

ALMAO and Yasiru

Sri Lanka

First draft, for discussion only

CGAP Working Group on Microinsurance

Good and Bad Practices

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Executive Summary

This study covers two microinsurance schemes in Sri Lanka; ALMAO and Yasiru. Both of them operate through local organisations which manage all field work. The local partners recruit clients/members, collect premiums and administer claims. The main target group for both ALMAO and Yasiru is the rural poor.

ALMAO has operated through the Sanasa movement, a comprehensive, nationwide network of savings and credit cooperatives. This cooperation has been a great asset for ALMAO but there has been no other external support. Since its start in 1991, ALMAO has gone through a rapid development. It was registered as a separate society in 1993 which reached its peak in 2004 when it served just below 50 000 members and had accumulated an equity of almost LKR 50 million (USD 500 000).¹

The old scheme of ALMAO offered coverage for disability, hospitalisation, death, funerals and maturity and had a premium structure which was well adapted to the target group of poor people. The premiums were paid monthly and ranged from LKR 10 to 100 (USD 0.2 to 2). The sums insured varied from LKR 3000 (USD 60) to LKR 50 000 (USD 1000). ALMAO also offered the Sanasa societies services like Loan Protection, Life Savings, Property and Health insurance for employees. In 1998 it started a brokering subsidiary through which it serviced the movement with all types of insurances available in the Sri Lanka market, particularly popular have been motor insurances for so called three-wheelers.

With the support of the Sanasa movement, ALMAO was registered as a formal life insurance company in 2002 and in 2005 also as a general insurer. The scheme has become a fully-fledged commercial insurance company. The old society and its products are put in run-off but the ALMAO insurance company is facing problems to market its new products with a minimum premium of LKR 3000 (USD 30) per year. The organisation is in the process of developing additional products adapted for people with low income, more suited to the customers of the Sanasa societies. It is of decisive importance for ALMAO to succeed with this effort. They have a huge immediate market of 8500 Sanasa societies servicing some 2 million members and non-members. A difficulty they have to overcome is to develop products that are sound in accordance with insurance regulations and at the same time meet the needs of poorer people and are affordable for them.

Yasiru started in the middle of the 1990s as an in-house insurance service in a federation of NGOs called ACCDC. In the year 2000 Yasiru was registered as a special society and ACCDC became its partner for the implementation of the insurance scheme. After a couple of years Yasiru started partnership with other local NGOs and today it has eight active partners with some 60 000 members. Yasiru is providing its insurance package to over 9 000 members through its partners. It has accumulated equity and reserves of almost LKR 5 million (USD 50 000). The product covers death, disability and hospitalisation and has a typical low income profile. The monthly premiums vary from LKR 10 to 150 (USD 0.1 to 1.5) and the benefits ranges from LKR 3000 to 120 000 (USD 30 to 1200).

Since its start, Yasiru has been supported by the Rabobank Group and its reinsurance company, N V Interpolis. Yasiru has received funding, technical assistance and has a very favourable

¹ The exchange rate between Sri Lankan Rupees, LKR, and USD varies over time. In the middle of 2005 it was LKR 100 to one USD and in 2000 it was 79 LKR to one USD

reinsurance arrangement with N V Interpolis. The financial contributions to Yasiru's head office, the Programme Management Unit, the PMU, ceases in 2005. As in many other cases, Yasiru will face great problems when the donor support is reduced. They need to increase their annual premiums with 60% just to break even during 2005. A vital factor is to increase the number of reliable partners.

Yasiru's legal status is unclear. It is registered as society but the services it provides are without doubt insurance services even if the word "insurance" is excluded in Yasiru's constitution and operations. A couple of years ago, Yasiru approached the Registrar of Societies and argued that it was allowed to provide its services to members on a mutual basis. The Registrar has so far not responded to the approach. The Insurance Board of Sri Lanka insists that it has no knowledge of Yasiru's operations. A consequence of the lack of registration as an insurer, is that the product, the pricing and the reserves have not been analysed and controlled by professional insurers.

Lessons learnt

In the opinion of ALMAO and Yasiru the following are the most important lessons learnt from their operations:

- Make a situation analysis and identify the needs in dialogue with the target group
- Build a system with democratic control and a mutual basis for the service
- Cooperate with established partners in the field
- An option, at the start, is to be an agent for an established insurance company. You avoid high capital requirements but get access to professional knowledge
- Offer simple, affordable products that can be understood by the target group
- Build equity and reserves, especially if the intention is to become a formalised insurer
- Minimise maturity but cover death

Conclusions and observations

1. Both the ALMAO and the Yasiru schemes are needed in Sri Lanka. The Government does not have resources to offer sufficient social security to the citizens and the penetration of the commercial insurance industry is too limited. There is a huge need of risk management, not only among poor people but also in the middle and lower income classes. Through microinsurance, the private sector can cover up for shortcomings in the existing public and commercial sectors. Successful microinsurance interventions will meet important needs and will also build additional, much needed long term capital
2. If ALMAO and Yasiru fail to expand their distribution capacity, they may not survive. ALMAO must reach out to many more Sanasa societies and their customers. They need to develop attractive and affordable products. Yasiru has to increase its network of good partners substantially. Both organisations need to reach their potential clients/members with insurance knowledge, awareness, marketing and sales.
3. It is a doubtful strategy for Yasiru to exclude people with middle or even very low income. In fact, the viability of the scheme may substantially increase if such people are also targeted. Other measures can be taken to make sure that the original target of reaching rural poor is not blurred.
4. Donor support to microinsurance, as well as other interventions need to be well planned including how the withdrawal of support shall be done. Realistic, long term budgets should be prepared that illustrate how self-sustainability will be achieved. Continual follow up of

the cooperation is needed to secure a smooth withdrawal. Products, fees, the building of reserves etc have to be carefully analysed by actuaries already at the start of the cooperation.

5. Developing countries all over the world have knowingly accepted that MFIs have received deposits from customers without the legally required registration as a bank (savings and credit coops are an exception, they are normally allowed to receive deposits from their members). Similarly, informal microinsurance schemes seems to be allowed to give clients/members insurance services although they should have a license from the government's insurance board to do that. The original ALMAO scheme and the present Yasiru scheme illustrate this awkward situation. A difficult question is how potential donors should act in these situations. Well designed microinsurance schemes may be of great importance for poor people but there is no legal frame for them.
6. Studies should be made of the process when a microinsurance scheme is transformed into a registered commercial insurance company. Can service and products be maintained and/or developed so that they fit both the legal rules and regulations and the needs of poorer sectors in a country?
7. Great care should be taken in all microinsurance schemes to avoid high fall-out of clients/members. High fall-out rates may destroy the market among the people who, in the future need the services of microinsurance institutions.
8. The effects of inflation should always be carefully considered when insurance services are designed. Premiums and benefits have to be systematically adjusted in case the inflation is high and you want to keep a real value on benefits and to cover increasing costs. A situation like the one in Sri Lanka is particularly difficult for the insurance industry to handle. The return on regulated, safe investments are lower than the inflation. The real value of funds is depleted with time. To continue operations with fixed premiums and fixed benefits as Yasiru does, will cause great problems in the long run.
9. Many governments, like in Sri Lanka, do very little to facilitate development of insurance services to poor people. There is no development of alternative legislation to make it easier to implement microinsurance schemes. There are reasons to believe that many governments lack awareness and knowledge of how well microinsurance services may fit into development plans in less developed countries. The donor community and representatives of the developing countries should organise meetings and conferences to spread awareness and knowledge. Models of, not only suitable systems but also of facilitating legislation, should urgently be developed to assist countries where the interest in microinsurance is raised.

1. The Context

Table 1.1 Macro Data 2004

GDP (US\$ Billions)	20.1
Population (millions)	19.5
Population density per km ²	310
Percentage urban / rural population	
GDP/Capita (US\$)	1031
GDP Growth Rate	5.4
Inflation, annual rate	12 - 14
Exchange Rate (current, X Currency per US\$1) ² Average rate 2004	101
PPP GDP per Capita	
Infant Mortality (per 1000 live births)	11.1
Under Five Mortality (per thousand)	
Maternal Mortality (per 100,000 live births)	0.2
Access to safe water (% of population)	70
Health Expenditure as % of GDP (public/private/total)	1.69/1.41/3.1
Health Expenditure per capita (US\$)	17
Doctors per thousand people	0.5
Hospital beds per thousand people (urban/rural)	3.1
Literacy rate	92.5

1.1. Role of the State in Insurance

Legislation, regulation and supervision

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

Microinsurance is not covered in the present legislation and there are presently no plans to change that. The main current issue as far as legislation is concerned, is to increase the capital requirements to LKR 100 million (USD 1 million) for a Life License, up from 25 million (USD 250000) and the same amount for a General License, up from 50 million (USD 500000).

The IBSL has the power to grant licenses for Life and General Insurance. During 2004, registration was granted to two companies for general insurance, Allianz and ALMAO. A total of 14 companies are licensed. 11 of the companies are composite companies which have licenses for both Life and General, 2 are licensed for Life only and one for General only.

² This exchange rate will be used in all calculations of current figures in this paper.

Some key provisions of the Act are:

- mutual companies are not allowed
- all insurers must appoint, at managerial level, a professional insurer possessing the qualification of Associate of the Chartered Insurance Institute
- minimum solvency margin in long term business is 5 % of the actuarial value of liabilities and 10 % of gross premium in general business
- all tariffs in general insurance have been deregulated
- rating formulas in Life insurance are approved by the IBSL
- funds in Life Insurance must be evaluated by a qualified actuary
- brokers must register annually
- maximum commission rates in Life and General decided by the IBSL

1.2 Insurance industry basics

Table 1.2 Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body	Insurance Board of Sri Lanka,IBSL
Key responsibilities of the regulatory authority	<p>The Mission of the Board: “To ensure that insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policy-holders and potential policy-holders”</p> <p>Major tasks: *Licensing of Insurers *Registration of brokers *Testing of agents *Solvency margin rules *Policy holders protection fund *Maximum commissions *Instructions for investments * On site inspections</p>
Minimum capital requirements for insurance license	<p>At present the requirements are: LKR 25 million (USD 250000) for Life Insurance LKR 50 million (USD 500000) for General Insurance.</p> <p>The minimum capital requirements for a licence for Life and General insurance will be increased to LK R 100 million (USD 1 million) each.</p>
Other key requirements for an insurance license	Only Limited companies can receive a license. Mutuuls are not allowed.
On-going capital requirements for an insurance company	Solvency margin of 10 % of gross premium in general insurance and 5 % of actuarial value of liabilities in Long Term business.

Issues	Observations
Other key requirements for regulatory.	According to the Act the insurer must appoint at managerial level a person who at least has the qualifications of Associate of the Chartered Insurance Institute. Another requirement is that the IBSL has the power to review all reinsurance contracts
Minimum capital requirement for reinsurer	Not regulated in the Insurance Act.
Number of regulated private insurers	Total of 14. 11 composite companies, 2 Life and 1 General.
Value of annual premiums of regulated private insurers	LKR 29.555 million (USD 295 million).
Number of regulated public insurers / value of total annual premiums	Not existent
Value of annual premiums of regulated public insurers	Nil
Number and type of other regulated insurance organizations	45 Insurance Brokers
Value of annual premiums of other regulated insurance organizations	Nil
Number of re-insurers (if any)	Nil
Value of annual premiums of reinsurers	n/a
Unregulated organizations that offer insurance	Old ALMAO, Yasiru, SEEDS, Women Development Fund in Hambantota No information on premiums for the two last org. In 2004 old ALMAO recived no new premiums, Yasiru received LKR 3.694.880 (USD 36.583)
Certification requirements for agents	Only private persons can be appointed as agents. An insurer or a broker can appoint agents, who must pass tests, supplied by the Board before doing long term business.

1.3 The role of the State in social protection

There is a well established tradition in Sri Lanka to provide social protection in the local society. In an informal manner the family, the extended family and the local community have provided basic social security. The form and coverage of these traditional social services have changed over time but to a large extent they are still there. During the last decades the traditional systems have been complemented with new NGOs or CBOs (Community Based Organisations), many of them donor driven. ILO in Sri Lanka has carried out thorough studies of social security services in the country, including such services provided by the informal sector. The information in this part of the report is to a large extent based on the ILO studies.

More than 7000 CBOs have been identified on District level which deal with one or another aspect of social security. The biggest categories among them are the Funeral Aid Societies, 2100, Social Development organisations, 1300, and Welfare organisations, 1000. The register of CBOs is not complete and most likely the number of for instance funeral assistance groups is substantially higher. The pattern of informal and formal local organisations is complemented by some 50 international organisations involved in promotion of social services in Sri Lanka.

Although quite extensive, the social protection provided by the adjusted traditional systems and the great number of CBOs/NGOs has great shortcomings, not least in terms of old age pension and access to complementary health service.

Social protection schemes of the government

The Ministry of Samhurdi and Poverty Alleviation provides a variety of different schemes to assist the poorest families in Sri Lanka. The most extensive scheme is its Subsidy Programme. Families with a lower income than USD 15 per month are qualified to receive monthly Allowance Cards. In 2004 1.9 million families received this subsidy. The value of the cards vary with the size of the family. 99% of the recipient families are classified to have 5 members or less and they receive between USD 1.5 to 6 per month. The value of the support is only 5% of the generally used poverty income line of 1 USD per day but its outreach is great; some 35% of the population get the subsidy. The study team was not in a position to properly judge the fairness and the effectiveness of the scheme. However, anybody involved in for instance banking or insurance knows the difficulties to administer great volumes of low value transactions effectively.

Another scheme run by the Samhurdi Ministry is the Social Security Programme. The beneficiaries, classified as poor people, get USD 30 when they marry and 10 when a child of a beneficiary marries, they get USD 20 for the first child and 10 for the second, they get USD 0.5 per day in hospital for a maximum of 30 days per year and the dependents get USD 50 at the death of a beneficiary. This programme has paid out a bit more than half a million benefits since its inception in 1997. Some beneficiaries have of course received more than one benefit.

The Ministry of Samhurdi and Poverty Alleviation manages a number of other schemes, not as wide-reaching as the two described but covering a variety of areas like self-employment, infrastructure, village empowerment, deposit and credit services, marketing, nutrition and agricultural development.

The Government of Sri Lanka is also promoting a number of programmes to establish old age pension schemes for different categories of people. The target group is naturally the population in working age (18 – 65 years) but with the outstanding exception of employees in public service, most other schemes require voluntary contributions by the eligible people. More than half of the working age population are eligible in at least one of these formal schemes but only 26 – 28 % are actually taking part.

Health care is principally free of charge but the health facilities are insufficient and it can be noted that even the Government's Samhurdi Social Security Programme covers 30 days hospitalisation per year. During the team's need assessment surveys, the need to get assistance during hospitalisation also proved to be urgent.

An overall judgement of the role of the State in social protection is that it offers a great variety of ambitious security schemes but that these schemes offer inadequate benefits and that they are fragmented, in particular the pensions schemes. There is a great need of additional risk management and with increasing income levels it is likely that the demand for private insurance services will increase in order to cover up insufficiencies in the public social security network. Currently, though, the penetration of commercial insurance service is extremely low. For instance, only 6 % of the population have private life insurances.

State role in controlling or promoting informal or unregistered micorinsurance

The insurance act stipulates that no person can use the word “insurance” or any derivate or similar word to describe its service other than registered insurers or brokers. The Insurance Board of Sri Lanka (IBSL) is, however, not formally charged with the duty to police the private sector and make sure that no on-going activity is providing insurance services without proper registration. In fact, IBSL showed no interest in microinsurance when the team met the Board. Their interest is to register and control the formal insurance sector.

One of the institutions the team has looked at, Yasiru, is registered as a society under the Societies Ordinance. Two years ago, Yasiru asked a lawyer to analyse whether a society can offer mutual benefit services to its members. These services are in fact microinsurance services but they are not called “insurance” services. The opinion of the lawyer was forwarded to the Registrar of Societies and so far there has been no response. This can be interpreted as if the State in practice is indifferent to initiatives to provide poor people with risk management services. It is not known if the Registrar of Societies has been in contact with the IBSL in this matter but it would be strange if there has been no communication between the two authorities. It is outside the objective of this study to clarify the case. Indirectly, the reluctance to interfere with ongoing microinsurance programmes is possibly an indication of a facilitating attitude towards efforts to reduce the effects of risks for poor people.

The IBSL has appointed a committee to look into the possibilities to facilitate insurance services for poor people. No proposals have been made by the committee so far. Instead, the IBSL is in the process to treble the minimum capital requirement for life insurance and double it for non-life in the near future. The possible negative effects of this change for efforts to promote risk management for poor people was of no concern for ISBL.

Box

The Insurance Ombudsman Sri Lanka

The new office of the Insurance Ombudsman Sri Lanka was opened on February 1, 2005. The good experiences that were gained from The Financial Ombudsman Scheme in Sri Lanka led to the establishment of this new office. The objective of the Insurance Ombudsman Scheme is the satisfactory settlement and resolution of complaints/disputes by customers (policy holders) of insurance institutions covered by the Scheme. The Ombudsman has the power to make monetary awards binding on the participating insurance institutions.

Apart from the primary function of attending complaints the Ombudsman engages in efforts to create a greater awareness about insurance among people in Sri Lanka.

The Ombudsman is appointed by the Insurance Association of Sri Lanka (IASL) in concurrence with the IBSL. The initial costs for the office are carried by the members of the IASL, but eventually the costs will be allocated proportionately to the insurance institutions in accordance with the number of settled complaints for each of them.

1.4 Brief profile of “microinsurance” in Sri Lanka

There are three main carriers of microinsurance in Sri Lanka. Apart from Yasiru and ALMAO, which are dealt with in this report, there is also a scheme named SEEDS (Sarvodaya Economic Development Services Ltd) which has been operating for seven years. This microfinance scheme comprises some 3.000 village societies with 300.000 savers and 150.000 borrowers. The scheme offers Loan Protection and pays upon death of a borrower the remaining debt to the Society and also an amount, equal to what the borrower already has repaid, to the family/beneficiaries. ALMAO covers a large part of Sri Lanka, 18 districts, and has reached over 50 000 clients. Yasiru operates in 6 districts and has just below 10 000 members. In addition there is a Women Development Fund in Hambantota district which provides microinsurance services to its members.

The key trend is to operate through partner organisations and both ALMAO and Yasiru has the ambition grow within their respective markets. The schemes need to increase their distribution capacity quite substantially. For ALMAO this means to increase the number of agents and insurance desks within the Sanasa movement (see below) and for Yasiru to enter into agreements with a number of new NBO:s/CBO:s.

The ALMAO scheme is since 2002 licensed as a Life Insurance Company under the Act No 43 of 2000 and is as such regulated as all other insurance companies in Sri Lanka. The Insurance Board of Sri Lanka has, however, officially no knowledge of the Yasiru scheme. Although the IBSL is well aware of the fact that life insurance only covers 6 % of the total population there are no plans to make life insurance services more accessible for the poor people in rural areas. The fact that the capital requirements for starting insurance operations will be increased to LKR 100 million (USD 1 million) will not contribute to the promotion of legal microinsurance projects.

The newly started Office of the Insurance Ombudsman Sri Lanka writes in its first report that there is a “woeful need to create a greater awareness about insurance among our people”. But from the Government or the IBSL nothing can be expected in the near future that could facilitate insurance services among poor people in rural areas.

It is fair to say that there is no state assistance whatsoever for development of microinsurance operations in Sri Lanka.

2 The Institutions

2.1 History of the institutions

ALMAO

A survey in 1989 showed that the Funeral Aid Societies (FAS) were the most appreciated Community Based Organisations (CBOs) among poor people in Sri Lanka. On this basis, ideas were formed about providing poor people with coverage for a wider range of risks. In 1991 an insurance scheme was started by seven cooperating FASs. 182 people joined the scheme the first year and, in addition to death, coverage was provided for disability caused by accidents, falling from trees, poisoning, fire and lightning, floods and snake bites. The risks had been identified by the participating villagers.

In 1993 the All Lanka Mutual Assurance Organisation, ALMAO, was registered under the Society Ordinance as an apex body of the partner organisations. ALMAO was closely related to Sanasa, a wide reaching and well established movement based on savings and credit cooperative societies. At this time the insurance package also covered loss of the member's dwelling house.

Box

THE SANASA MOVEMENT

The basis of the Sanasa movement are cooperative savings and credit societies. Most of these societies are situated in the rural areas and provide their members with simple savings and loan services. They are small organisations and are normally run by a few locally employed people, guided by a board that is elected at an Annual General Meeting by the members. The development of the movement started in 1906 and it is the oldest branch of the cooperative movement in Sri Lanka. The number of societies and members increased during the first three decades but between 1937 and 1978 the movement stagnated and even declined. There were some 1 200, rather weak societies by that time. In 1978 the movement was inspired by a new leader, Dr P.A. Kiriwadeniya. During his leadership the movement has grown rapidly and now has some 8500 societies with around 1 million members. The total savings accumulated by members and non-members was in 2004 LKR 3 730 million (USD 36 million). The total amount of outstanding loans with members was LKR 2 778 million (USD 27million)

In 1997, the movement started its own commercial bank, the Sanasa Development Bank. In 2004 the bank had a share capital of LKR 216 million (USD 2.1 million), customers' deposits of LKR 2 310 million (USD 23 million) and credits to customers of LKR 2 028 million (USD 20 million).

ALMAO did not receive assistance from any outside source except a contribution of LKR 80 000 (USD 800) from the Forum of Development, an apex NGO. ALMAO's operation was managed by voluntary workers, normally engaged by a Sanasa society, until 1996. The rapid growth required specific, salaried staff. In 1996 ALMAO also amalgamated with the insurance section of the Sanasa Federation. At this time ALMAO intensified its cooperation with the Sanasa societies and offered them a wider range of services: loan protection, life savings and property insurance.

In 1998, a brokering company was established as a subsidiary of ALMAO in order to service, in particular, the Sanasa societies but also members and non-members with motor insurances and other non-life insurances available in the insurance market in Sri Lanka. During 1997 and 1998 three more types of life insurance policies were introduced to members.

In 2002 the movement mobilised capital and a commercial life insurance company was registered under the name of Sanasa Almao Insurance Company. In 2005 the company was granted licence to operate general insurance as well. ALMAO is now a fully-fledged composite commercial insurance company. The activities of the original ALMAO society are phased out. The fall-out rate is rapidly increasing and is expected to be around 40% during 2005 and the coming years. The effect of this on the emerging microinsurance market is probably negative and will be further elaborated on in chapter 7. In this report the activities of the original ALMAO society will be referred to as the “old” scheme and the activities of the ALMAO insurance company as the “new” scheme. For the last couple of years they are overlapping and during 2004, substantial assets within the old scheme has been transferred to the new. In the factual description of ALMAO below, in particular in the tables, the figures for the period 2000 to 2003 are from the old scheme. The new insurance company is only shown for 2004.

The target group of ALMAO was in the first hand people between 16 and 65 years old who were members of Sanasa societies or of Funeral Aid Societies or other types of CBOs. Other people could become members of ALMAO through contacts with the local Sanasa Society or FAS. Most of the clients were small scale farmers or self-employed people in the rural areas. Only members were covered by the insurance. Family members had to join as members to enter the scheme. To stress the target of poor people, the scheme excluded persons who had permanent employment in the public or private sectors.

The old scheme covered disability, hospitalisation, death and maturity. The premiums were paid monthly and ranged from LKR10 to 100 (USD 0.1 to 1) in the beginning and as from 2001 from LKR 25 to 250 (USD 0.2 to 2).

The insurance services provided by ALMAO have been developed stepwise. During the period before the registration of the Sanasa ALMAO Insurance company as a commercial enterprise for life insurance in 2002, the ALMAO Society offered a variety of services to its members and to the Sanasa savings and credit cooperative societies and actually also to non-members. The services of the old scheme, including the services offered through the brokering subsidiary, can be summarised as follows:

- Four different life insurance schemes were offered which covered disability, hospitalisation, death, loss of dwelling house, maturity and funeral expenses in varying degrees. In 2002 46 980 members had such policies, a steady growth since 1996 when 6430 members were covered.
- Loan Protection services were offered to members of 773 Sanasa societies
- Life Savings to members of 161 Sanasa societies
- Property insurance to 388 Sanasa societies
- Health insurance to employees of the Sanasa societies
- Funeral aid insurance
- General insurance to members and non-members through the brokering company

The growth of ALMAO's services had been rapid but still it covered less than 10% of the Sanasa societies. The 8500 societies and around one million members constitutes a great potential for further development. If you add that most Sanasa societies give simple service also to non-members that actually seem to outnumber the members, this distribution channel reaches almost half the population of Sri Lanka, if 4 to 5 dependents are added for each member/non-member.

In 2002 the premiums for life insurances amounted to LKR 15 million, USD 150000. The total annual premium for the non-life insurances was LKR 10,7 million or USD 111000

Reinsurance

The Sanasa federation, providing loan protection etc to the Sanasa societies, which merged with ALMAO in 1996 had already in 1992 made arrangement for reinsurance with the Cuna Mutual Insurance Group. This service was passed on to ALMAO but ceased in 1997 when a change in the Cuna Mutual strategy led to their withdrawal from a number of developing countries. ALMAO instead reached an agreement with the Sri Lanka Insurance Corporation, SLIC, which by that time was a state company and had around half of the insurance market in the country. The agreement covered non-life and half the premiums were paid to SLIC for reinsurance on a 50 – 50 quota-share basis.

SLIC has later been privatised.

Details of the ALMAO operations are dealt with in chapters 4 and 5..

YASIRU

The All Ceylon Community Development Council, ACCDC, also called SLPSM in local language, was started in 1987 as a federation of CBOs. It covers seven Districts mainly in the southern part of Sri Lanka and supports a range of CBOs like savings and credit societies, farmers' societies, funeral aid societies and others. The close cooperation with funeral aid societies convinced ACCDC that risk management was a high priority among poor people in rural areas. In the middle of the 1990ies the ACCDC had developed an insurance package as a complementary service to what the funeral aid societies were providing. The package included coverage for death and disability caused by accidents like snakebites, falling off trees, floods, cyclones and earth slides and it also covered fire and lightening damages as well as crop failures. The premiums varied from LKR 10 to 50 per month, USD 0.1 to 0,5, and the benefits varied correspondingly. Although the scheme was not at all recognised by the insurance board, IBSL, the state owned insurance company, SLIC; provided reinsurance for the death coverage in the scheme but not for the other parts of the package. The package was designed without involvement of technically skilled insurers and after a short period, ACCDC realised it would not be possible to meet the claims. Paid premiums were refunded and the scheme was simplified and re-launched. The fee range remained the same but the coverage was limited to

- Total or partial permanent disability caused by accident
- Death caused by accident
- Natural death
- Hospitalisation of member

The maximum limit of cover was LKR 20 000 (USD 200) and the service was offered to the poor strata of permanent villagers. A monthly, permanent earning of LKR 3000 (USD 30) or above per family member, disqualified for membership. In spite of that the scheme, still, was not publicly registered or recognised as an insurance service, the state insurance company, SLIC, gave technical assistance in form of training.

In December, 2000, the scheme was registered as a separate entity under the name of the Yasiru Mutual Provident Fund and is generally called Yasiru. It was registered as a special society under the Society Ordinance. During the first couple of years, Yasiru only worked through ACCDC and offered its services to the members of affiliated CBOs. It later started cooperation with other NGOs and today it has eight partners with almost 60 000 members. Yasiru's membership is 9100.

The covered risks have remained the same but the monthly fee range has been adjusted to LKR 10 to 150, which now corresponds to USD 0,1 to 1.5. The greatest change is that not only the member can be covered but against a fee, also children and other adults in the family can be included.

In connection with the registration, Yasiru started to cooperate with the Rabobank Group of the Netherlands. N V Interpolis, a reinsurer connected to Rabobank, signed an agreement to provide a long term reinsurance facility for Yasiru as well as technical assistance covering different aspects of the insurance business.

The central management and administration of the Yasiru scheme is called the Programme Management Unit (PMU) and is accounted for as a separate entity. In practice though, the PMU functions as the head office of the Yasiru society. In the tables and from an accounting point of view, the study team treats the two entities, the Provident society and the PMU as one unit.

The operations of Yasiru are further described and analysed in chapters 4 and 5.

Table 2.1 Insurance Organisation Basics – the new ALMAO

Issues	Observations
Legal structure	Limited Insurance Company
Registration status	Licensed as Sanasa Almao Insurance Company Ltd for Long Term and General Insurance
Regulation status	Regulated by the IBSL
Start of corporate operations (year)	Long Term operations started in 2002 and General insurance in 2005.
Start of microinsurance operations (year)	1991
Core business	Long term
Target market – core business	Low income people
Target market – insurance business	Low income people
Geographic area of operation	All of Sri Lanka except northern and eastern part
Development, marketing, or servicing policies with other institutions	Cooperation with the Sanasa Movement.
Reinsurance provider, provider type	NTUC Income in Singapore
Reinsurance type	Quota share

Table 2.2 Insurance Organisation Basics – Yasiru

Issues	Observations
Legal structure	Registered Society
Registration status	Registered in 2000 under Societies Ordinance No. 16 of 1891.
Regulation status	Regulated by the Registrar of Societies
Start of corporate operations (year)	2000
Start of microinsurance operations (year)	2000 (under ACCDC since 1997)
Core business	Micro insurance
Target market – core business	Low income and poor members of NGO:s or CBO:s
Target market – insurance business	Low income and poor members of NGO:s or CBO:s
Geographic area of operation	Southern part and middle part of Sri Lanka
Development, marketing, or servicing policies with other institutions	Agreement with seven NGO:s/CBO:s.
Reinsurance provider, provider type	N V Interpolis of Holland
Reinsurance type	Quota share

Table 2.3. The old ALMAO , basics – trends,

	2003	2002	2001	2000
Total assets (USD)	597 000	511 000	362 000	302 000
Annual budget (USD)	255 000	186 000	154 000	140 000
Equity (USD)	504 000	462 000	326 000	277 000
Number of branches	4	4	3	2
Total number of all clients	37 154	46 980	36 754	32 403
Total number of microinsurance policyholders	37 154	46 980	36 754	32 403
Total number of microinsurance insured lives	n/a	n/a	n/a	n/a
Number of microinsurance staff, HQ – branches, life only, excluding staff in Sanasa societies	35 - 30	32 - 25	30 - 20	28 - 16
Staff turnover (%), management estimate	10%	10%	10%	10 %
Number of policyholders / microinsurance staff	572	824	735	736
Microinsurance marketing costs	n/a	n/a	n/a	n/a

Table 2.4 Yasiru basics – trends

	2004	2003	2002	2001
Total assets (USD)	58500	42100	23800	12900
Annual budget (USD)	18200	11600	13500	9600
Total equity (USD)	48900	39600	14900	12700
Number of partners	8	6	1	1
Total number of all clients (thousands)	9090	6265	3780	2698
Total number of microinsurance policyholders	9090	6265	3780	2698
Total number of microinsurance insured lives	23780	22609	9472	8151
Number of microinsurance staff, PMU + partners Partners' staff is not always on full time	7 + 48	7 + 36	5 + 6	5 + 6
Staff turnover (%), head office only	15%	20%	20%	20%
Number of policyholders / microinsurance staff (%)	190	145	345	245
Microinsurance marketing costs (brochure) USD Training and field work not included	140	100	20	20

2.2 Organisational development

ALMAO

ALMAO's organisation has continually changed since the start of the simple insurance services in 1991. Registration as a society in 1993, merger with the insurance section of Sanasa Federation in 1996, establishment of brokering subsidiary in 1998, registration as a commercial life insurer in 2001 and as a fully-fledged insurance company in 2005. During the first five years of operation the services were run by voluntary workers. 10 years later, ALMAO is managed by professional insurers in accordance with the insurance regulations of Sri Lanka.

The share holders' annual meeting elects a board of 11 people, most of them representing Sanasa societies. The Chief Executive Officer is a qualified insurer and is, in accordance with the regulation of the insurance act, responsible for the viability and reliability of the insurance schemes. A General Manager manages the operations of ALMAO. The organisation has four main departments; Life insurance, General insurance, Accounts and Finance and Marketing and Training. There are 5 branch offices organised under the Marketing and Training department.

There are 60 employees in Head Office, including some officers who mainly operate in the field, and 35 in the branches. The top management has long experience of the insurance industry. Many of the officers also have previous experience of insurance work including work with ALMAO's brokering company. Practically all employees have passed A-level as their basic education (roughly 13 years' schooling) and about a quarter of them have diplomas in for instance management or insurance.

ALMAO has about 300 agents who carry out the field marketing and premium collections and who also are involved in settlement of claims. 90% of the agents are actually Sanasa Societies and 10% are independent agents. The officers in the Sanasa societies who do the work of an agent are normally employed by the Society and the commission is usually collected in full by the society. Some of these officers work full time on ALMAO's services and some also do other jobs in the Sanasa society. A number of societies have opened separate ALMAO desks for the clients. It has not been possible to properly analyse whether the commission received by the societies cover the costs of the services provided. However, the visited societies were satisfied with the arrangement and indicated that it gave them a surplus.

The minimum education level required for agents and society staff working as agents is O-level (11 years' schooling). The agents are supervised and supported by Sales Promotion Officers who are employed by ALMAO. Agents must nowadays pass a test organised by the IBSL in order to be allowed to sell long term business.

Throughout its existence, ALMAO has developed and indeed depended on its cooperation with the Sanasa movement. There is no doubt that also in the foreseeable future, ALMAO's expansion will take place within the Sanasa movement. As pointed out earlier ALMAO's services only cover around 10 % of the societies currently. Another 7000 Sanasa societies have not yet been involved in the insurance scheme. They have some 800 000 members and an equal number of non-members who are serviced by the society

Yasiru

The Yasiru microinsurance scheme started as an in-house service of the ACCDC and was managed by the ACCDC staff. After a couple of years, in 2000, Yasiru was registered as a separate entity with its own nucleus staff and management, totally 5 persons. They form the Programme Management Unit, the PMU. For another two years it only served members of organisations associated to ACCDC. Still today, the PMU of Yasiru shares its office with ACCDC but now it provides services to another 8 partner organisations. The number of staff is 8 including a secretary manager and an accountant. The chairman of Yasiru, Dr Sunil Silva, is involved in the over-all operations of Yasiru and acts as the General Manager of the society. The small Head Office is divided into four departments: Finance and Administration, Research and Development, Planning and Networking and Mutual Administration

A great difference as compared to ALMAO is that whereas the latter has developed into a professional insurance organisation, Yasiru is a peoples' development organisation providing insurance services. No staff in Yasiru has any professional experience of insurance. The general education level is A- and O-level.

Yasiru's partners play a crucial role in the operation of the services. They have to set up a microinsurance unit with one coordinator, four field officers and one accountant. The partner carries out the recruitment of members/clients, the underwriting and the claim procedure in the field. To do the recruitment the partners engage animators who also collect the premiums and participate in the processing of claims. The partners share the commission with the animators but how the commission is shared, differs a bit from one partner to another. The partners we visited were satisfied with the financial outcome of the arrangement but there were no specific accounts available to calculate a profit or loss.

The members of the Yasiru society are the policyholders. Members in each of the 9 partners' operational area, meet to elect 7 representatives for the Yasiru Annual General Meeting. They elect 7 representatives irrespective of how many clients/members the partner has recruited. Currently ACCDC has recruited 5100 clients and the smallest partner has recruited 290. The AGM elects the Board of Yasiru and of course considers the Annual Report for approval. The chairman and the treasurer of the board are also members of Yasiru's Programme Management Unit (PMU) which manages the operation of Yasiru's services.

The partners are represented in Yasiru's organisation. There is a Central Committee which meets quarterly to review the progress of Yasiru and make recommendations to the Board. All the partners are represented in the Central Committee.

Training

The Sanasa movement has a large training campus near Kegalle, northeast of Colombo. The campus has four collages; one for the commercial Sanasa bank, one for the Sanasa savings and credit societies, one for ALMAO and one for women in the movement. The latter college trains women in self-employment and in special women and children activities.

Insurance is an integrated subject in all training at the campus. The goal is that the whole Sanasa movement, members, boards and staff, shall be knowledgeable about insurance and be able to promote ALMAO's services.

The ALMAO college provides training for targeted groups like marketing officers and board members and specially selected agents. The number of student days at the college in 2004 was 1500. The college is also involved in training at District level, in particular in the training of agents. All agents recruited as from 2003 will have to pass IBSL's test to be allowed to deal with long term insurance.

Agents have so far got 2 to 3 days training, locally mostly, but also at the college. District Marketing Officers get provisional employment for three months during which they get 2 days training at local level and 3 days at the college.

It should be pointed out that there is no strictly standardised training programme which is implemented in all areas where ALMAO is operational. There are variations between different areas.

Yassiru is a much smaller organisation and cannot organise a standardised training system for its limited staff. Animators normally get one day's training in the partner's locality. More advanced, 2 to 3 days follow up courses are organised intermittently for animators from several partners. Women animators, though, have difficulties to travel for external courses.

Other training, for instance for staff of a new partner, is organised in accordance with need and is often carried out by Head Office staff.

2.3 Resources

Although they are very different in size, both ALMAO and Yasiru have their largest resources in their partners. ALMAO has the required share capital of LKR 75 million (USD 750000) to operate both Life and General insurance services and has a staff of 60 in Head Office and 35 in the

branches. Still, the resources available in the Sanasa movement to assist in the provision of the services are much greater. The more than 8 000 societies and their almost 1 million members and even a greater number of non-member customers represent a giant resource and market to be fully exploited by ALMAO.

ALMAO's professional staff and its reasonably well qualified and trained general staff is a comparatively good resource for implementation of microinsurance services. The ALMAO college is another important resource in this respect.

Yasiru with its small Head Office of 8 employees builds its operation on the participation by partners. The strength of Yasiru is its genuine inclination towards development of poor people but embedded is, as in many other cases, the risk to underestimate financial requirements like viability and profits. The partners visited by the study team were satisfied with the financial terms and conditions for their participation and if this is correct there is potential for Yasiru to engage more partners and expand the services to more members. This will certainly increase the long term viability and there are numerous development organisations in Sri Lanka which are potential partners.

2.4 External assistance

Besides a token of USD 1600 from a local NGO apex, the ALMAO scheme has not received any formal external assistance. In particular, no foreign donors have been involved in ALMAO's development. However, the support to ALMAO from the Sanasa movement and its leadership cannot be underestimated. Without its close cooperation with Sanasa, ALMAO's rapid development from a limited microinsurance scheme to a fully-fledged insurance company had not been possible.

The cooperation with Cuna Mutual and later SLIC concerning reinsurance cannot be termed assistance since it mainly was done on a business basis.

Yasiru was started as an in-house service to members of ACCDC partners, It was supported by SLIC in the area of reinsurance and training. When Yasiru was registered as a special society in 2000 it had established links with the Dutch Rabobank Group. The Group agreed to support the development of Yasiru. A development cooperation agreement was signed which included a long term re-insurance arrangement with the groups re-insurance company, N V Interpolis which has also provided technical assistance to Yasiru. The PMU of Yasiru has received substantial financial support until 2004.

The re-insurance arrangement with N V Interpolis which is very favourable for Yasiru, is still in force.

2.5 Risk management products offered by ALMAO and Yasiru

Since ALMAO received its licence as a Life Insurance Company, they changed their portfolio of products quite dramatically. From having provided products with monthly premiums starting at LKR 10 per month they now offer four different types of life products but with a minimum premium of LKR 3.000 (USD 30) annually.

The products offered by ALMAO are reasonably modern and cover death risks but also offer security if you live a long life (endowment policies). On the basis of its long cooperation with Funeral Assistance societies, ALMAO has seen the need for a substantial capital if the insured dies prematurely. This can clearly be seen in their product “Pilisarana” where 2-2,5 times of the sum insured + bonus is payable upon an early death of the client. The maturity amount, on the other hand, is reduced to 60% of the sum insured. This shows clearly the intention by ALMAO to provide insurance for actual needs of low income people and not only as a form of capital investment, as most life insurers do in Sri Lanka.

The products offered by Yasiru can be regarded as more typical microinsurance products. They offer cover for the main perils death, permanent disability and hospitalization. The policy by Yasiru is to offer products that the members can afford and which at least will give some compensation in case of death, permanent disability or hospitalization. The members are classified in four classes according to their family situation. In each class you can choose among 4 monthly premiums. The member, with the help of an animator, decides how much he is willing to pay per month. Monthly premiums start at LKR 10 (USD 0.1) and the maximum is LKR 150 (USD 1,5) per month. The benefits increase in relation to the size of the premium.

There is no actual maturity payment in the scheme but Yasiru opens a member’s account for each member. When a member reaches the age of 75, or terminates the membership, he/she will receive the credit balance of the member’s account if the membership has lasted for more than five years. Out of the profit each year from the scheme, 40 % will be credited to the members’ account.

2.6 Profit allocation, distribution policies and investment of reserves

Yasiru has a very clear policy on profit allocation. 50% is allocated to a Risk Fund to build up reserves for future claims etc. 40% is allocated to the members’ individual accounts which, upon termination of membership after 5 years, will be paid to the member. 10% is contributed to a Welfare Fund which finances certain extra services to members outside the set benefits (ex gratia). Examples of such services are contributions to glasses or wheelchairs in needy cases.

ALMAO’s policy on life insurance is that at least 90% of the profit shall benefit the policyholders. Normally, the surplus will be allocated to Life Funds for later payment to clients. The current policy on general insurance is to use part of the profit for no claim bonuses to policyholders. Historically, though, the old ALMAO scheme used surplus to increase its own capital which grew from LKR 10,3 million (USD 103000) in 1998 to LKR 44,5 million (USD 445000) in 2002. The recently registered commercial insurance company will, similarly, for a long period have a great need to build up its own capital.

The investment policy of both Yasiru and ALMAO is conservative. ALMAO aims at keeping 30% of its investments in Treasury Bills and the remaining part in fixed deposits. Yasiru keeps all of its investment capital in fixed deposit accounts, normally with government banks. The return of both TBs and fixed deposits is around 9% to be compared with an inflation of some 13%.

2.7 Reinsurance

Both ALMAO and Yasiru have managed to obtain reinsurance with solid reinsurers. ALMAO has an agreement with NTUC Singapore for their new life business. Claims in excess of LKR 100 000

(USD 1 million) are paid to 100 % by NTUC. The premium is 50 % of the risk premium. For the Funeral Assistance insurance, ALMAO still keeps an agreement with SLIC. The conditions for this program, which clearly is a program that is run with losses, are very favorable as 100 % of the claims is paid by the reinsurer. For this cover ALMAO pays 100 % of the premium less commission which is used to cover operating costs within the ALMAO organization. See more in chapter 4.3.

Yasiru has since the operations started been backed by AV Interpolis of Holland. The agreement must be seen as a development support and similar terms will not be available in the open market. Yasiru lacks reinsurance coverage for hospitalization claims and have not yet reached an agreement with N V Interpolis. They have so far not tried to obtain reinsurance coverage elsewhere in the market. As the number of claims as well as costs for hospitalization are growing Yasiru should actively try to find reinsurance cover also for this risk.

3 Clients and Members

Table 3.1 Client Information Table

Issues	Observations	Observations
	Almao	Yasiru
Intended target groups/clients	Old scheme: Poorer sections and disadvantaged groups of Communities New: Villages and low income communities	Rural poor without permanent employment.
Actual clients and reasons if deviation from intended market	Most of ALMAO's clients are members of the Sanasa societies. Many of them are middle and low income earners and do not consider themselves to belong to the poorest strata	Small scale farmers, estate workers and rural people with low income. Members do not classify themselves as the poorest strata. A formal upper income limit of LKR 3000 (USD 30) per household member and month is not strictly applied in practice. Animators avoid "rich" people.
Exclusions of specific groups	Old scheme: -People with permanent employment -People under 18 and over 65 -Disabled people In practice permanent employment has not been a hindrance New: Underwriting rules for each type of insurance. Every client is classified. (class 5: may be rejected) No group exclusions	Membership can only be started after 18 years of age and before 60. Children between 3 months and 18 years and persons between 18 and 75 years may be covered. Government employees were earlier excluded. Now the guideline is to exclude households with an income of LKR 3000 per household member and month (see under "Actual Clients" above)
General economic situation of clients	Middle and low income earners with bank accounts in the Sanasa movement	Small scale farmers and people from the informal sector. Poor people, but not the poorest of the poor.
Key economic activities of clients	Employment and self-employed, traders and taxi drivers (three-wheelers)	Farming, estate workers, casual labourers, informal sector activities
% of clients working in the informal economy	No statistics available. Estimate: 5-10 %	No statistics available. Estimate: 15 – 30%, farmers excluded
Social characteristics of clients	Mainly rural and semi-urban families with stable but low or middle incomes. A majority are women	Farmers and people from the informal sector in rural areas. Low income. 64 % are women.
Geographic characteristics	Covers 18 Districts with 90% of	Operates in the rural areas of 6

	the country's population, excluding the north and north-eastern areas (tamil areas). Main operations in small towns and rural areas.	Districts in central and southern Sri Lanka.
Nature of membership	Old: members of the ALMAO society New: clients of the commercial ALMAO company	Clients are registered members of the Yasiru society
Methods of recruitment of clients	Through Sanasa societies and through field agents in the operational area of the society	8 partners organise animators to do direct recruitment among their members and of others in the partners's operational area

3.1 Description of social, economic and geographic conditions

Since ALMAO operates over almost all of Sri Lanka with the exception of Tamil dominated districts in the north and north-east, the general conditions of the country are also the conditions for ALMAO. 16 of the 18 Districts are rural areas. 69 % of the population are rural. Agriculture is the main source of livelihood. Paddy, vegetables, fruits, tea, coconut and rubber are the major agricultural crops. Some 17 million people live in the Districts and 1,4 million of them stay in commercial plantation areas, mainly tea. The population density is high, between 200 and 600 hundred people per square kilometre in most of ALMAO's operational area. Sri Lanka defines poor people as those with an expenditure belonging to the lowest four deciles of the average per capita expenditure and who spend more than 50% of their household expenditure on food. The percentage of poor people in the 18 Districts vary from 48 to 9 (Colombo). In Kegalle District, which is the heart of ALMAO's operations the percentage is 36. The average number of hospital beds per 1000 people in Sri Lanka is 3,6. In half of the ALMAO Districts this figure is between 2 and 2,8. The average household size is in the range of 4,2 to 4,6

Yasiru operates through its partners in 6 rural Districts with a total population of 4 million. 78 % live in rural areas. The population density varies from 72 per square kilometre to 673. Agriculture is the main economic activity and common crops are paddy, vegetables, fruits, tea, coconut and rubber. The average household income is lower than the average of the country. The provision of health facilities is also below the average for the country.

3.2 Major risks, vulnerabilities and primary coping strategies

Both ALMAO and Yasiru involved the intended target group in identification of the risks the target group was facing. Based on this, the insurance coverage of the two schemes have been similar. Death, accidents and disability, hospitalisation and funeral costs are risks which worry the target group, also according to follow up surveys.

Other risks that are of concern are loss of crop caused by floods or elephants, loss of household assets for instance due to floods or earth slides, and the risk to be unable to pay for education of the children. For a short period in the middle of the 1990ies ACCDC, Yasiru's initiator, actually tested an insurance scheme that had a broad coverage including crop insurance. It was quickly realised that this was unrealistic and premiums were repaid to the members. This experience and contacts

with commercial insurers (SLIC, Cuna Mutual and N V Interpolis) helped the two organisations to limit the schemes to risks that could viably be insured.

Theft, robbery or fire are not risks that cause any greater concern among the target group. After its registration in 2005 as a general insurance company, ALMAO is in a position to offer insurance of property, but there is, so far, no particular scheme designed to include such coverage in specific microinsurance activities.

The common risk coping strategy for low income people both in urban and rural areas has been membership in Funeral Aid societies or similar informal groups. In Sri Lanka, these groups often consist of 60 to 100 households and it seems that the groups help out in different types of emergencies.

The numerous Funeral Aid societies together with ALMAO's and Yasiru's services seem to provide a good enough risk management to the target group under the prevailing circumstances. The members the study team met, had very few serious complaints. They obviously had sufficient knowledge about their insurance to be able to utilise the service. They had knowledge about insurance also earlier but not as detailed as after that they joined as members.

4 The Product

Table 4.1 Product Details – the new Almao products

	Product Features and Policies
Microinsurance type	Long term, Life, Accident and Loan Protection
Group or individual product	Individual Group insurance for funeral assistance
Term	Annual
Eligibility requirements	Not below 18 years and not above 65. Each application is subject to strict underwriting rules.
Renewal requirements	Premium payment not in arrears
Rejection rate	Very few, 1 – 2 % only.
Voluntary or compulsory	Voluntary
Product coverage	Sum insured + bonus paid upon accident, disability or death of policyholder/covered persons Daily, monthly amount during time of hospitalization On maturity: whole or part of sum insured + bonus
Key exclusions	Suicide during first 12 months
Pricing – premiums	Minimum premium LKR 3.000 (USD 30) annually Funeral cover LKR 172,50 (USD 1,7) annually
Pricing – co-payments and deductibles	No deductibles or co-payments
Pricing – other fees	No other fees

Table 4.2 Product Details - Yasiru

	Product Features and Policies
Microinsurance Type	Life, Accident, Hospitalization
Group or individual product	Individual
Term	Annual
Eligibility requirements	Members above 18 years but not older than 65. No families with an income of more than LKR 3000 (<i>USD 30</i>) per family member. (the rule is not strictly applied in the field)
Renewal requirements	Premium payment not in arrears
Rejection rate	No rejections
Voluntary or compulsory	Voluntary

	Product Features and Policies
Product coverage	Sum insured paid upon accident, disability or death of policyholder/covered persons. Daily or monthly amount during time of hospitalization On termination of membership after at least 5 years; the amount on the member's account
Key exclusions	Suicide and contagious diseases
Pricing – premiums	Monthly premiums from LKR 10 (USD 0,1) to LKR 100 (USD 1,0)
Pricing – co-payments and deductibles	No deductibles or co-payments
Pricing – other fees	No other fees

4.1 Partners

Since its inception ALMAO has been closely integrated with the Sanasa movement. It is through Sanasa that ALMAO distributes their products, collects their premiums and processes claims. The chairman of the Sanasa Development Bank is also the chairman of the Board of the ALMAO Assurance Company Limited.

In the initial stages ALMAO had a reinsurance cooperation with Cuna Mutual. Cuna Mutual withdrew from Sri Lanka, as they did in most developing countries in 1997. At that time ALMAO managed to establish a reinsurance contract with SLIC, by that time a state company. When ALMAO was licensed for Life insurance in 2002, NTUC Income from Singapore became the reinsurance partner.

Besides the reinsurance partners, no donors or other organisations have been supporting ALMAO, neither financially nor technically. It is the Sanasa movement that has facilitated ALMAO's development.

When ACCDC started its insurance service to the partners, as a forerunner to Yasiru, it cooperated with SLIC. SLIC provided reinsurance and some technical assistance. When Yasiru was established as a separate entity, it established cooperation with Rabobank and N V Interpolis at the start and has been supported by them throughout its operation. Rabobank has financed the assistance which covers technical know-how, computer hard- and soft ware and financial contributions. N V Interpolis has implemented the support, including the reinsurance facility.

ACCDC was Yasiru's parent partner and the only field partner for a couple of years. During the last three years the number of implementation partners has increased to 8 with a total of 60 000 members, and discussions are going on with other potential partners. So far the field partners have been NGOs but Yasiru is also discussing with the Samhurdi ministry, the cooperative movement and World Bank financed projects.

As pointed out elsewhere, Yasiru is completely dependent on its partners for the operation of its services.

4.2 Distribution channels

ALMAO

The basis for the distribution of ALMAO's insurance service is the Sanasa movement. This movement comprises around 8.500 savings and credit cooperatives with a total membership of about. Less than 4 % of the societies are so far operating as ALMAO agents so there is a great potential for expansion. Some 10 % of the societies use ALMAO's general insurance services.

ALMAO has set up 5 branch offices to promote and follow up its present operations. The total number of agents selling insurance and servicing the policyholders are about 300, of whom some 30 are outside the Sanasa movement. Some of the Sanasa societies have set up "insurance desks" where they receive members and other clients and inform them about the insurance products that they can provide. The staff at the "insurance desks" can now, since the General Insurance Company was licensed, sell general insurances such as motor- and home insurance to the clients.

In Head Office and at the branches there are 7 Sales Promotion Officers who monitor and support the agents.

Yasiru.

The distribution net utilised by Yasiru is the network organised with the eight NGOs that have signed an Agency Agreement with Yasiru. The NGOs have offices in the rural areas and appoints "animators" who carry out the recruitment of clients in the field. Normally the NGO, at their normal meetings or at specially organised meetings, inform the membership of the insurance scheme. The animators thereafter visit the members, and others, in their homes to do the recruitment.

Their effectiveness

One challenge that both ALMAO and Yasiru is facing is the fact that the market for them is so huge. Only 6 % of the Sri Lankan population are covered by some kind of life insurance. Within the Sanasa Movement there is one million members and most likely more than one million non-members who are served by the Sanasa societies but up till today the number of policyholders within ALMAO's new product portfolio amounts to only 2.000. This may be an indication that the new products do not attract the Sanasa clientel or that they are too complicated to understand. The products are described below.

Yasiru's current partners have some 60.000 members out of which just above 9.000 are members of the Yasiru scheme. But there is also a great potential in form of new, qualified partners in the CBO rich Sri Lanka.

Rejections

There are very few rejections within both systems. The Yasiru program has simple rules on exclusions. It is open to their partners' members but also other people in the local community above the age of 18 and below 65. They must not earn more than LKR 3000 (USD 30) per family member per month. The latter rule is softly applied by the animators. All possible rejections are made

locally by the animator and/or the Society. In the PMU there is no statistics available on rejections in the field. It is exceptional by the PMU to reject an applicant.

In the case of ALMAO, which now operates as a licensed life insurance company, an underwriting policy has been adopted that originates from the Swiss Re underwriting manual. All applicants fill in a personal form, including their health history. The forms are screened by the head office before acceptance of the application. They have the possibility to ask for medical exams if the sum insured is above LKR 750.000 (USD 7500) and the customer is more than 50 years old. Furthermore they have the possibility to require higher premiums or reduced sums insured if the health declaration from the customer so requires according to the underwriting rules.

This system has only been in operation since 2004 and so far the number of applications that have been rejected is very low.

Distribution and underwriting

For both ALMAO and Yasiru, the distribution channels are basically the same in the sense that the intermediaries/partners are local organisations; Sanasa Societies, NGOs and CBOs. These organisations are the basis for the distribution of ALMAO's and Yasiru's microinsurance products. For both organisations it is vital to increase the number of local partners. They are well aware of the necessity to widen their distribution nets by adding new organisations as agents.

The client's role in underwriting is about the same for both programs. An application form has to be filled out and signed by the applicant. The application form for the Yasiru membership contains only one question about the health of the applicant or covered persons. The applicant must write down any "ailments" of the member and covered persons. The application form for the ALMAO products contain a full health declaration to be filled out and signed by the applicant. Filling out the forms is always done with the help of an "animator" in the Yasiru case and with the help of an agent or insurance staff at the society in the ALMAO case. In both cases the client has to pay the premium when the application is signed.

4.3 Benefits

ALMAO

When ALMAO was granted the license for life insurance their old book of business was put in run-off. Its present product portfolio contains four life insurance products and a funeral assistance product.

"Pilisarana"

This product is a whole life product with a limited premium payment period. Minimum premium LKR 3.000 (USD 30) annually. Death benefits amounting to 2 – 2,5 of sum insured, paid to the beneficiaries. Upon maturity 60 % of the sum insured + bonuses are payable.

“Sithumina”

Premiums paid for a fixed term, minimum LKR 3.000 (USD 30)annually. Sum insured payable together with accrued bonuses if the insured survives up to the end of the term. In case of death during the term the sum insured x 10 plus accrued bonuses will be paid to the beneficiaries.

“Senehasa”

This products is a children´s policy. The plan gives benefits to the children of the insured if he/she dies during the term of the policy. 20 % of the sum insured is payable on death and thereafter 20 % of the sum insured continues to be paid on each subsequent death anniversary till the end of the term. Minimum premium for this policy is LKR 5.000 (USD 49,50) annually.

“Jenamithuru”

A whole life product with a minimum premium of LKR 1.000 (USD 10) and maximum of LKR 5.000 (USD 49,50). The client can pay LKR 1.000 (USD 10) and then stop his payments. The sum insured is then LKR 6.000 (USD 59). Further premium payments can be added later and the sum insured will be increased. This product requires careful underwriting.

Funeral Assistance

A benefit of LKR 10.000 (USD 100) is payable upon death of any of the covered persons. Up to 9 persons can be covered by the same policy. Member, spouse, parents, children and in-laws can be covered. Benefits are only paid for two deaths per year. The premium is LKR 172,50 (USD 1.70) per year independent of the number of covered persons.

This product is popular as a complement to the assistance provided by the Funeral Aid Societies. ALMAO´s objecetive is to use this product as an introduction of insurance services to the Sanasa members. The premiums of the program do not at all cover the operational costs and the claims. However, as long as the reinsurance contract with SLIC is in force, this is a good marketing tool for ALMAO. SLIC meets all the claims and pays ALMAO a commission for its work.

Yasiru

Terms and conditions of the Yasiru scheme have been developed in dialogue with the clients/members. Today the members are divided into four categories depending on their family7household situation. Within each category, the member can choose five different levels of monthly premiums. The benefit schedule is the same for all categories but some household do not qualify for certain types of benefit. An example is that households without children will not qualify for a benefit for sudden death of a person below the age of 18. The categories and the premium levels are as follows:

Membership fees for covered persons (premium)

1 Household with no children	LKR 10, 20, 30, 50 or 100	(USD 0,1 – 1,0)
2 One parent with children	LKR 10, 20, 30, 50 or 100	(USD 0,1 – 1,0)
3 Household with children	LKR 15, 30, 45, 75 or 150	(USD 0,15 – 1,5)
4 Other adult > 18 years	LKR 5, 10, 15, 25 or 50	(USD 0.05 – 0,5)

The maximum and minimum premiums give the following benefits in the five different benefit classes:

Benefit class	Monthly premiums	
	Minimum LKR 5 –15	Maximum LKR 50 –150
1. Death to a covered person after the age of 18 and before reaching the age of 65 due to an accident	6000	60 000
2. Permanent disability of a covered person after three months before reaching the age of 65 due to an accident	12 000	120 000
3. Death of a covered person after the age of 18 and before reaching the age of 65 due to natural causes	3 000	30 000
4 a. Sudden death of a covered person before reaching the age of 18	3 000	3 000
4 b. Sudden death of a covered person between the age of 65 and 75	3 000	6 000
5 a. Hospitalization of a covered person, cost per day for a maximum of 15 days	30	300
5 b. Audrelic or similar treatment of a covered person, cost per day for a maximum of 15 days	15	150

If the amounts in the table are divided by 100 you get the rough value in USD

The full premium and benefit schedule is shown in annexe 1

Role of insurance in meeting institutional and client needs

ALMAO and Yasiru were initiated in rural areas to serve poor people. Both of them included the target group at the start to identify their need of insurance services. Partly through trial and error and partly through collaboration with insurance professionals the two schemes have narrowed down to what is both needed and possible to offer. In the study team's discussions with members, there were a few risks mentioned that are not covered currently. The risk of crop failures is one example but Yasiru's main partner, ACCDC, tried crop insurance and realised it was not manageable. The members accepted that the risk of crop failure cannot be insured against at present. Generally, the members were satisfied with the on-going service and had few proposals for improvements. Insurance cover for death, disability, sickness and accidents seem to be a relevant mixture for the target group in Sri Lanka. This is what Yasiru offers and what the old ALMAO offered.

For the new ALMAO it is worrying that the new, modern and professionally designed but a bit more complicated life products so far have attracted few clients in the Sanasa movement. During almost two years only about 2000 members have signed for one of the new products. It is important for ALMAO to design more products that that appeals to the Sanasa members. The Funeral Assistance insurance has a profile that suits poor people, but it should be seen as part of ALMAO's promotion efforts since it is unprofitable.

ALMAO's current problem may have been caused by the conflict between being a commercial and professional company with viable insurance products and the target to serve the Sanasa members and poorer sectors of the society. There is no doubt, though, that the members of the Sanasa movement are people with incomes and they consider themselves to belong to the middle or low income groups. A clear majority are not among the poorer strata of the population. The pricing of the new ALMAO life products should in principle suit the Sanasa members. It may be so that more marketing and awareness campaigns are needed.

It is very likely that Yasiru's members have lower incomes than the Sanasa members and ALMAO's clients. There is practically speaking no competition between the schemes and the commercial insurance companies are preoccupied with richer people.

Changes to benefits over time

The main change to the ALMAO scheme came in 2002 when they were granted the license for life insurance. The old products were then abandoned and the new set of up-to-date life insurance products, as described earlier in this chapter, were presented to the market

As far as Yasiru is concerned there have been gradual changes of the coverage and benefits since 2001. The changes have been motivated by requests from the clients, by need for more effective administration and by the need for improving the economic sustainability of the program.

Three of the more important changes are:

In 2002 a maximum of two dependants per policy was introduced. Before that a policyholder could insure as many people as he/she wished by the policy. This change improved the financial viability of the scheme. But at the same time another change was made which stated that only two years of membership was necessary for receiving benefits for natural death. Before that the limit was ten years.

A new definition of a "covered person" was introduced in 2004. The change had the effect that all persons on one policy are covered in exactly the same way, which was not the case before. Furthermore the change meant that more people could be covered in the same policy but a premium for each person.

Coverage was earlier only given for funeral assistance up to the age of 65. Members wanted this limit to be increased to 75. This was decided by the Annual General Meeting in 2004. At the same time hospitalization caused by maternal complications was included.

Efforts to address special needs of women and children

The members of both ALMAO and Yasiru are predominantly women. 64 % of the members in Yasiru are women and a similar percentage in ALMAO. Most of the Sanasa societies which are ALMAO's partners have particular programmes and services for women and children. One of the four major life schemes that ALMAO offers, is specifically designed for children. The funeral aid scheme also covers dependents, including children. Yasiru's products also specifies the coverage for husband/wife and children.

Both organisations have made efforts to involve the target group in the design and development of their services. In this way women have had an opportunity to influence the services that Yasiru and ALMAO offer. The team has noted, though, that like in many other countries, women play a background role in meetings, with few exceptions

4.4 Premium calculation

The Yasiru scheme was designed to be as simple as possible. The construction with fixed premiums and fixed sums insured is easy to understand and to handle for both animators and members of the NGOs. 50 % of the premium paid by the policyholder is set aside to cover claims and to build up reserves for future payments. The other 50 % is used to cover commission and administration costs. There has been no actuarial calculation of the premium and so far there has been no actuarial evaluation of the funds.

The new products sold by ALMAO are modern life insurance products. The tariffs are based on mortality assumptions, interest rates and loadings for costs. The tariffs are reviewed annually and filed with the IBSL for approval. The CEO of the company who is an Associate of the Chartered Insurance Institute is responsible for the tariffs. The calculations for the tariffs, the funds and solvency margins are made by an actuarial and management consultant.

Operations costs

ALMAO started operating as a life insurance company in 2003. The old life business has been transferred to the new company. Still, as a new company, it has proportionally very high operational costs. During its first year of operations with the new products the administrative costs were 74 % of the premium and commissions consumed 38 % of the premium. The Board of Directors is well aware of the financial problems at the start up, which face all new life insurance companies during their first years of operation.

Half of the premiums in the Yasiru scheme are allocated to commission and to contribute to the costs of the head office. 25 % stays with the partner and animators as commission and 25 % is used to contribute to the costs of the scheme's central management and administration; the PMU (Program Management Unit) of Yasiru. Yasiru's development partner, the Rabobank Foundation, has made substantial contributions to cover the costs for the PMU. The contributions will cease in 2005 when Yasiru will face difficulties to cover the costs for the PMU with the 25 % that is allocated from the premiums paid. The Rabobank contribution for 2004 covered 60 % of the total operating costs for the PMU. In order to cover up for the loss of this contribution, the premium income for 2005 will have to be increased by 60 % from USD 37 000 to 59 000.

Commissions paid

In the Yasiru case a commission of 25 % of the premium is paid. The common rule is that the animator receives 15 % and the remaining 10 % goes to the partner organisation. The partners have in some cases changed the proportions.

The commission is not reduced with time.

ALMAO uses the official and by IBSL approved commission structure for Long Term insurance.

Policy year	Maximum Commission Payable
1	30 %
2	20 %
3	15 %
4	10 %
5	5 %
6-10	5 %
11 -	0 %

There is a great danger that in a country like Sri Lanka where banking or postal payment systems are not widely used, the retention rate will go down drastically when the agent commission is heavily reduced. The system is based on premium collection by the agents, most often in the house of the client. Already when the agent earns 3 to 6 times more on contracting a new client, it will be much more attractive to recruit new clients instead of collecting premiums from the old. Unless ALMAO succeeds to implement more effective systems for premium payments, like standing orders to withdraw the amount from the member's savings account, one can expect a high fall-out rate which is very bad for the future of microinsurance in the area.

Reinsurance

Yasiru has ever since the launching of their program been supported by NV Interpolis of Holland for their reinsurance needs. The present cover offered by Interpolis is a 100% quota share with a maximum of LKR 120.000 (USD 1200) per risk. The premium to Interpolis for the annual contract is 20 % of the gross premium but 95% of the reinsurance premium is retained by Yasiru as commission. This means that only 1 % of the premium is payable for reinsurance. There is good reason to believe that this kind of very favourable reinsurance agreement will be very hard for Yasiru to find anywhere else in the market.

Up till now, the reinsurance agreement has not led to any cash transfers between the partners. According to the Management of Yasiru, there has been no balance in favour of any of the two parties. The item, Reinsurance, is not specified in the annual report of Yasiru.

The benefits for hospitalization are not covered under the reinsurance agreement. But Yasiru is looking into different possibilities to find a reasonable solution to obtain reinsurance cover.

The new life insurance business of ALMAO is reinsured with NTUC Income of Singapore. ALMAO covers LKR 50.000 (USD 500) of each claim and benefits above that limit are covered by the reinsurer. The premium for the reinsurance cover is 9,5 % of the gross premium.

For the funeral assistance product ALMAO has been able to keep its old contract with SLIC, which is favourable as the agreement gives cover up 100 % on a quota share basis less commissions. This means that ALMAO can continue to offer this unprofitable but attractive product to broad groups of Sanasa members and non members without risking to make great losses. According to the management of ALMAO the product is used as a “door-opener” for wider insurance services.

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Subsidies and grants

ALMAO is running its business without any subsidies or grants from outside. They have not since they started the Life Insurance Company in 2003 and the General Insurance Company in 2005 received any technical assistance from outside. When an insurer obtains the licence to run the business they must appoint a Chartered Insurer as CEO of the insurance business. The CEO is also a member of the Board.

Yasiru has since the start of the operations been received funding and technical support from Rabobank of Holland and from NV Interpolis. The amounts can be seen in Table 5.3 below. The funding of the PMU by Rabobank ended in 2004. The arrangement with Interpolis for the reinsurance contract is, as has been mentioned before in this report, an important support to Yasiru. It will not be possible for Yasiru to get a corresponding reinsurance agreement in the open market.

Experience rating and changes over time

Neither of the organisations uses the method of experience rating. The tariffs used by ALMAO are actuarially calculated and filed with the IBSL annually.

Yasiru operates with fixed premiums and fixed sums insured. Gradual, limited changes of the scheme have been made since the start but inflation has substantially reduced the value of the sums insured.

Summary and issues

Pricing. In the old ALMAO scheme, the highest annual premium was LKR 3000 (USD 30) per year and the lowest was LKR 240 (USD 2.40) per year. The pricing of the products was obviously adjusted to be affordable for poorer people. Three of the four life insurances offered by the new, licensed ALMAO insurance company, have a minimum annual premium of LKR 3000 or above. Still, the Board of ALMAO insists that their primary target group remains the same. This illustrates the difficulty for duly registered, controlled and professionally run insurance companies to offer appropriate services for poor people. It is obviously difficult to both follow the legal regulations with actuarially sound products and to service the poorer segments of the population. In the case of Sri Lanka and ALMAO, the study team believes that since only 6 % of the potential market currently is exploited, there is great need of products similar to what ALMAO is offering, for instance for middle income people who are not covered by the commercial insurance companies. So even if the products do not reach the poorest of the poor, it is still highly justified to offer good products for other segments of the population.

As developed elsewhere in the report, ALMAO is in the process of trying to develop products which are more suited to the potential demand of poor people.

The premiums for Yasiru’s products vary from LKR 120 (USD 1.2) to LKR 1800 (USD 18) per year and there is no doubt that Yasiru is a development organisation with the objective to offer

microinsurance services to poor people. It should also be pointed out that Yasiru's services are not based on proper actuarial analysis. Furthermore, the services have, so far, depended on external support. As a substantial part of the external funding ceases in 2005, Yasiru is faced with a great challenge to increase its sales with 60% within short time, preferably during 2005, to break even.

Inflation. In Sri Lanka inflation is a threat to insurance operations generally. The great problem is that returns on safe investments in line with the insurance regulations do not match the inflation. The return on Treasury Bills is between 9 and 10 % whereas the inflation runs at 13-14 %. ALMAO and Yasiru are of course affected by this situation just like the whole insurance industry.

However, the two organisations suffer also in other ways from the inflation. None of them have implemented any index system to adjust premiums and benefits to the effects of inflation. As a result, the premiums remain the same while most of the operational costs roughly follow the inflation. It means that more and more of the premiums will have to be used to meet increasing costs and less will remain to meet claims and returns to the clients. Another effect of the current inflation rate is that if no adjustments are made, the real value of the benefits will be almost halved after only 5 years and reduced to less than one third after 10 years. This will be a bitter first experience of insurance services for the clients.

Profitability.

We are expecting an actuarial study of the Yasiru programme and will comment on its viability here.

4.5 Premium Collection

One of the most important tasks for the animators in the Yasiru scheme is to collect premiums from the policyholders monthly. Out of the collected premiums the animator normally keeps 15 %. If a policyholder cannot afford to pay the premium one month the animator will return next month to collect for two months. If the policyholder cannot pay after three months the policy will elapse.

The agents of ALMAO have the same task as the animators of Yasiru when it comes to premium collection. They visit the policyholders within their geographic area to collect the premium monthly. For ALMAO's new business the premium should, in principle, be paid annually. The tariff is based on annual payments of the premium.

The main procedure for premium collection for both the old ALMAO and Yasiru is that the premium is collected by the animator or agent in the policyholder's home. In both cases the members/clients are offered the possibility to pay the premium at the partner's office. Some societies that we visited, had convinced the clients to pay the premium through standing orders to deduct from his/her account. This payment method should naturally be promoted in the Sanasa movement where almost all ALMAO's customers operate savings accounts. Yasiru too, has this option since most of its partners operate savings and credit services for their members. If both organisations could extend this possibility to most of their customers it would reduce their operational costs substantially. It would also reduce the commission payable. In addition it would significantly improve the retention rates which are too low for both organisations.

The new products offered by ALMAO, where the minimum premium is LKR 3.000 (USD 30) annually, cannot bear costs for monthly premium collections. Still, there is a growing tendency

among the clients to ask for monthly premium payments. This is accepted in most cases but it will increase the administrative costs and reduce the viability of the products.

The construction of the commission system affects the retention rate. Yasiru does not reduce commission over time which makes it attractive for the animators to collect the premium from the established customers. ALMAO follows the recommendation by the IBSL and has a scale for reduced commission. It goes down from 30% of the premium the first year to 5 % in the fifth year and no commission after 10 years. This will certainly reduce the retention rate in long term business. This is especially true for newly started operations. When there are plenty of new potential clients, the agents will be eager to attract new business instead of servicing old customers which is less awarding.

The new products offered by ALMAO, where the minimum premium is 3.000 RS annually cannot bear costs for monthly premium collections. But still there is a growing tendency among the clients to ask for monthly premium payments. This is accepted in most cases but that will increase the administrative costs for the company.

Problems

Both programs, and in particular the old ALMAO, suffer from low retention rates. In the long run this will seriously damage the trust in their schemes among the customers/policyholders. The system with commission rates that will drop down to 5 % after four years, will in combination with collection of premiums in the client's home, put even more pressure on the already low retention rates.

The problem is even more serious if you take into consideration the risk that a great number of people for a long time will have a very negative attitude towards insurance. They were pioneers in their local area and they have been let down and become disappointed.

4.6 Claims management

Claims settlement process

There are great similarities between the two schemes when it comes to the claims settlement process. In both cases it is the animator/agent who helps the policyholder or the beneficiary in case of death to fill out the claims form. It is also the animator/agent who collects all the necessary documents. The documents needed are doctor's and death certificates and in some cases police reports.

The opinions among animators/agents and societies vary a lot regarding how long it takes to get all the necessary documents. To get a doctor's or death certificate can take from one week to more than one month. When all the documents and the claims form have been collected, the file will be sent to the head office where the final decision and payment is made. Sometimes, for in cases of hospitalization, the society can make direct payments to the policyholder after informing the head office by fax or telephone. Trusted and experienced partners even make pre-payments in safe and obvious cases. Payments are usually made by check or cash. We encountered no society that just credited the account of the policyholder.

The most common reason for delays are connected with problems to get all the necessary documents. Delays with death certificates were often mentioned.

Both organisations have very few rejections. The only reason that was mentioned was for policies that had elapsed due to non premium payment.

Table 4.3 Claims Settlement Details, ALMAO and Yasiru
(The procedures are so similar that they can be described in the same table)

Issues	Observation
Parties involved in claims settlement	Beneficiaries, animators/agents, Head Office In ALMAO also branch office in some areas
Documents are required for claims submission	Claims form, medical documents, death certificate and when necessary for accidents police report
Claims payment method	Check or cash
Time from insured event to claim submission (average days)	One to three weeks
Time to pass through any intermediaries (average days)	One week
Time from submission to payment (average days)	Two weeks
Claims rejection rate	Less than 5 %

4.7 Risk management and controls

Both schemes are subject to very low risk when it comes to moral hazard and fraud. The cover offered is limited to payments upon death, disability and hospitalisation. These are risks that are easily manageable regarding fraud and moral hazard. Claims must be supported by legal documents, such as death certificate, doctors' certificates and hospital statements. No organisation reported any problems with fraudulent claims.

Since both ALMAO and Yasiru in the first hand recruit clients who already have joined their partner organisations as members, the risk of adverse selection is heavily reduced. In addition, the underwriting rules used by ALMAO are very adequate and professional and will reduce a possible problem of adverse selection within the partner's membership.

Applicants to the Yasiru scheme will not be granted payments for hospitalisation until the membership has lasted for six months. Full payment of death benefits requires that membership fees have been paid for at least two consecutive years. If the fees have been paid for less than two

years a proportionate amount, depending on the number of months of fee payment, will be awarded.

The problem of fixed premiums and costs that are subject to inflation is there. In ten years' time, hospitalisation is likely to be more than three times as expensive as today if the inflation rate is not curbed. The real value of all benefits to the member is quickly eroding.

Covariant Risk

There are no obvious covariant risks for the two schemes.

4.8 Marketing

ALMAO does not have a specific marketing plan and no specified budget allocations are made for this purpose. The completely dominating marketing activity is the field recruitment of clients which is carried out by the agents/animators. Normally this takes place in form of either discussions with the Sanasa members when they visit the society or during visits to their homes. A general introduction to ALMAO's services is often done in connection with different types of meetings of the Sanasa society.

The most important marketing activity of the Head Office is to train the agents/animators and raise their knowledge and skills. For this purpose they operate a mobile training van and of course use the ALMAO college at the Sanasa Training Campus.

ALMAO also prints simple leaflets and are in the process of planning a national marketing campaign. The management estimates that in 2004 ALMAO used totally about LKR 3 million (USD 30 000) for marketing activities.

The only downright marketing activity Yasiru does is to print a simple brochure and give each partner 1000 copies free of charge. Each brochure costs about 20 US cents to produce. Similar to ALMAO though, the most important marketing is carried out by the animators who are engaged by Yasiru's partners. In this sense, effective training of the partners and of their animators is an important marketing activity.

None of the two organisations have tried to assess their marketing strategy. It may be so that a visit to the home is important to convince poor, rural people to join the schemes. It may be difficult to establish confidence in an office or through other contacts. ALMAO's main target group, the members of the Sanasa societies should be a bit different in this respect. They are used to the Sanasa offices and should have full confidence for staff working there. A substantial share of the ALMAO underwriting is also taking place at the Sanasa offices. This certainly is less costly and possibly also more effective than to make home visits but there are no proper assessments made.

What has struck the team, though, is that monthly collection of premiums in the client's home must be a very expensive collection method (see para 4.3) and also uncertain, in particular when the agent's commission, as in the ALMAO case, goes down to 5 % after 4 years. The team fails to understand why not more emphasis are placed on standing orders to recover the premiums from the client's savings account with the Sanasa society.

4.9 Customer satisfaction

As the new ALMAO scheme has been in operation for a very short time there are no figures on renewal rates. The old scheme that is put in run-off seems to get very low renewal rates. Renewals are offered but the collection of premiums is not as intensive as earlier. According to management of ALMAO the fall-out rate runs towards 40 % during 2005. It means that very few old policies will be in force after some years. This is a serious development for ALMAO. The sales of the new products develop very slowly and in 2004 80 % of the premiums came from the old scheme. If that dominating income is quickly evaporating ALMAO will face great problems. Their plans to develop one or several new products that are attractive to the members of the Sanasa societies, is of great strategic value in this light. But parallel to this, ALMAO needs to do what it can to retain premiums from the old scheme. To stop that quick fall-out may be of decisive importance during the coming years.

Since the start of the Yasiru operations some 2.000 members have chosen not to renew their membership. The renewal rate is according the management around 80 %. The main reason for not renewing is failure to pay the fee/premium. When the animators collect the fees/premiums members can postpone the payment for a maximum of three months. If not paid after three months the membership will be closed.

Neither of the two organisations has made any current customer surveys to find out if the members are satisfied or not. The local presence of the partner organisations ought to facilitate the conduct of different surveys to follow up the customer satisfaction and this is something that the team would like to recommend for the future.

5 Results

5.1 Management information

The information the managements of the two organisations use to monitor the schemes seem to be adequate. There are monthly reports from branches and partners regarding sales and premiums collected, new business and renewals. Claims are also monitored on a monthly basis. The claims data contains all the necessary information to monitor the development of the claims. These figures are discussed during monthly meetings with the management committees. The financial results are monitored on a quarterly basis and reported to the boards.

5.2 Operational and financial results

In the analysis of the results of the two organisations it is important to bear in mind that they now operate under very different rules. One is a fully fledged insurance organisation and as such under the regulation of the IBSL and the other is a society that is subject to a different legal regulation, that of the Societies' Act.

In the tables with key results below, the development of old ALMAO is shown up to 2003. During 2004 the life business was transferred to the new ALMAO, the registered insurance company. The results for 2004 is shown only for the new ALMAO. The old organisation is formally only handling general business during this year. All people with knowledge of the insurance sector know that new insurance companies face tough challenges during the first years and have difficulties to break even. The new ALMAO accounts for a small profit but the reason for this is the transfer of the life business from the old organisation which accounted for 80% of the premium income. The business with the new products generated a loss of LKR 4 650 000 (USD 46 0000).

The slow development of the sales of the new products is worrying. The renewal rate is comparatively high, 92% according the management, but the products are not popular to the general membership of the Sanasa societies. The new ALMAO is in the process of developing further products, hopefully more attractive to the members of the Sanasa movement. Until such new products have become successful, the new ALMAO had better take good care of the old clients although the old insurances are no longer sold.

Because of the extreme situation with a completely new insurance company, there are no reasons to make further analysis of the results.

It has not been possible to get separate accounting reports and results for the agency activities in the Sanasa societies. All societies the team has discussed with are, however, satisfied with the arrangement. The applied commission is satisfactory in their opinion.

The Yasiru operations are managed by the PMU. Formally, the PMU is a separate entity, not part of the Yasiru Mutual Provident Society. In practice, the PMU functions as an integrated head office of the Yasiru operations. The PMU which gets 25 % of the premiums and the Mutual Provident Society Limited which 50 %. Another 25% stays with the local partner and the animator. The PMU manages and administraters the scheme including approval of member applications and handling of claims. The Provident Society has no staff but bears, legally, the costs for benefit payments and is the owner of the Welfare Fund, the Risk Fund and the Members' accounts.

So far the Provident Society has shown a good profit. Claims ratios are still on a reasonable level but increasing. To make a safe estimate of the operational results it is vital to make an actuarial analysis of the scheme and an estimate of the strength of the funds.

Yasiru's financial situation is of course heavily affected by the support the organisation has received from the Rabobank. In 2004 almost 60 % of the costs in the PMU were covered by the contribution from the Rabobank. Since the support has ceased this year, Yasiru would need to increase its premium income by some 60% to be able to finance its management and administration; the PMU.

The result is also affected by the subsidised reinsurance agreement with N V Interpolis. Should the costs for reinsurance increase to a normal market level, the profit in the Provident Society would decrease with the same amount.

Yasiru's partners do not keep separate accounts for their involvement in the scheme. It is therefore not possible to further analyse the profitability of their cooperation with Yasiru. The partners the study team visited were very satisfied with the arrangement.

Table 5.1 Key results - ALMAO, old

	2003	2002	2001	2000
Net income (net of donor contributions) USD	247 300	179 000	139 900	111 100
Total premiums (value) USD	224 600	149 800	120 200	97 100
Growth in premium value	+ 50 %	+ 25 %	+ 23 %	+ 33 %
Claims / total premiums (%)	10 %	9 %	12 %	11 %
Administrative costs / premiums (%)	50 %	55 %	48 %	46 %
Commissions / Premiums (%)	31 %	33 %	30 %	27 %
Reinsurance / Premiums (%)	0	0	0	0
Reserves added for the period / Premiums (%)	8 %	22 %	27 %	30 %
Net income added for the period / Premiums (%)	30 %	20 %	19 %	25 %
Claims cost / total number insured (USD)	0.6	0.3	0.4	0.3
Growth in number of insured (%)	- 26 %	+ 28 %	+ 13 %	+ 20 %
Income earned from investment of premiums	22700	29300	19700	14000
Percentage of profit distributed	0	0	0	0
Renewal rate (%)	70%	80 %	80 %	80 %

Table 5.2 Key results - ALMAO, new

	2004	2003	2002	2001
Net income (net of donor contributions) USD	312200			
Total premiums (value) USD	263400			
Growth in premium value	0			
Claims / total premiums (%)	10 %			
Administrative costs / premiums (%)	74 %			
Commissions / Premiums (%)	38 %			
Reinsurance / Premiums (%)	2 % (9.5% of new prem.)			
Reserves added for the period / Premiums (%)	4 %			
Net income added for the period / Premiums (%)	0 %			
Claims cost / total number insured USD	0.6			
Growth in number of insured (%)	First year			
Income earned from investment of premiums	48800			
Percentage of profit distributed	0 %			
Renewal rate (%)	New business			

Table 5.3 Key results – Yasiru

	2004	2003	2002	2001
Net income (net of donor contributions) USD	38000	27600	9400	6400
Total premiums (value) USD	36900	27200	8800	6700
Growth in premium value	+ 36 %	+309 %	31 %	+ 60 %
Claims / total premiums (%)	22 %	19 %	15 %	5 %
Administrative costs / premiums (%)	69 %	43 %	177 %	161 %
Commissions / Premiums (%)	25 %	25 %	25 %	25 %
Reinsurance / Premiums (%)	1 %	1 %	1 %	1 %
Reserves added for the period / Premiums (%)	26 %	37 %	105 %	76 %
Net income added for the period / Premiums (%)	28 %	67 %	34 %	36 %
Claims cost / total number insured, USD	0,9	0,6	0.1	0,07
Growth in number of insured (%)	5 %	39 %	16 %	n/a
Income earned from investment of premiums USD	1 025	390	520	210
Percentage of profit distributed	0	0	0	0
Renewal rate (%)	80 %	80 %	80 %	n/a
Donor contributions to the PMU, USD	14 300	19 400	8 700	8 300

5.3 Reserves

During the decade when old ALMAO was active it built equity and reserves amounting to LKR 49 million (USD 490 000) mainly from its own surplus but also through increased share holding by the owners, the Sanasa societies. Most of the reserves were transferred to the new ALMAO in form of share capital. It means that roughly half of the share capital in the new ALMAO comes from the old organisation. At the time of registration the Sanasa movement only had to mobilise less than LKR 40 (USD 400 000) million to meet the minimum requirements of the IBSL. With the new minimum requirements of LKR 100 (USD1 million) million each for Life and General around the corner, one can wonder how the movement shall manage within short time to put in another LKR 125 million. (USD 1.25 million) as share capital.

Yasiru is a much smaller organisation and in that light its ability to accumulate reserves is technically seen good. During four years Yasiru has accumulated almost USD 50 000 in reserves. One should remember though that Yasiru has a development cooperation with Rabobank and Interpolis. The direct funding, the technical assistance and the favourable reinsurance agreement have strongly contributed to Yasiru's ability to accumulate reserves. Yasiru is now approaching a decisive stage in its development when the PMU no longer gets funding from Rabobank. Without that it is unlikely that the organisation will be able to accumulate further reserves during 2005.

5.4 Impact on social protection policy

It has been pointed out earlier that the penetration of life insurance services is limited to about 6 % of Sri Lanka's population. There is no doubt that the country would need a policy and a regulation that facilitates increased possibilities for common people to manage different types of risks in their lives. One would think that microinsurance schemes like ALMAO and Yasiru would attract attention and encourage the state to take action in this direction. The study team cannot see any indication that the state, in particular the IBSL, has any serious intention to drive the development in the insurance sector towards a substantially increased outreach.

Both ALMAO and Yasiru are aware of the situation but have not so far taken any decisive steps to convince the government that private microinsurance schemes constitute an excellent, and actually necessary, complementary service to the government's own social service programmes. In deed, Yasiru declares that it avoids the government instead of trying to influence its policies. The societies' Act gives great powers to the government to intervene in the societies' affairs. This is a likely reason why societies tend to avoid government. In the case of Yasiru you can also add the fact that its insurance operation never has been accepted officially by the Registrar of Societies. Still, Yasiru is prepared to establish cooperation with government organisations, for instance the Ministry of Samhurdi in areas where it functions well in the field.

The state in Sri Lanka has implemented numerous social security systems (see paragraph 1.3) to assist the poorer segments of its population. The systems do not adequately reduce risks for poor people but evidently the ambition to offer social security is there. Since this study concerns microinsurance, it should be pointed out that the insurance industry and the donor community all over the world, has not been able to develop any established models for how the state should facilitate the development of microinsurance services. Neither have they succeeded to make governments aware of the potential of the microinsurance tool. The government in Sri Lanka would need both a higher level of awareness and concrete models for what it can do.

6 Microinsurance Product Development

The main objective of both organisations is to offer good and affordable products to their respective target groups (low income people). As mentioned in different parts of this report the current ALMAO product portfolio is very young and will need some more years in the market to mature and to improve financially. The management of ALMAO is well aware of the fact that their new products cannot address the poorest sector of the population as the minimum premium is as high as LKR 3.000 (USD 30) per year. Discussions are going on within the organisation to add further products to their portfolio. New product should be more adapted to the needs of the Sanasa members who, so far, have been reluctant to subscribe to the current products. The leadership of both the Sanasa movement and of ALMAO is aware of the importance to succeed in this respect. Further research is needed before launching new products. The process for the development will include the Sanasa movement, ALMAO's organisation and external actuaries. When new products are ready to be put on the market, the management will start with different types of test sales before a wider launching. The challenge for ALMAO is to design products that are actuarially correct and in line with the IBSL regulation and at the same time easy to understand, attractive and affordable for Sanasa members.

Since the Yasiru operations started, adjustments of the product have been made almost every year. The proposals for changes have come from the field through animators, field officers and coordinators. But members have also had the possibility to suggest changes at the annual general meetings and during other meetings of their organisations; the Yasiru partners. The PMU has also suggested changes based on their experiences of running the scheme.

The most important factors in deciding whether changes are required are:

- client needs
- administrative changes to reduce costs
- improvement of the financial sustainability

The number of requested changes to the present scheme is quite high as is the number of requests for setting up new products. This shows that the NGO:s and their members are interested in the scheme and also that they have a real possibility to act in order to improve the services. Through their representation in the Board of Yasiru they take part in the decision making concerning the scheme.

7 Conclusions

With the introduction of the new product portfolio during 2003 ALMAO adjusted its products to the requirements of the formal insurance industry. The increase of the minimum premiums to LKR 3.000 (USD 30) evidently made it difficult for the majority of the Sanasa members to buy the insurance products. Possibly, the rather complex nature of the products also complicated the marketing of them to low income people. Indirectly the change in the portfolio, in fact, was also a change of main strategy of the company. The ten-fold increase of the minimum charges automatically changed the focus to people with higher income.

The Board and the management of ALMAO have realised the change of focus as a consequence of the new product mix. The chairman of the Board now even labels the new products as macro insurance products. Discussions have started in order to develop new products that are affordable also for the low income people of the Sanasa Movement. For ALMAO it is of vital importance to be able to offer products that can reach a high penetration rate. The management of ALMAO expressed the opinion, that profits generated in the general insurance sector, might be used to support the implementation of new microinsurance products. Since the old products with a low income profile, are in run-off, the success of new such products is very important for ALMAO's future.

The study team is a bit puzzled by the difficulties to sell the new products. Members of the Sanasa societies are not extremely poor. They rather represent middle class and low income people who can afford better insurance protection than the rural poor. Taking into consideration also the very low penetration by the commercial insurance companies, there is a giant market in Sri Lanka among the upper and lower middle class and among low income people who have substantially higher income than the poorer segments of the population. There is no shame in providing insurance service to this great part of the population even if the products that are designed for them, do not fit the needs of poorer people. It is pointed out elsewhere in the report that if ALMAO exploits this market, it may actually help it to develop and sustain its service to the declared priority target group: poor people.

The main reason for the slow progress of the new products may of course be lack of awareness campaigns and intensive and strategic marketing.

The main issue within the Yasiru organisation is not to develop new products. The products offered by Yasiru have been changed stepwise in order to meet needs and demands from the clients and also to improve the financial sustainability of the scheme. At present the focus lies with attracting new, qualified partners to the program and to reach more members through them. A wider base for its operations is a survival question for Yasiru.

These new partners may not necessarily be NGO:s or CBOs. Instead Government Organisations like Samurdhi or the cooperative movement or World Bank projects could be new partners. This process has been started and management is at present working with screening possible new partners carefully. However, it will be more difficult to keep this process going as Yasiru will face a tougher financial situation when the Rabobank support is reduced.

7.1 Key Issues Summary

Major breakthroughs, challenges, lessons learned

One of the most remarkable changes in the Sri Lankan microinsurance market is the change of strategy within the Sanasa movement when they developed their microinsurance operations into a commercial life insurance company. This led to a change in their previous focus on target groups. The old products have been put in run-off and the new products are not primarily aimed at the poorest of their members. As only 6 % of the Sri Lankan population are covered by life insurance the new company still reaches out to a large segment of middle and low income people who have a great need for microinsurance coverage.

To run a profitable life insurance operation is a real challenge which the management is well aware of. But well educated and experienced insurance professionals have been hired to develop and monitor the new business. An important lesson learnt is to involve insurance professionals at an early stage of development of the new products in order to secure financial viability of the program.

The market facing the new company is huge. The Sanasa Movement comprises more than 1,000,000 members in 8,500 societies. To attract new societies and to educate staff within these societies is one of the major challenges that the new company will face in the future. Other studies in this series of “ Good and Bad Practices in Microinsurance” have indicated the difficulties for MFI organisation to handle insurance as a side business. The slow recruitment of more agents and establishment of ALMAO desks in the Sanasa societies may be another sign of this complication.

The main strategy for Yasiru is to cooperate with partners and to integrate their operations with the existing organisation. All partners to Yasiru offer microfinance products and are therefore well equipped and educated to extend their services to its members with microinsurance products. The penetration rate of the Yasiru scheme needs to be increased among the 60,000 members of the present partners. This will demand resources for marketing and for further training of staff within the partners’ organisations

A major challenge for Yasiru in the years to come will be to adapt to a new financial situation when the costs of the PMU will have to be financed without contributions from Rabobank. The current agreement is that PMU will get 25% of the premiums. To fully cover the costs of the PMU, which are not very high comparatively, the sales of premium would have to go up by 60%.

Another challenge that Yasiru faces is to secure the financial viability and sustainability of their product. Actuarial skills must be brought into the organisation to establish that the funds are adequate and that the fees/premiums charged are sufficient to cover commissions, administrative costs, reservations and a reasonable profit. A profit is necessary for investments in future new partners and for marketing among members of existing partners.

The management itself is well aware of the fact that the legal status of Yasiru is unclear. Yasiru is officially unknown to the IBSL. But the organisation and its operations are known to the Registrar of Cooperatives who has no capacity to control insurance operations. This situation makes it even more important for Yasiru to have its own professional control of its services. It is in Yasiru’s own interest to involve actuaries in the evaluation of the funds and fees/premiums.

Other lessons learnt by the management are to distribute standardised and simple products in dialogue with the target group. Yasiru may encounter demands from partners and its members, as they did when operations were started, on new products. But the main focus for the next few years must be to focus on the financial viability of the present scheme. Adventures with new products such as crop insurance have once proved to be too difficult, which the management also is well aware of.

Best advice from management to others developing the same products

In a pamphlet about the development of ALMAO the leadership has presented the following lessons learnt for others to note:

- A newly set-up microinsurer should be geared to offer simple insurance products with Terms and Conditions that could be easily understood by the ordinary person and covers must be within affordable limits.
- At the start a microinsurer should operate its business through an agency for an established insurance company to avoid the need for adequate Capital, expertise in underwriting , adhering to actuarial constraints and those from the regulatory authorities
- It is advisable to minimise the provision of maturity benefits and to concentrate more on providing death cover.
- Insurance is a capital intensive industry and if the future intention is to establish a fully fledged Insurance Company it is essential to build up an adequate share capital. This need could be achieved through selling shares among member societies.

The Chairman of Yasiru, Dr Sunil Silva, identified the following points to observe for other microinsurers:

- On strategy: Identify partner organisations very carefully. Cooperate with established organisations. In dialogue with the partners, you reach an agreement to assist them to widen their service to their members and include microinsurance
- Make a situation analysis. You have to understand the circumstances under which the scheme is going to work
- Carry out a careful need analysis of the target group's needs. The service you are going to provide has to be demand driven
- Build a system with democratic control. The basis should be a mutual relationship between the target group/members and the service organisation
- Take care to involve people, their participation will help you to avoid many potholes in your way.

7.2 Outstanding questions

Be aware of high fall-out.

For a couple of decades starting in the late 1960ies, numerous developing countries, supported by willing donors, wanted to provide small scale farmers with credit to develop their production. Very few were aware of the difficulties to supply a great number of very small loans to poor farmers in societies that lacked structure and organisation. Farmers soon realised if they did not repay the loans, nobody would have the capacity to force them to pay. Often it also meant that they avoided the established agricultural marketing channels because loan repayments were often administered by these channels. For instance, many agricultural marketing cooperatives lost their business in this way. A long-lasting problem was the attitude towards loans that the poorly designed credit schemes created. In particular if government or donor funds were involved farmers had learnt that they did not have to repay loans. It took a long time of Grameen Bank type of mind setting before MFIs could start operating successfully. Still, few of the MFIs can extend credit to small scale farmers.

There is a risk that poorly designed and implemented microinsurance schemes will have a similar effect on poor peoples' attitude toward insurance services. If the fall-out rate is 20 to 40 % or higher, it means that a substantial share of the recruited, poor people will pay their premiums for years, without realising any benefit. It is very likely that this will be a bitter experience for such clients and that they will avoid insurance in the future and advise others to do the same. It is a challenge for microinsurance promoters to include measures in the scheme that reduce the fall-out rate. Perhaps agents and animators should get just as high commission for collection of premium from old clients as they get from new? Should microinsurance include a members' account where certain funds are built up to make it attractive to the client to maintain the insurance, as Yasiru is doing? Perhaps there should be benefits for the clients intermittently even if there is no claim occurrence, for instance that half the amount on a member's account can be withdrawn every fifth year without termination of the membership? Should mind setting exercises like in the Grameen Bank also be part of microinsurance schemes?

Effective premium collection

It is argued that poor people prefer to pay a small premium every month. They find it difficult to pay higher premiums quarterly or yearly. Dialogue with the target group has confirmed that they prefer frequent, small payments. The team wonders if this is really applicable to small-scale farmers who in many countries comprise a substantial part of the poor. They normally have a long period of no income when they do ploughing, planting, weeding etc. There is a rather short period, the harvest period, when they get income and when they should prefer to pay a premium. Whatever the case is, both ALMAO and Yasiru collect premiums on a monthly basis from their members/clients.

As long as the frequency of premium payments in the microinsurance schemes are high, it is of crucial importance that the collection is effective. Like ALMAO and Yasiru many microinsurance schemes work in partnership with MFIs, peoples' banks or savings and credit cooperatives. In the team's opinion it is strange that in the case of ALMAO and Yasiru, so few of the members/clients sign a standing order to withdraw the premium payment from their savings account at an agreed frequency. There is no doubt that this is a very effective payment method. We realise that the field

agents/animators will lose income and this may be the major reason that standing orders are not promoted. As long as the penetration of the partners' membership is very low, there is a great potential for the agents to recruit more clients instead of collecting premium payments from old clients. A good bonus could be paid to the agents who convince the client to sign a standing order. Such a system should lead to an increase in number of clients and thereby contribute to the viability of the scheme. If fees are correctly set, there is normally a strong relation between increasing number of clients and viability.

In all microinsurance schemes with a connection to banking organisations, careful analysis should be made of the possibilities to use standing orders as a common premium payment method. To develop a good promotion material for standing orders could be a suitable objective for a donor contribution.

Target group and viability

The original ALMAO scheme and Yasiru worked with informal exclusions of groups of people like those with permanent employment, those employed by government or who had an income of more than USD 30 per month per household member. The exclusions were not implemented with great discipline or formality and field agents sometimes interpreted the rule to mean exclusion of rich people. The fee structure as well as the benefits were adjusted for poor people.

When ALMAO was registered as a commercial insurance company the life insurances offered changed quite a lot. The premiums and the benefits increased substantially and the cheapest level for some of them became 25 times as expensive as the cheapest in the Yasiru scheme. The old, informal exclusions were also scrapped. Still, the main target group were the members of the Sanasa movement and they generally speaking represent the lower or middle income classes. The company is in the process of developing a product for poorer people.

Yasiru maintains its product profile, designed for poor people. The income limit of USD 30 per household member and month is still formally an exclusion, but it is not strictly implemented.

The insurance industry in Sri Lanka has a penetration of 6 % for life insurance. It is a bit difficult to understand why the active microinsurance schemes have to exclude people with a normal income. Their need to manage risk is also high but they are not offered any service by the commercial insurance companies. People with low or middle income could become very good clients. The costs for premium collection could be reduced and it is also likely that they would subscribe for higher benefits and pay higher premiums. It is very likely that a great number of clients from these classes would make the scheme more profitable. The inclusion of these groups could actually turn a non-viable service into a viable one.

You can get the impression that the old ALMAO scheme and Yasiru put unnecessary limitations to their schemes that in the long run may make them collapse. The noble intention of reaching only poor people may in fact mean that the poor people get no service in the long run or that they get poor and unviable service.

It may be justified to exclude certain groups, for instance government officers, because of fear that if they are allowed to become members they will grab power and take over the organisation and direct its services to their own group mainly. The question is if that fear is reason enough to exclude people who need the services and who would become good clients and contribute to the schemes' viability. One should also remember that the scale of benefits will normally not attract rich and

powerful people. Bye-laws and management systems can of course also facilitate that the original objectives of reaching poor people are maintained.

Adjustment for inflation necessary

In countries where there is great need of micorinsurance services, the economy is often not under strict control and inflation figures tend to be on the higher side. If a high inflation, as the case is in Sri Lanka, is combined with too low returns on safe investments, the conditions for insurance services are generally bad. Registered and controlled insurance companies will have to reduce benefits, in real terms, for the clients if such conditions prevail over a long period. Microinsurance schemes suffer in the same way.

Neither ALMAO nor Yasiru have included any systematic adjustment for inflation in their schemes. When the inflation rate is as high as 12-14 % per year, the real value of premiums and benefits erode very quickly. The real value is halved in less than 6 years. The operational costs, however, will basically follow the inflation and a consequence is that after deduction for the escalating costs, there will be too little left for reserves and claims. There is also a great risk that when the members/clients are entitled for a benefit, they will be very disappointed of the real value of the benefit. This will be very obvious in the case of hospitalisation benefits. The costs and charges in hospitals will basically follow the rate of inflation whereas the benefits are fixed. Few of the microinsurance clients will be able to reason that their premiums in the meantime have also diminished in value.

The problem of low returns on safe investment, that do not match the inflation rate, is difficult to overcome for any insurer. This is a question of financial and economical policy of the country.

The lesson learnt from the Sri Lanka experience is that already at the planning stage, microinsurance schemes will have to make analysis of the general economical conditions in the country and look into projections for the future. If inflation and/or other imbalances can be foreseen, systematic adjustments for the effects of such circumstances should be built in at the start of the schemes. Although, difficult to explain for the target group, it may be necessary to include some system of continual index adjustments of premiums and benefits.

Role of donors

The old ALMAO microinsurance scheme was developed without any support from donors, except some minimal input at the start of the scheme. Instead, its development has been supported by a well established, local savings and credit cooperative network; the Sanasa Movement.

Yasiru, on the other hand, has from its start as a separate entity had a development cooperation agreement with the Rabobank Group of the Netherlands. It is a Rabobank subsidiary, the A V Interpolis, a reinsurance company, that has implemented the support to Yasiru. The support has been in form of technical assistance, capital support and reinsurance. This mixture of support has been very satisfactory in the opinion of Yasiru.

The future is, however, worrying. The support to the PMU terminates in 2005. According to Yasiru, there is no agreed plan for the withdrawal of the preferential reinsurance agreement so Yasiru cannot say when this may happen. Because of the lack of actuarial analysis of the viability of the insurance package they are offering their members, Yasiru is not even sure if the service they offer their members is viable in the long run.

Donor funded cooperation with commercially based entities, should, generally, contain a satisfactory analysis and plan of how the activity will become self-supported and viable. This part is lacking in the case of Yasiru, including the knowledge if their product is technically sound from an insurance point of view. The lack in this respect is serious, since insurance services that cover life are of a long term nature. It must not cease when the donor support ceases.

On the basis of the situation in Sri Lanka, there are two other observations the team would like to make concerning the role of donors. It is obvious that although the Sri Lanka government has the political intention to develop the poorer sectors in a country, they are not aware of the role of microinsurance in this respect. The unawareness and limited interest that the Insurance Board of Sri Lanka shows in providing insurance services to a larger sector of the population, speaks for itself. There is, however, no basis to blame the government for this state of affairs. The knowledge about microinsurance and its importance for reduction of poor peoples' risks, is limited. Donors involved in microinsurance, can play a big role in spreading awareness and knowledge of its importance to developing countries and to other donors. Development of education and promotion material on microinsurance and organisation of conferences and seminars on the subject are simple examples of what can be done.

In the first part of paragraph. 7.3, a comparison was made with the development of MFIs in developing countries. There is another comparison between microinsurance and the development of MFIs which is relevant. In the case of MFIs, the established legislation in most countries, the Banking Act, was a great obstacle for implementation of effective and independent MFIs. One objective of the Banking Act is to protect savings by the public and therefore a substantial capital is required by banks to be registered. A large equity creates a secure basis for the savings they receive from customers. As a consequence, MFIs were formally not allowed to receive savings from their customers, only to give certain types of loans. The MFIs normally depended on donor funding for their operations. An exception was the savings and credit cooperatives which were allowed to receive deposits from their members. It took decades to promote and develop special legislation for MFIs which made it easier for them to receive savings and be able to base their lending on accumulation of local capital instead of their earlier dependence on donor or government funding. Still today, only a few countries have implemented a special legislation for MFIs. The main reason is that it is difficult to balance a more liberal regulation against the need to safeguard the customers' savings.

The Insurance Act, similarly, like in Sri Lanka, is there, mainly to protect clients from organisations that do not have the financial or managerial capacity to fulfil the commitments they have underwritten. The case of ALMAO indicates clearly that if a microinsurance operation is turned into a commercial, registered insurance company, it will be very difficult to maintain the objective of servicing the poorer strata of the population. If microinsurance services are deemed to be an important development tool, the possibilities to create a special legislation for such services should be looked into. This will be a difficult and sensitive task. The need of the service for low income people will have to be weighed against the state's responsibility to make sure that insurance organisations are able to fulfil their undertaking. Donors together with developing countries should appoint a commission or similar to develop a model of appropriate legislation or a special set of rules for microinsurance organisations. Such guidance would be of great value for any developing country that would like to include microinsurance in its development programme. Currently we have an awkward situation where microinsurance organisations are operating without proper registration and public control. Very often the unregulated microinsurance service continues although the state is fully aware of the activities.

There is one more aspect of the role of microinsurance that often is overlooked. All development economists today, recognise that if a country is going to have a stable development, the whole population will have to take part. In a country like Sri Lanka where a great part of the population are poor or have low incomes, there is a great need of different programmes to stimulate the these segments of the population to take a more active part in the economic activities in the country. Microinsurance is an important tool for these people to manage different types of risks but can also make a very important contribution to overcome one of the greatest shortcomings in most developing countries: the availability of long term capital. Even if poor people cannot afford high premiums, they are many, and many small amounts quickly grow to big amounts. ALMAO illustrates the potential quite well. In just over a decade some 40 to 50 000 people have built up a long term capital of about LKR 50 million (USD 500 000). Suppose microinsurance schemes could mobilise 50 % of Sri Lanka's population on top of the commercial insurance industry's current penetration of 6 %. With a development similar to what ALMAO has achieved this could mean some USD 20 million as long term capital building up over a decade for useful investments. That would not be a bad, additional resource for a country like Sri Lanka.

EXTRACT FROM YASIRU 'S BROCHURE ON RULES AND BENEFITS**“Membership fee for covered persons and benefit awards**

Monthly fee (LKR)	I	II	III	IV	V
1. Household no children	10	20	30	50	100
2. One parent w children	10	20	30	50	100
3. Household w children	15	30	45	75	150
4. Other adult >18 years	5	10	15	25	50

1. Death of a covered person after the age of 18 and before reaching the age of 65 due to an accident.

Benefit	6000	12000	18000	30000	60000
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Preceding benefits or advance payments because of permanent disability as mentioned in clause no. 14 due to the same accident shall be deducted thereof with a maximum of the benefit awards for death.

2. Permanent disability of a covered person after 3 months before reaching the age of 65 due to an accident.

Benefit	12000	24000	36000	60000	120000
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In case of 100 % disability of the member, the agreement ceases with the benefit payment for the member.

In case of partial disability the agreement can be continued if the membership fees are paid regularly.

3. Death of a covered person after the age of 18 and before reaching the age of 65 due to natural causes:

Benefit	3000	6000	9000	15000	30000
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If the membership fees have been paid for 2 or more consecutive years, full payment will be paid. If the period is less than 2 years, a proportionate amount depending on the number of months paid by the member after obtaining the membership number, will be awarded.

4A. Sudden death of a covered person before reaching the age of 18

Benefit	3000	3000	3000	3000	3000
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4B. Sudden death of a covered person between the age of 65 and 75:

Benefit	3000	6000	6000	6000	6000
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In case of natural death:

If the membership fees have been paid for 2 or more consecutive years, full benefits will be awarded.

If the period is less than two years, a proportionate amount dependent on the number of months paid by the member after obtaining the membership number, will be awarded.

5A. Hospitalization of a covered person:

Benefit	30	60	90	150	300
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Benefit is awarded once in 12 consecutive months only for one event subject to a maximum delay of 15 days per covered person.

Repeat benefit claims for the same illness will be entertained once in two years.

Hospitalization claims can be made only after completing 6 months of membership.

5B. Auryedic or similar treatments of a covered person:

Benefit	15	30	45	75	150
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If hospitalization conditions are not being met, benefit is awarded once in 12 consecutive months only for one event subject to a maximum of 10 days per covered person. Repeat benefit claims for the same illness will be entertained once in two years. Auryedic or similar treatment claims can be made only after completing 6 months of membership.”