Assessment of the demand for micro-insurance products in Sri Lanka.

Micro-insurance

a safety net in risky waters.

Documentation of the progress and development of 'Yasiru Mutual Provident Society', a micro-insurance initiative of the Sri Lankan NGO 'SLPSM', Rabobank Foundation and Interpolis.

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Abbreviations:

AGM	Annual General Meeting
ALMAO	All Lanka Mutual Assurance Organization
BoD	Board of Directors
CBO	Community Based Organization
CGAP	Consultative Group to Assist the Poor
DDS	Death Donation Society
GTZ	Gesellschaft für Technische Zusammenarbeit
IPID	Institute for Participatory Interaction in Development
NGO	Non Governmental Organization
PMU	Program Management Unit
SLPSM	Samastha Lanka Praja Sangawardana Mandalaya
Rs	Rupees

Preface

This document is a study on the benefits and beneficiaries of the Yasiru micro-insurance project in Sri Lanka. It has been written for two main reasons. First of all, both the micro-insurance society 'Yasiru' as well as Rabobank Foundation are interested in a description of the progress and development of the Yasiru project, and in an analysis of (potential) clients needs. Rabobank Foundation has been and still is providing Yasiru with important funds and assistance.
Secondly, the Demand Group of CGAP/MicroInsurance Platform asked its members for studies on the demand for micro insurance products among deprived people. Together, this resulted in an assignment by Rabobank Foundation to the author of this report, Florentine Fokma, to conduct a research study on the risks that poor rural people in Sri Lanka face and on the needs of those people for micro-insurance products. Purpose was to document this research and the development of the Yasiru project from its start in 1999 until now.
The study took place from August till October 2004. The writer owes much gratitude to everyone who was willing to cooperate during the research. Especially Mr. Sunil Silva, chairman of Yasiru, the Yasiru-staff, management staff of partner NGOs and Mr. Dixon de Silva as translator all in Sri Lanka and Mr. Gerard Pierik and Frank Bakx in the Netherlands offered valuable contributions.

1. Introduction

Micro-insurance is a relatively new concept. It comprises semi-formal and formal mechanisms under which the poor and vulnerable communities in low-income countries manage their risks in life, in business and in assets. Micro-insurance has a long history in various forms and in many social contexts, but it is only recently being regarded as an important and potent contribution to risk mitigation and development of the poor.
For this document, the micro-insurance activities of the Sri Lankan 'Yasiru Mutual Provident Society' have been point of departure.
Yasiru is a mutual and self-managed insurance scheme for the poorest people living in rural areas of Sri Lanka. Being designed when microinsurance as such was being explored in different parts of the world, Yasiru has a novel and highly innovative character.

Like many other microinsurance schemes, Yasiru is not a formally regulated insurance institution. It has neither the structure nor the legal mandate to act as an insurance company. In practice, Yasiru is a network of local and regional self-help schemes for which the beneficiaries pay a contribution instead of a premium. Its mutual character is enhanced by the redistribution of annual surpluses to the same beneficiaries.

Against this background, a systematic analysis of the Yasiru activities was found useful. Two main topics are dealt with in this report. First, results of research on the risks that poor rural people face in Sri Lanka and their resulting need for micro-insurance products is set out. The emerging micro- insurance schemes are a great addition to the financial services available to the poor in Sri Lanka and to their economic development. However, many risks remain unattended to by these schemes. It is therefore a big challenge for the micro-insurance agencies to expand their coverage geographically and to deepen coverage to resource-poor people. To do so, it is essential to know exactly what kind of risks poor people face and what kind of coverage they need.

Research is therefore necessary. For product development, the insurability of such risks has to be examined thereafter.
Secondly, as no documents except some financial statements exist of the progress and development of the Yasiru project throughout the years, the relevant events and issues of the Yasiru project are here summarised.

2. Background

2.1 The need of poor people for risk management mechanisms

Poor households are extremely vulnerable to negative events with financial consequences because they have no existing funds to meet the resulting unexpected losses caused by these events. Financial assistance is hard to obtain because their relatives and community often find themselves in the same difficult financial situation. In order to cope with such losses the poor thus have to resort to emergency measures such as selling or mortgaging their small possessions, taking loans (if possible and sometimes at exorbitant interest rates), malnutrition, reducing family health care and children's education, and child labour.[1] The lack of facilities available to save for those expenditures makes it very difficult to escape from indebtedness and poverty.
In situations where some money is available, the fear of losses can mean sacrificing profitable business opportunities and new technologies. People will buy assets or save something to be able to meet future shocks.

It is thus important that the poor are (financially) protected from risks if not to directly alleviate poverty but at least to enhance reaping the full benefits of other poverty reduction measures such as education, gender equality, sanitation, employment and business opportunities, population control, health care and nutrition.[2]

2.2 The situation in Sri Lanka

In Sri Lanka only a minority of persons in the working age group is covered by formal insurance schemes. Regular commercially-motivated policies are unaffordable for the poor. While the insurance industry is still quite small - with a total market penetration of probably less than 10% - it is certainly growing more rapidly than the economy as a whole.[3] An enormous potential remains to be exploited. At the level of the poor though, the big commercial insurance firms have taken no serious initiatives until now. This means that the vast majority of the poor (mainly those who earn a living through casual and seasonal work and self-employment) are not covered by any formal system.
The wellbeing of those people is threatened by risks arising from accidents, injury and death of breadwinners and family members. Additionally, natural disasters, damages by wild animals and business risks can influence the course of their lives heavily. In many cases the above mentioned risks involve not only costs directly caused by the event but also loss of income.

[1] World Bank 2000, Wright 1999
[2] Insurance and poverty alleviation, the cooperative advantage; Sabbir Patel, Jan 2002, p.7
[3] Micro insurance Sector Study, Sri Lanka; GTZ April 2004

With regard to the first risks, Sri Lanka has a countrywide free health service provided by the State, and a widespread network of Community-Based Organisations (hereafter CBOs) such as Funeral Aid Societies that help communities cope with these experienced risks.[4] Sadly, the provision of state-financed health services is under big pressure due to shortage of finance. The traditional coping mechanisms within families and communities are, to a lesser extent, under pressure as well. (among others because of urbanisation and migration) In case of natural disasters, some (State financed) municipal help is offered at Grama Niladhari divisions'[5] level, but this support is very little and doesn't reach many of the people in need in times of such disasters.

In the past decade, some initiatives have been taken for risk management schemes for the poor in Sri Lanka. A couple of NGOs and the government poverty alleviation program 'Samurdhi' have started to offer micro-insurance products to poor communities. Among those projects is Yasiru.

3 Assessment of the risks faced by poor rural people in Sri Lanka and the resulting need for micro-insurance products.

3.1 Objectives and key questions

The first objective of this study was to investigate the risks poor rural people face in Sri Lanka. All types of crises and risks were explored, but emphasis was placed on risks not covered so far by the micro-insurance sector, such as loss of crops, livestock and house assets, damage by natural disasters and wild animals, and costs of health care.
The second objective was to study the way people handle the shocks they presently experience and based on that, the need for micro insurance products was examined.

The key questions that guided the assessment include:

- What key risks do existing and potential clients face and what kind of shocks have they experienced in the last 5 years?
- Do existing and potential clients need micro-insurance products to cope with these risks?
- If micro-insurance institutions are to implement these insurance products, are the targeted clients willing to pay premiums?

3.2 Methodology

The research was conducted among participants of the Yasiru Mutual Provident Society (hereafter called Yasiru) and other involved parties. The Sri Lankan NGO SLPSM - with support of Rabobank Foundation and Interpolis from the Netherlands - founded this mutual society in 2000. It offers micro insurance products to its members. Yasiru is a legally independent entity for which, by now, ten NGOs work as agents selling policies to its members.
The research included individual interviews and two group discussions.

[4] Case study 'All Lanka Mutual Assurance Organization, IPID
[5] In Sri Lanka, provinces are divided in districts, districts in divisions headed by Divisional Secretaries, and these in Grama Niladhari divisions or subdivisions.

3.2.1 Sample

People who have been interviewed for this study are:

1. low-income rural people within the area of operation of the NGOs who are general agents for the Yasiru Society,
2. rural people within the area of operation of a NGO which is considering joining the project and
3. staff and management of different (future) partner NGOs of the Yasiru project.

Sample frame for the interviews	
Policy holders	24
Non-policy holders	18
Animators[6] (all policy holders except one)	9
NGO management	9
Total	**60**

Of the people interviewed as mentioned above, 77% is female, 23% male. (The gender differentiation of Yasiru members is 61 % female, 39 % male)

3.2.2 Area of the study

The study was conducted in the central and southern parts of Sri Lanka: interviews were held in the rural areas of the districts of Kalutara, Kegalle, Nuwaraeliya, Badulla, Matale and Moneragala.
The geographic characteristics vary widely from district to district, and sometimes even within them different risks exist. (Map in Annex)

District	Main risks
Kaluthara	Floods
Kegalle	Floods, earth slides
Nuwaraeliya	Earth slides, droughts
Badulla	Earth slides, wild animals
Matale	Drought
Monaragala	Drought, wild animals

3.2.3 Limitations

Some aspects that might have influenced the results of this research should be considered.
As a translator was used to interview the participants in Sinhalese, answers have been interpreted twice. Additionally, due to the low membership awareness, part of the people interviewed had difficulties understanding and answering the questions clearly. It also has to be mentioned that all

[6] village members who collect the premiums and fill in the claims

the NGOs who have joined the Yasiru scheme so far are located in the middle and south of Sri Lanka with vast majority of Singhalese membership. There were no NGOs to represent the North and East of the country. Hence, there was no geographical and ethnic balance in the sample used for research. Only Sinhalese people have been interviewed, while Tamils and Muslims, representing roughly 23% of the Sri Lankan population, possible with different risk profiles, have not been heard.

3.3 Key Findings

The following table shows the main risks identified, and the demand for insurance for these risks (in percentage of the risk identified).

	Risk Identified/ % of sample	**Insurance needed (%)**
Death, disability and hospitalisation	78%	100 %
Hospitalisation costs	13%	100 %
Loss of crops by drought	38%	
“ “ by floods	15%	
“ “ by elephants	3%	
“ “ by earth slides	3%	
Total loss of crops	60%	100 %
Loss of household assets by floods	8%	
“ “ by earth slides	10%	
“ “ by elephants	7%	
Total loss of household assets	25%	80%
Business risks	25%	90%
Education expenses	20%	100%

3.4 Discussion: interpreting the data

Death, disability and hospitalisation
Besides the policy holders and the management of the NGOs, 55% of the non- policy holders said they face the risks of death, disability and hospitalisation in their lives. When confronted with these events, funeral expenses and loss of income follow. Of the people who see these events as risks, 100% wishes an insurance to help them and/or their relatives to cope with these problems. (The traditional community Death Donation Societies help people to cope with the event of death, but often this support covers the funeral costs only.)

Hospitalisation costs
Although just a small percentage of the interviewed (13%) reported these problems, this risk has to be given serious thought in the near future. All the interviewed who experience it as a risk, wish an insurance for it.
Although formally health care in Sri Lanka is free, in practice more and more people have to pay to get medical treatment. General tests such as blood and urine tests are often not available in the state hospitals. State doctors have to ask their patients to go to a private clinic to get these tests done. Strikes in state hospitals cause the same problems. In such cases, poor people who need urgent medical care are forced to get treatment in private hospitals (in Sri Lanka, many strikes

take place). Additionally, drugs are more and more frequently unavailable in state hospitals. Therefore, if doctors prescribe such medicine, the poor have to get it in private pharmacies. Together, these developments can imply major costs for the poor looking for health care.
At the same time, private treatment was reported as a trend by one animator as well, but more details could not be obtained.

Loss of crops by drought, floods, earth slides and elephants
The vast majority of the answers on the question of feared or faced risks was loss of crops. Natural disasters, varying from district to district and the location of wild parks (near unprotected farmland) are the cause of these risks. All the farmers interviewed state that loss of crops has happened to them.[7] It forces many of them to look for casual work. As this is not always available or sufficient, some of the emergency measures set out in the background section of this report such as selling small assets, taking loans etc., result from the loss of crops. The assumption of demand for crop insurance was confirmed.

Loss of household assets by floods, earth slides and elephants
25% of the interviewed mentioned the loss of household assets. Poor people often spend some portion of the little money they have on their houses throughout the years. Damage to their houses and loss of household assets can therefore mean big financial losses. These risks, again, are mainly caused by natural disasters and therefore they occur mostly in some particular districts. Management of some of the interviewed NGOs have indicated loss of household assets as one of the major risks poor rural people face.

Business risks
With regard to business risks, participants meant among others inflation, loss of business assets, insecure markets and competition.

Education expenses
Many of the interviewed consider the education of their children as one of the most important opportunities and sources of income in life. Some stated that as money is worth nothing in 20 years because of inflation, good employment of their children is the only way to insure their children and themselves of a comfortable life and old age. Although education and related costs (uniform etc.) are basically free in Sri Lanka, many other things are needed for a good education.

4. 'Yasiru Mutual Provident Society': the development and progress of a micro-insurance scheme in Sri Lanka.

4.1 Introduction

Yasiru Mutual Provident Society (hereafter Yasiru) was founded in 2000. This micro-insurance project is an initiative of Samastha Lanka Praja Sangawardana Mandalaya (here after: SLPSM), a local NGO in Sri Lanka. With the support of the Dutch Rabobank Foundation and technical assistance of Interpolis, a subsidiary of Rabobank Group, Yasiru was established. It provides coverage for death due to accidents and natural causes, partial/total permanent disability due to accidents and hospitalisation. As from 2000, SLPSM has been working as a general agent,

[7] Others, non-farmers, who see loss of crops as a risk faced by poor rural people, include animators and NGO staff and management.

offering its members Yasiru policies. By now (November 04), nine other NGOs have joined the scheme and they also offer Yasiru policies to their members. The total number of outstanding policies has reached 7.350, covering approximately 25.000 people.

4.2 SLPSM, Rabobank Foundation and Interpolis

SLPSM (in English: ACCDC; All Ceylon Community Development Council), is a Sri Lankan NGO launched in 1987. It is a federation for local community based organisations. The central office is located just outside Colombo and it has numerous subsidiary district offices and field posts. With a staff of 150 persons, it covers seven districts, mainly in the southern part of Sri Lanka. From the start, it has been working on poverty reduction. SLPSM's programs involve the development of rural development societies, saving and credit societies, rural farmer societies, funeral aid societies, and work on human rights and values. Because SLPSM was convinced that risk management was absolutely a community need in the daily life of the poor rural people, they wished to expand the existing Death Donation Societies in their CBOs. Therefore, it started a small program offering some micro-insurance products to its members in 1995. A re-insurance contract was agreed upon with the Sri Lankan Insurance Corporation, but it only covered the death insurance. This made it important to look for other support.
Rabobank Foundation is a Dutch Foundation that supports initiatives for development of the poor, mainly by supporting co-operative schemes, financially as well as technically. In 1998, SLPSM asked Rabobank Foundation for assistance in developing a rigid micro-insurance scheme for their members. The innovative character of the project (a self-management insurance scheme for the poorest people living in the rural areas) and the approach of risk management convinced Rabobank Foundation to support the project. To develop a partnership with SLPSM for a risk management program at the grass-root level of the Sri Lankan community, Rabobank Foundation turned to its subsidiary Interpolis, an insurance company in the Netherlands, for technical assistance. The three parties worked together on establishing a sustainable micro insurance scheme for the poor rural people in Sri Lanka. This was institutionalised under the form of Yasiru in the year 2000.

4.3 The establishment of the Yasiru Mutual Provident Society

4.3.1 The risk management scheme of SLPSM from 1995 to 2000

Through SLPSM's work and surveys (for running and potential non-insurance projects) at the grass-root level of Sri Lankan societies, the need for a risk-management project was identified. Therefore, in 1995, SLPSM started to offer an insurance package as an additional scheme to the Death Donation Societies already operating within the communities.[8] This broad package included coverage for death and physical disability due to accidents (snakebites, falling off trees, floods, cyclones and earth slide, fire and lightening damages) and for damages by crop failures as well. The Sri Lanka Insurance Corporation provided reinsurance but only for death, which meant that all other claims had to be paid out of the premium income received. Premiums differed from

[8] Because the Death Donation Societies are vested pillars in villages/societies, SLPSM decided not to change this in any way, but to use it as the point of departure for the project.

10 to 50 Rs.[9] a month, and were deducted from savings and interests from SLPSM's credit program or collected directly.
After one year, in 1996, it was already clear that claims could not be met with the funds available. The lack of technical knowledge, insurance focused surveys and experience at SLPSM regarding insurance matters had caused the initial coverage to be too broad. Without reinsurance for other products, it was not possible to offer coverage for that many risks. Consequently, paid premiums were reimbursed and the scheme was cut down to only death, disability and hospitalisation. SLPSM tried to get reinsurance for the other risks during the years to come, as it saw its members struggling with many other shocks than death, disability and hospitalisation. However, they were not successful. In some rare cases the initial coverage for loss of crops continued, because societies continued to set money aside for these situations. SLPSM felt itself responsible and obliged to help them out a little in such situations. Another irregular coverage was given by SLPSM for death and disability to its members who didn't possess formal identity papers. Without such papers, it was not possible to get a formal policy.[10] With the introduction of the new Yasiru scheme in 2000, the situation of coexistence of regular and irregular insurance programs finally ended.

4.3.2 Yasiru Mutual Provident Society from 2000

Because SLPSM, Rabobank Foundation and Interpolis had little or no experience with risk management projects and little similar projects in Sri Lanka had preceded their initiative, they had not much to fall back on. Therefore, the whole program was set up in a flexible form, which has enabled it to adjust to new insights and/or changing situations when needed. By trial and error and through progress Yasiru has thus become more adequate and effective.

From the start, five elements were considered essential for the risk management scheme:

- A proper institutional structure
- A balanced selection of products
- A good administration
- A reinsurance contract
- Technical assistance

Proper institutional structure
As SLPSM was involved in several development programs, it was thought best to constitute a totally separate entity for the risk management project, so as to avoid mixing it up with credit or other programs. By constituting a separate entity, the sustainability of the insurance program is guaranteed best. Consequently, SLPSM works as an agent for the Yasiru program and sells policies to its own members. Officially, hardly any rights or obligations existed between the two entities, but in the actual carrying out of the program SLPSM was in charge and the only one to do so.
Because SLPSM, Rabobank Foundation and Interpolis agreed that the new scheme should be a cooperative one, the Yasiru Program is constituted as a mutual society under the Society Ordinance.[11] A cooperative structure means that the members (insured persons) are the eventual

[9] Exchange rate dd October 2004: 125 Rs. = 1 Euro (per 1-12-2004 the exchange rate was 135 Rs. = 1 Euro)
[10] Because of the conditions of the reinsurance contract.
[11] In Sri Lanka, a cooperative entity can be constituted as a cooperative or a mutual society. A mutual society was preferred, because it involves less government intervention. In a cooperative society, the

owners, an Annual General Meeting (hereafter AGM) is held where the members have a final say in decision-making and the right to select the Board of Directors. Democratic standards result from this chosen structure. Cooperative societies can be defined as to be 'by and for its members'.

The constitution is held as simple as possible, because amendments have to be approved by the AGM and the Registrar of Societies under the Companies Act. Approval by the Registrar is a very complex and time-consuming procedure. To keep the organization flexible, provisions are therefore, as many as possible, covered in the Standing Orders and bylaws.
The Board of Directors of Yasiru manages and controls the scheme. For fieldwork, SLPSM's existing network is used. SLPSM's projects are carried out at the grass root level in 'Small Groups' and CBOs with the assistance of animators, at divisional level at branch offices by field officers and field coordinators, and the projects are monitored by SLPSM's head office located just outside Colombo at central level. Yasiru hired SLPSM staff at all the above-described levels to manage the Yasiru project: to mobilize clients, collect premiums, handle claims, for administration of the project, assistance in building up the institutional capacity of Yasiru, marketing of the insurance product and training.

Balanced selection of products
No prior survey was conducted on risk coping mechanisms or insurance demand among the targeted group. The risk coverage was designed based on wide experience gained in the Netherlands, but with little initial reference to the needs of the proposed policy holders in Sri Lanka. Relevant actuarial data on life expectancy etc. were lacking. Brochures and other information from vested insurance companies and the insurance products and experience of SLPSM were used for the development of the Yasiru insurance products.

This resulted in the following package (September 2001, after some changes):
- Total permanent disability or death of the insured person due to an accident,
- Partial permanent disability of the insured person due to an accident,
- Natural death of the insured person,

Before reaching the age of 70 years but after more than 10 years of continuous membership the full benefit will be paid. If the membership is between 5 and 10 years 50% of the benefit will be paid. If it is less no benefit will be paid.
- Death of a dependant of the insured person,

If the member has paid continuously (premium) for at least five years his/her dependant will be paid 50 % of the benefits for natural death of the insured person. If the membership is less than five years only 25% of the benefits for natural death of the insured person.
- Hospitalization and/or temporary total disability of the member or children of the member,

The payment is only for the 1st 30 days only once a year and only for one person.
- Benefits due to children who are covered under a separate agreement for children.

Policy premiums varied from 10 Rs., 20 Rs. 30 Rs., 50 Rs. to 100 Rs. a month.

Good administration
An insurance administration has to be transparent and reliable. In the Netherlands, Interpolis introduced a software package specially developed for cooperative insurance schemes: OASE. Interpolis donated this software program, with little adjustments to make it suitable for the Sri Lankan circumstances, to the Yasiru administration.

Government Cooperative Commissioner has wide-reaching powers, e.g. he can even take over control of the cooperative.

On an annual basis, 15% of the paid premium goes to the so-called animators (village members who collect the premiums and fill in the claims) as remuneration, 35% to SLPSM for the management and administration of the project. Out of the remaining 50%, claims are paid. The yearly positive resulting balance is being divided into three parts; 50% is allocated to the Yasiru General Fund for future benefit payments, 10% goes to the Welfare Fund that provides relief in very special cases, and 40% is added to the member accounts. All individual members have such a member account, and in all the past years, these accounts have been credited with this 40%.of the yearly positive resulting balance. With annual interest accrual, the amount is available to members after five years of consecutive membership.

Re-insurance contract

A reinsurance contract was concluded between Yasiru and Interpolis Re. Events of death and disability due to an accident are reinsured for a premium of 20% of the total annual gross premium. In the contract, parties agreed that the first two years would be free of premium. Interpolis is still sponsoring the re-insurance coverage, because no premium has been due after those two years either.

Technical assistance

Mr. Gerard Pierik of Interpolis, the Netherlands, has offered technical assistance throughout the years of the project. This Dutch consultant visits Yasiru at least twice a year on average and provides almost weekly support at long distance. As an expert on cooperative insurance schemes, he has been and still is assisting Yasiru at a wide range of aspects of the project. Besides technical assistance for product development, for the outcome of policy aspects in real-life cases and for problems arising from policies, he helps Yasiru with structure and governance issues, as well as administrative ones.
In this respect, he assisted setting up the cooperative structure of the scheme and, together with Rabobank Foundation and a lawyer of Interpolis, he assisted formulating the Constitution and Standing Orders and By Laws more than once. He helped to safeguard membership awareness and was present at the past AGMs. Additionally, he assists the Yasiru staff by checking backups of the administration for early determination of arising problems and trains staff on his visits.

Rabobank Foundation supports the project financially as well as technically (on non-insurance project matters). With the first grant, provided in 2000, the initial costs of the project could be met. It covered the initial phase of mobilization, orientation, training, investments and capacity building. Later, it awarded a second grant for the expansion of the project to enable more people to benefit from the Yasiru insurance project.

4.4 Progress and development of Yasiru

From the start of the project in 2000 until now, Yasiru has gone through technical, structural and administrative changes. By trial and error, because of undesired outcome of some of the provisions for members or the society, the insurance package has been adjusted several times.
By the end of 2002, Yasiru had approximately 3.780 members (policy holders), all SLPSM members. To have more poor rural people benefiting from the scheme, several propositions were made for the expansion of the project. Marketing has been done at several NGO meetings throughout the country and interested persons looked for possible partners as well. With the help of Interpolis a partnership agreement was finalized and as said above, the Rabobank Foundation

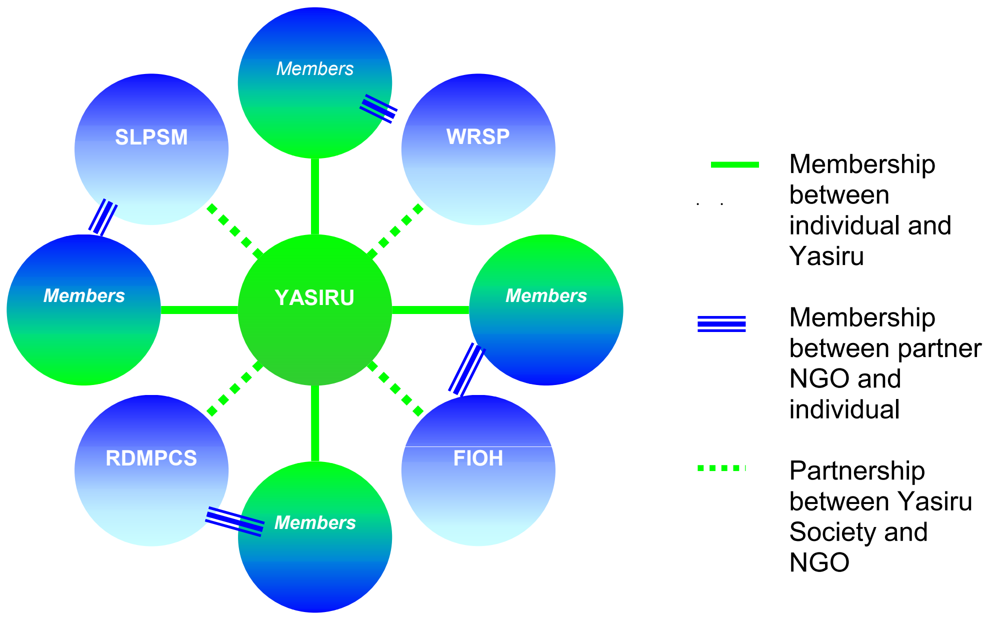
approved another grant for the expansion of the project. In 2003, five NGOs joined the scheme.[12] The Yasiru membership reached 6.265 that year. Because of the affiliation of these NGOs, changes were made to both the management and administrative structure of the scheme. For a successful scheme, a just and equal distribution of control among the partner-NGOs and an adequate administration of the entire insurance scheme are essential. In October 2004, ten NGOs were offering Yasiru policies to their members. This has resulted in almost 7350 policy holders at the moment. In the meanwhile, more than 1.600 expulsions because of non payment of regular premiums or other reasons occurred.

4.4.1 Changes in the institutional framework of Yasiru

Legal changes

With the affiliation of other NGOs, a new structure had to be designed and the constitution had to be amended to facilitate these structural changes. Yasiru submitted the amendments to the constitution to the Registrar, who refused to give his approval. He questioned whether the insurance-related activities of Yasiru were prohibited by the Control of Insurance Act, whether Yasiru would be permitted to require its members to pay a monthly membership fee, whether the fee might vary in proportion to future benefits and whether the paid-out benefits could exceed 2000 Rs.. Yasiru's legal adviser refuted these issues and nothing has been heard of the Registrar since. Consequently, the old constitution is still in force, although it is not in accordance with the actual situation. At time of writing 10 partners (including SLPSM) are working as general agents and their members are able to become members of Yasiru, while the constitution only speaks of SLPSM. For the individual members of Yasiru this has no further consequences because they have an agreement with Yasiru Mutual Provident Society directly, but it leaves the partners NGOs without any official power concerning the Yasiru Society, such as rights to be on the board of directors, the right of say etc. (See figure). These matters have therefore been included in the Standing Orders and By-laws, but the position of the partner NGOs would be much stronger if the constitution would include them.
To conceive some form of legal partnership between the different partners (SLPSM and other NGOs) and Yasiru, an Association Agreement has been signed, stating that all parties of the agreement will 'strive to achieve its objectives (micro insurance) through Yasiru Mutual Provident Society ltd.'

[12] WRSP (Walapane Rural Supporting Program), KRDF (Kotmale Rural Development Foundation), FIOH (Future In Our Hands), RDMPCS (Multi Purpose Cooperative Society) and GIDES.



Management related changes
Because the new NGOs should participate in the decision making process at Yasiru, the latest Standing Orders and bylaws state that "members of the NGOs which have become partners of the Society, are entitled to represent their membership and to be appointed to the Board of Directors". Until recently six NGOs were affiliated to Yasiru, and in the BoD all NGOs were represented. However, with the further expansion of the Yasiru project this will be impossible.
According to the (first but still in force) Constitution, the BoD consist of five people. Effective government of the scheme is likely too cumbersome with a large Board. As ten NGOs are working as general agents right now, it is clear that not all of them can be represented in the BoD. For that reason a new body was introduced in 2003; the Central Committee. This committee, representative of all partners (NGOs), will be involved in the operational aspects of the Yasiru program. In future it will become clear how this committee works in real terms.

Administrative related changes
Because of the expansion of the project, a Program Management Unit (PMU) was set up. Administration services are no longer hired at SLPSM. The PMU is responsible for the administration of the policies of individual members, animators (local agents), debtors, claims handling as well as the member accounts and the reserves, and it does the central financial administration. The partner NGOs are responsible for their own sub administration, which is consolidated in the overall administration of Yasiru. Of the premiums received, 25% is used to cover the costs made by the PMU, 25% to cover the costs of the partner (animator and office).

4.4.2 Product development

Advanced knowledge on the Yasiru insurance product has lead to several small and some bigger policy changes throughout the years. Because the whole program is set up flexibly, undesired outcomes are, in general, quickly and easily dealt with and have often resulted in changes of the policy afterwards. From 2001 until now, the policy has been modified three times.

The necessity to change the conditions of the policy has become clear through:

- field information (animators, field officers, branch coordinators)
- observations by individual members in AGMs of Yasiru
- experiences of the administration employees and the BoD of Yasiru
- know-how of the Dutch consultant.

The changes are motivated by:

- the client needs (and unwanted negative outcomes of the policy)
- administrative burden and the sustainability of the program.

With the first real policy change at the end of 2002, four major changes were made:

- ➢ A 'dependant' got better defined and a maximum of two dependants on one policy was introduced. In practice, a policyholder could insure as many people as he liked on one policy. This threatened the sustainability of the program, as it could mean a lack of balance between premiums received and possible due benefit payments.
- ➢ A maximum coverage was introduced. As different policy holders could insure the same person, for example their mother, benefit payments could become much higher than the maximum coverage for the 100 Rs. policy.
- ➢ Another change concerned the event of natural death. The criterion of 10 consecutive years of membership to get benefit payments was brought down to two. The 10 years criterion was initially to avoid that people took policies when being ill and knowing that they might die soon. However, this was not reasonable and two years was considered long enough to avoid this kind of malpractice.
- ➢ Members complained that the benefit payments were not proportional to the premiums paid. They were therefore adjusted. Benefit payments are now related to units of premium. 10 Rs. is one unit. For a 30 Rs. policy the benefit payments are thus 3 units, meaning three times the amount paid at a 10 Rs. policy etc.

(This implies an implicit subsidization of lower-premium policies by the larger-premium ones, as sales and administrative costs are *not* proportional to premium paid.)

The second big change of policy, which was approved by the AGM in April 2004, had more consequences.

- ➢ The most important change has been the introduction of the definition 'covered person'. Until the change, some one who got a policy became member of Yasiru and was the insured person. He could appoint two dependants, who were insured as well, although not on the same conditions as the insured one (no coverage for disability and lower benefit payments). With the introduction of the definition 'covered person', all persons on one policy get the same coverage and benefit payments. In addition, more people can be covered on one policy. This change implies an increase in premium in some cases. An household with no children or a single person with children still pays the same premium, but a household with children pays 50% more premium and to insure an adult (above 18) 50% extra is due for every adult. However, as coverage and benefit payments increase disproportional with the premiums, members will in general be benefited by this change in policy.

  Reasons for the change were plentiful. The demand for a full coverage for all family members, not only for the policyholder and for two dependants, was one of the motives. In addition, Yasiru needs information on every person covered in the scheme to make a proper risk diagnose on the long run. No such information is available on dependants at the moment. It also involves a reduction of administrational burden for benefit payments. The Yasiru policy now is a real 'family policy'.

This kind of change happened with family accident policies at Interpolis in the Netherlands. With the consultant's knowledge, it was possible to adjust the Yasiru policy as well.

- Funeral assistance coverage was extended from the age of 65 to 75. As the average life expectancy is above 65, members expressed the need for this several times. Also, children under 18 are now covered for funeral assistance.
- Hospitalization caused by maternity complications was excluded in the former policy. As it has the same consequences as other reasons for hospitalization (loss of income for example), it was considered reasonable to include this as well.
- Ayurvedic (traditional Sri Lankan health care) or similar treatment was introduced in the policy. For many of the members of the scheme, hospitals are not always easy to reach. Besides, traditional medicine is just as highly estimated as hospital treatment, and people sometimes prefer getting ayurvedic treatment instead of being hospitalized.

Not all the proposed changes by members in the AGM or changes considered necessary by the staff have been implemented so far. Risk-related, technical or practical (increase of premium and danger for the sustainability of the project) insurance matters sometimes made it impossible to do so. Examples of pending propositions are among others the development of crop insurance, livestock insurance, household assets insurance, higher education insurance and saving programs for children, a scheme for mentally disabled people. Yasiru is looking for possibilities to design and implement some of these products.

5. Conclusions

Two main topics are dealt with in this report: the assessment of risks faced by poor rural people and the resulting needs for micro-insurance products, and the progress and development of Yasiru Mutual Provident Society.

With regard to the assessment, several findings can be mentioned. Micro-insurance has proved to be a great support for poor rural people in Sri Lanka. Insurance coverage for death, disability and hospitalization can prevent them to resort to emergency measures, if those events occur. However, many of the risks that threaten poor rural people's lives are not covered by any formal or semi-formal scheme yet. The need to offer them a broader package of insurance products is clear. From the interviews, some specific conclusions can be drawn:

- There is a big need for crop-insurance:
  Farmers often experience loss of crops and it is a major threat to their wellbeing.
- There is a need for household assets insurance:
  Poor people often spend some portion of the little money they have on their houses throughout the years. Damage to their houses and loss of household assets can therefore mean substantial financial losses.
- The costs of medical treatment / hospitalization can become a real problem for poor people in Sri Lanka *in the future*. The declining availability of free treatments and medicine will force them to resort to emergency measures, such as taking loans, mortgaging, selling, or not getting treatment or medicine at all (with all the consequences on the long term).
- Many of the interviewed persons consider the costs of children's education a big risk.
- The risks of loss of crops and loss of household assets vary widely from region to region, which is caused by the geographical differences within the country.

With regard to the progress and development of Yasiru Mutual Provident Society, a number of conclusions can be made. The initiative of the Sri Lankan NGO SLPSM for the cooperative risk

management scheme, the support of Rabobank Foundation and Interpolis at the realization of Yasiru and the dedication of the Yasiru staff (at the start SLPSM staff as well), have resulted in a successful micro-insurance project. In the past five years, it has grown from one NGO working as a general agent, to 10 NGOs doing so right now, and from 1.129 policies at the end of 2000 to almost 7.350 policies at the end of 2004. Product changes, based on client needs (and undesired negative outcome of policies), administrative burden and the sustainability of the program, have been implemented with the help and experience of the Dutch consultant of Interpolis.
Main focus for the future is the further expansion of the project in number of policy holders. There are still so many poor rural people in Sri Lanka in need of micro-insurance products. Other reasons include the sustainability of the project (the more people participate, the more the risks are pooled), economies of scale (administration cost should come down) which will result in a larger share of the premiums being returned to the members on their member account (and to the General and Welfare Fund). The BoD is convinced that further expansion will come in the near future. Although the growth is not going as quickly as previously thought, no worries have been expressed. Another product development is being talked about for a long time. There is a great demand among Yasiru members for the extension of insurance activities to other risks. Staff and BoD wish to offer more to its Yasiru members on risk management. It can be safely assumed that in the near future product enlargement will be high on the agenda once again.

6. Personal remarks by the author

To conclude this report, some issues that caught the eye will be briefly mentioned.
Forecasts should be realistic. Budgets that are too optimistic and/or opportunistic can endanger the sustainability of the project. For example, enlargement of administrative staff should go hand in hand with growth in policies, otherwise the administrative costs, quite high already, will become very worrisome.
To convince people of the reliability of the scheme, emphasis has been put on individual benefit payments. This has proven to be a good marketing tool and gets many people interested for the scheme. Although that is very desirable, it should always be made very clear that the project is a risk-pooling scheme, a mutual society. Not everybody can receive high benefit payments. Lack of awareness on this subject can again threaten the sustainability of the project, as disappointment can lead to cancellation of policies and thus to a drop in premium income.
Finally, regional and ethnical differences in Sri Lanka should be incorporated in the strategy and products of micro-insurance schemes to enable as much poor rural people in Sri Lanka as possible to manage their risks.

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Map of Sri Lanka