 9.1: Performance indicators of the surveyed organisations

PERFORMANCE AND FINANCIAL STABILITY						
Year	**Co-op Insurance Company Ltd (General)**	**Cooplife Insurance Ltd**	**Sanasa Insurance Company Ltd**	**Amana Takaful**	**Women's Co-operative**	**Women's Development Federation (WDF)**
GWP (LKR million)						
2014	1,386	402	631.4	2,055.30	966.97	7.98
2015	1,725	495	673.2	2,475.74	N/A	8.77
Growth	**24.5%**	**23.02%**	**6.7%**	**20.5%**	**N/A**	**9.88%**
Profit after tax (LKR million)						
2013	N/A	N/A	50.18		N/A	
2014	71.77	16.8	21.98	(426.5)	N/A	43.8
2015	123.86	27.4	104.56	(121.5)	N/A	22.8
2016		N/A	(64.24)	N/A	N/A	
Growth (2014-15)	**72.58%**	**63.10%**	**375.71%**	**N/A**	**N/A**	**(47.88%)**
Microinsurance policyholders						
2014	9,317	2,855	N/A	N/A	N/A	17,685
2015	12,998	3,114	269,714	N/A	N/A	16,945
2016	12,686	3,832	333,700	13,000 (approximately)	N/A	15,851
Claims ratio (%)						
2014	73.74	8	26	N/A	N/A	43.03
2015	60.39	16	42	49	N/A	59.22
2016	66.51	12	47	35	N/A	64.21

ANNEX D

Formal insurance regulatory framework

Regulatory standards for the conduct of insurance business

Regulatory standards for the conduct of insurance business have been established with the objective of protecting the interests of the policyholders and mitigating conflicts of interest between the insurer and policyholder. The Act provides criteria to be followed in the appointment of directors (refer to Box 3), managerial staff, and other business stakeholders. Primarily, all appointments to the Board of Directors of an insurer need the prior approval of the IBSL. Furthermore, every insurer has to assign a principal officer, usually a Chief Executive Officer, who is seen fit to manage the affairs of the company as per the rules issued by the IBSL. In addition, at least one manager (specified officer) should be a qualified Associate of the Chartered Insurance Institute (or hold an equivalent qualification acceptable to IBSL) with a minimum of five years post-qualification experience.

The Act also demands insurers to adopt good business practices. Every insurer is expected to maintain a record of policies including the details of the policyholders, particulars of the policies, claims, and rejection of claims. The IBSL can sporadically request insurers to supply copies of their policy documents in order to examine the terms of the policy with respect to protecting rights of policyholders. Premium rates for motor, fire, and employer's liability insurance policies should also be within the limits set by the regulator. Furthermore, any advertisement regarding an insurance policy should not mislead the public.

Insurers are prohibited from granting loans to its directors without the approval of the IBSL. Moreover, the Act prohibits any insurance company or shareholders, directors or managers of an insurance company from being a shareholder, director or employee of a brokering company.

Circumstances under which a license can get cancelled or suspended

An insurer's license can be suspended or cancelled by the IBSL for violating any rules or provisions of the RII Act. The IBSL's role in this regard is to ensure that the activities of insurers do not compromise the interests of the policyholder or the development of the insurance industry in any way. Common reasons for suspension include the insurer's inability to maintain solvency margins or sustain a good financial standing, the provision of false or misleading information or the failure to disclose such information when applying for registration, and malpractice or irregularities in the conduct of business. Insurers are also obligated to disclose any arrangements leading to the liquidation or winding up of business activities in a timely manner.

If an insurer is suspected of engaging in activities which may be detrimental to the interests of the policyholder, the Minister (Ministry of Finance) is empowered to appoint an administrator to manage the affairs of the company. The administrator will then decide on the course of action to be followed – whether it is to transfer the business to a different institution, wind up operations or employ an alternative measure.

Box 1: Disqualifications for being a director of an insurer

A person shall not be eligible to be appointed, elected or nominated as a director of an insurer, if such person:-

(a) does not possess academic or professional qualifications or have effective experience in insurance, finance, business or of any other relevant discipline;

(b) has served as a member or an employee of the IBSL at any time during the period of three years prior to being appointed, elected or nominated as a director of the insurer;

(c) has been convicted by any competent court in Sri Lanka or of any other country, for a crime committed in connection with financial management or of any offence involving moral turpitude;

(d) has been declared an undischarged insolvent or a bankrupt under any law of Sri Lanka or of any other country;

(e) has failed to satisfy any judgment or order given by any competent court in Sri Lanka or of any other country, pertaining to the repayment of a debt;

(f) has been declared by a competent court in Sri Lanka or of any other country, to be of unsound mind;

(g) has been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, chief executive officer or any other position of authority in any insurance company, broker, bank, financial institution or corporate body, within or outside Sri Lanka; or

(h) has been a director, chief executive officer, principal officer, specified officer or held any other position of authority in any insurance company, broker, bank, financial institution or corporate body:

- i) whose licence or other authority granted for operating as an insurance company or broker or bank or financial institution, has been suspended or cancelled; or
- ii) which has been wound up or is being wound up, or which is being compulsorily liquidated within or outside Sri Lanka.

Source: Regulation of Insurance Industry Act (Amendment) No 03 of 2011

NOTES

The International Cooperative and Mutual Insurance Federation (ICMIF) is a best practice organisation committed to giving its members from around the world a competitive advantage. ICMIF helps to grow its mutual and cooperative insurance member organisations by sharing strategies and the latest market intelligence.

ICMIF

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