



SRI LANKA

BACKGROUND

Thirty-two percent of Sri Lanka's labor force is in the agricultural sector, and it accounts for 10 percent of GDP. The sector grew by 5.5 percent during 2015, compared to 4.9 percent in 2014.

The majority of farmland in the country is in smallholdings. Agricultural productivity is low by global standards, and most farmers have not been able to transition toward value-added agricultural products, which are in demand by the growing middle class, and are also needed for export.

Insurance penetration remains low, with the penetration ratio (measured as the ratio of gross written premium to GDP) being only 1.09 percent overall in 2015. Sri Lanka's geographic and climatic diversity exposes it to a number of weather-related risks, most prominently flood, drought, and cyclone.

Among available strategies for risk management in agriculture, insurance plays an important role. Mitigating weather-related risks is important in providing access to credit, stimulating investment in farming, and increasing productivity among smallholder farmers.

PARTNER FOCUS

Sanasa Insurance Company

WHY INSURANCE?

Availability of insurance will give farmers greater access to capital, and will encourage the development of new farming techniques and technologies. It is hoped that it will also lead to increased investment by farmers, and improved harvests and livelihoods.

When properly developed with both private and public interventions, index insurance can be an innovative and efficient financial instrument. It helps poor smallholder farmers manage the increasing climate-related risks to their harvests. It can help farmers survive adverse weather conditions or destroyed harvests, and can potentially increase access to agri-credit markets. This will enable farmers to protect their assets and invest in their farms, and to access faster payouts when their livelihoods are at stake.

Continuous education of farmers is essential for increasing sales and expanding index insurance markets in Sri Lanka. There is a need for awareness raising among farmers about how indices are structured, what they cover, and how payouts are measured.

OUR WORK

In 2011, the World Bank Group, supported by the Global Index Insurance Facility (GIIF), started working on stimulating the weather-related index insurance market in Sri Lanka through a combination of capacity building and awareness raising activities at both the institutional and the smallholder-farmer levels.

RESULTS

Since 2011, the Sanasa Insurance Company Ltd. (SICL), with the support of GIIF, has designed simple, flexible, and affordable weather-index insurance products for paddy and tea farmers. These products were launched in 2012.

The project has since assisted SICL in developing its institutional capacity and its agents, while raising awareness of the benefits of index insurance products among more than 50,000 farmers.

Two crops – paddy and tea--are insured for two perils--drought and excess rain--for a total insurance portfolio of more than \$2.5 million.

SICL has more than 250,000 microinsurance clients. Index insurance is a new business line for the company, and an area of potential growth.

CHALLENGES

The high cost of premiums has inhibited sales of weather-index products to paddy farmers. SICL plans to modify the product design to reduce premium costs. Premium subsidies are also being explored as a possible means to reduce costs and expand the market.

Lack of awareness: Smallholder farmers are often confused about the differences between traditional indemnity insurance and index insurance. A strong mass media awareness campaign, designed to increase understanding of weather-index insurance, is needed in order to promote sales.

Data: Availability of accurate and affordable data to facilitate good, effective product design is needed. There have been difficulties obtaining rainfall data in a timely manner from the meteorological department. This has been a major challenge for the successful operation of weather-index insurance in Sri Lanka.

Partner Information

Sanasa Insurance Company Ltd. (SICL) is a Colombo-based insurance company of the SANASA savings and credit societies, committed to uplifting the standard of living for low-income Sri Lankan families, particularly in rural areas. SICL supports a cooperative network of nearly 8,400 savings and credit institutions located across Sri Lanka. The term "Sanasa" is the Sinhala acronym for Thrift, Credit, and Cooperative Society (TCCS). It is also used to denote the entire movement of 8,000 TCCSs, covering approximately three million beneficiaries (members and their families), representing 17% of the country's total population. SICL operates mainly as a service support organization to serve members of the Sanasa societies and other community-based organizations, and offers insurance products in most areas in Sri Lanka.

In June 2011, the World Bank Group, supported by GIIF, partnered with SICL to develop an index-based insurance product for paddy farmers. After launching an initial pilot product for just over 100 farmers, the product was further calibrated to meet both climatic variations and farmer expectations. A full program was launched in August 2012, and tea was added to the portfolio of crops. The trust built through Sanasa societies was pivotal in the success of promoting index-based insurance in rural areas. With more than 8,000 Sanasa societies spread across the island, there was already a robust network of agents and distributors with personal connections to the farmers in place.

"Since the pay-out only depends on the weather, I can be confident that I won't get a field officer who will come in and try and reduce my claim amount, or skip my claim amount. If the index triggers, I will get the payout, simple and straightforward. I will definitely buy weather-index insurance for all my crops."

— CHANDRASIRI WANASUNDERA,
Smallholder farmer in Ratnapura





PROJECT SNAPSHOT	
Market Launch	2011
Clients	50,000+
Partners	Insurers: Sanasa Insurance Reinsurers: GIC-India Delivery Channels: Sanasa Insurance Societies; farmers' organizations; tea factories
Insured Crops	Paddy and Tea
Insured Perils	Drought and Excess Rain
Insurance Portfolio	\$2.35 million
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About Global Index Insurance Facility

The Global Index Insurance Facility (GIIF) is a dedicated World Bank Group's program that facilitates access to finance for smallholder farmers, micro-entrepreneurs, and microfinance institutions through the provisions of catastrophic risk transfer solutions and index-based insurance in developing countries. Funded by the European Union, the governments of Germany, Japan, and the Netherlands, GIIF has facilitated more than 1.5 million contracts, covering approximately 6 million people, primarily in Sub-Saharan Africa, Asia, and Latin America and the Caribbean. The facility is part of the World Bank Group's Finance & Markets Global Practice.

For more information, please visit www.indexinsuranceforum.org.
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