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Microinsurance - the Sri Lankan Perspective

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AGENDA

- Facts about Sri Lanka
- Microinsurance
- Development of Microinsurance in Sri Lanka
- Microinsurance Products offered by Ceylinco Insurance

Facts about Sri Lanka



- Population 20.6 M
- Literacy rate 95.6%
- Per capita income US\$ 3,700
- GDP growth rate 7.4% (2014)
7.3% (2013)
- Size of the Insurance Industry US\$ 790 M. Life Insurance Market US\$ 343 M and Non-Life Insurance Market US\$ 447 M for 2014.
- Insurance penetration 1.03%
- Insurance density US\$ 38 per person
- Growth over last year 5.7%

Microinsurance

- Microinsurance is a class of Insurance that is accessed by **low income earners**, provided by a variety of different entities but run in accordance with **general principles of insurance and premiums funded**
- Microinsurance activities should fall within the preview of the domestic insurance regulator unless excluded by the relevant laws

Special Features of Microinsurance Products

- Designed to be appropriate to low income households
- Comparatively low premium
- Coverage is simple and straight forward
- Distribution channels are different
- Non complex methods of claim settlement
- Simplicity in relation to documentation process

Demand for Microinsurance in Sri Lanka

- The insurance penetration 1.02% and the insurance density US\$ 38 which is very low compared to the per capita income which is US\$ 3,700
- Recent studies among the low income groups have shown that
 - 41.4% trust insurance and believe in the benefits of insurance
 - 33.3% believe that insurance is expensive and has no benefits to their income group
 - 25.3% do not trust insurance and think it will not help them

Demand for Microinsurance in Sri Lanka

- The low income groups believe in health, life insurance and funeral expenses
- Very low demand for property insurance
- Always expect maturity benefits even on non-life insurance as well
- However, Tsunami 2004 changed the perception of insurance to a very great extent

Sri Lanka making it work.....

- Sri Lanka is a country where Microinsurance is widely recognized as a risk mitigation of the poor and practised for a long time
- At present Microinsurance products are offered by
 - Public sector (including social security schemes)
 - Informal sector
 - Private sector

Public sector organizations offering Microinsurance

- Agriculture and Agrarian Insurance Board was set up in 1973
- Social Security Board of Sri Lanka
- “Divineguma” set up to financially assist the unemployed people below the poverty line
- National Insurance Trust Fund which was set up in 2006

Public sector organizations offering Microinsurance

Agriculture and Agrarian Insurance Board

- Set up in 1973 to offer agriculture and crop insurance
- Extended to offer pension schemes to farmers and fishermen
- Agriculture and livestock farmers and fishermen aged 18 to 60 years are eligible to join the scheme which is individual and voluntary

Public sector organizations offering Microinsurance

Agriculture and Agrarian Insurance Board

- Life time monthly pension benefits commence at the age of 60
- In the case of death of the contributor, pension is payable to the spouse until death
- A personal accident cover is also part of the scheme which has a death benefit of Rs 50,000 plus refund of contribution and funeral expenses, if the insured expires before the age of 60

Public sector organizations offering Microinsurance

Agriculture and Agrarian Insurance Board

- Permanent disablement and partial disablement is also covered
- Half yearly premium is based on the age at entry
- Premium could be paid through the Agrarian Service Centres throughout the country
- Standard exclusions are applicable

Public sector organizations offering Microinsurance

Social Security Board of Sri Lanka

- Offers a pension and social security scheme for self-employed persons
- Self-employed persons aged 18 to 65 are eligible to enter the scheme
- The scheme is individual and voluntary
- Entitled for a life-time monthly pension
- In the case of death of the contributor the spouse is entitled for pension benefits

Public sector organizations offering Microinsurance

Social Security Board of Sri Lanka

- Personal accident benefits are also part of the scheme
- Premiums vary depending on the scheme and the age and could be paid through post offices and sub post offices

Public sector organizations offering Microinsurance

“Department of Divineguma”

- Set up to distribute a monthly dole to unemployed people below poverty line
- “Divineguma” beneficiaries below the age of 65 are entitled to join this group insurance scheme which is compulsory
- The monthly dole is paid after deducting the insurance premium
- This scheme is a safety net for people below the poverty line

Public sector organizations offering Microinsurance

“Divineguma”

Benefits

- Life insurance benefits and hospital cash up to 30 days
- Ex-gratia payments at marriage, at the birth of first and second children and marriage of a child

Public sector organizations offering Microinsurance

National Insurance Trust Fund (NITF)

- Set up in 2006 to operate benefit schemes and insurance schemes for the benefit of more vulnerable segments of the society including “Divineguma” beneficiaries, Farmers, Fishermen and persons engaged in self-employment
- Benefits are also extended to Public Officers, Provisional Public Officers, Local Government Service Officers and those who are retired from such services
- The fund has already taken over the health insurance scheme of the Government servants which is called “Agrahara”
- It is likely that the insurance schemes run by the State will be consolidated into this fund for better management and control

Public sector organizations offering Microinsurance

- **National Insurance Trust Fund (NITF)**
- From last year Agriculture Insurance Scheme is offered
- The premium is included in the price of the fertilizer bags
- Further all companies operating in the Financial Sector including Banks and the Insurance Companies are subject to a levy of 1% of their net profits which is payable to the NITF and using this to fund their Agricultural Insurance Scheme
- The success of this scheme is yet to access

Public sector organizations offering Microinsurance

- These schemes heavily depend on funds from the government allocated from the national budget and not commercially managed
- Rates are not scientifically designed and there is no involvement of actuaries
- Enrolment for the voluntary schemes are very low
- High rate of lapses
- The distribution systems are not very effective as their core business is not insurance

Public sector organizations offering Microinsurance

- Absence of actuarial evaluations on these products except for schemes for self-employed
- Largely part of the social responsibility of the government
- However, creates awareness about insurance at grass root level

Informal sector offering Microinsurance

Death Benevolent Societies

- Village level informal societies
- Members contribute a minimal monthly agreed fee
- In the case of a death of a family member, an agreed amount is paid for funeral expenses
- These societies are being operated for more than 50 years

Informal sector offering Microinsurance

Death Benevolent Societies

- Some societies have huge accumulated funds which they disburse as soft loans for the members in distress
- Some societies are very active and even organize various events at village level

Informal sector offering Microinsurance

Death Benevolent Societies

- Very often, they hire furniture, tents, sound systems, generators etc. for their members at a nominal fee for various events such as weddings, parties, funerals etc
- These informal organizations are operating based on the principles of “pooling the risks”, the cardinal principle of insurance

Informal sector offering Microinsurance

- There are few NGOs and Micro Credit Agencies offering insurance covers in the informal sector
- Most of the schemes are not operating on sound principles of insurance
- The Insurance Regulator has voiced its concerns about such organizations operating insurance schemes without a proper license
- Some of these schemes have faced serious problems due to accumulation of claims after the Tsunami

Informal sector offering Microinsurance

- Till recently the Regulations did not provide institutional agencies and proposals were made to allow these informal organizations to act as Agents to registered insurance companies rather than operate on their own, illegally
- There is a Microfinance Institutions Act in draft stage which will provide provisions for licensing, regulating and supervision of institutions carrying on Microfinance activities
- According to the proposed Act, Micro-credit Agencies cannot operate any insurance scheme without obtaining a license from the Insurance Board of Sri Lanka

Private sector offering Microinsurance

- There are 09 Life insurance companies and 11 Non-life insurance companies operating in the market in addition to the 05 composite companies which will be segregated to Life and Non-life companies within next couple of months
- One Life company and a Non-life company are Takaful operators
- There are five multi-national companies operating in the country
- Companies offer various microinsurance products but only four companies have made a significant impact

Private sector offering Microinsurance

- Microinsurance products offered by private sector could be categorized as follows
 - Products related to financial products of Micro Finance Institutes
 - Products offered for the welfare families of low income groups
 - Products to protect properties of low income groups
 - Products for developing Agri Business
 - Life policies offered to meet the insurance needs of low income groups

Private sector offering Microinsurance

- The insurance schemes offered by the insurance companies are
 - Loan protection schemes
 - Schemes covering life and funeral expenses
 - Insurance attached to savings accounts
 - Personal accident and health insurance
 - Insurance packages to farmers/fishermen
 - Insurance packages for housewives and teachers
 - Insurance packages for women
 - Special packages for self-employed persons

Private sector offering Microinsurance

- Benefits under schemes offered by insurance companies
 - Death and permanent disabilities
 - Partial disabilities
 - Funeral expenses
 - Payment of loan balances
 - Loss of yield
 - Loss of fishing boats and farming equipment
 - Loss of or damage to crop/livestock
 - Loss of income due to permanent disability
 - Loss of income due to damage to property by natural perils
 - Damage to house

Some Microinsurance products offered by Ceylinco Insurance



Ceylinco Farmers Insurance Package

- Individual farmers are entitled to obtain the product
- Business is channeled through Farmers' Societies and Financial institutions offering Crop/Livestock Loans including Commercial Banks
- Product coverage
 - Crop Insurance
 - Insurance for Livestock
 - Personal Accident Insurance for Farmer and spouse
 - Funeral expenses for family members
 - Insurance for farming equipment excluding Tractors which could be covered under Motor insurance
 - Hospital Cash

Some Microinsurance Products offered by Ceylinco Insurance

Ceylinco Livestock Insurance

- Individual Livestock farmers are entitled to obtain the product
- Business is channeled through Farmers' Societies and Financial institutions offering Livestock Loans including Commercial Banks
- Product Coverage
 - Livestock Insurance
 - Personal Accident for farmer and the spouse
 - Funeral expenses for the family
 - Equipment required for the trade
 - Hospital cash

Some Microinsurance Products offered by Ceylinco Insurance

Deewara Udana for Fishermen



- Product is designed for Fishermen
- Business is channeled through Fisheries Societies and Financial institutions offering loans to Fishermen including Commercial Banks
- Product Coverage
 - Personal Accident for fisherman
 - Funeral expenses for the family
 - Allowance for the family due to disappearance of fisherman up to 12 months
 - Allowance for school going children due to disappearance of fisherman till they complete secondary education
 - Hospital cash

Some Microinsurance Products offered by Ceylinco Insurance

Ceylinco Guru Paura for Teachers



- Designed for school teachers
- Business channeled through schools, teachers' associations and also through direct canvassing
- Product coverage

Personal accident including temporary total disablement

First loss insurance due to damage caused for the house due to natural perils

Funeral expenses

Some Microinsurance Products offered by Ceylinco Insurance



Ceylinco Support Line

- Designed for self-employed individuals
- Personal Accident Insurance
- Life Insurance cover for one year
- Funeral expenses for family
- Allowance for educational expenses for children in the case of death of the insured upto the time they complete their secondary education
- Loss of income due to insured being hospitalized or in the case of property use for business is damaged due to natural perils

Some Products offered by Ceylinco Insurance

Ceylinco Pradeepa Insurance

- Term life insurance cover for 5 years
- Single premium payment
- Cover is only for Rs. 100,000 (US\$. 1,000) which could be increased to Rs. 400,000
- Offered to persons between the age 18 to 50
- The policy could be issued over the counter
- No medical examination
- Simple proposal form
- Sold by the Life Insurance Advisors
- Premium varies with the age at entry, but between US\$ 15 to US\$. 35



Thank You

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