Introducing index based crop insurance in Sri Lanka and improving client value

Country of Operation: Sri Lanka
Region: Asia and the Pacific
Sub Topics: Other channels, Financial institutions, Claims, Sales, Product development, Partnerships, Consumer education, Impact, Improving value, Agriculture

Organizational Overview
Sanasa Insurance Company Ltd (SICL), a Colombo based insurance company of the SANASA savings and credit societies, which are 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 with insurance offerings. The term “Sanasa” is the Sinhala acronym for a Thrift, Credit and Cooperative Society (TCCS). It is also used to denote the entire movement of 8000 TCCSs covering about three million beneficiaries (members and their families) representing about 17% of the total population in the country. Sanasa Insurance Company operates mainly as a service support organization to serve members of Sanasa societies and other community-based organizations and transacts insurance products in most areas in Sri Lanka.

Project Description
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Activities Overview
SANASA’s mission is to provide various products and services to improve livelihoods of the members of the cooperative societies. The weather index-based insurance product launched in 2010 is an example of that. About 400,000 members of the SANASA network are engaged in agricultural activities. Most farmers tend either not to own a land or are small scale farmers (less than five acres), facing risks such as drought, flooding and insects. The objective therefore was to adapt the weather-based crop insurance model used in India, to the Sri Lankan environment, develop and test new methodologies to streamline the overall process, improve delivery mechanisms, and raise the awareness of insurance among rural Sri Lankans. The product distribution and consumer education activities are carried out through the societies.

Previously covering for paddy against rain related risks with support from the ILO, SANASA now insure tea farmers also. The product also provides other coverage against life and hospitalisation risks. While sold through the cooperative society structure, SANASA does not “bundle” the product offering with the credit that is provided to the farmers, as it could dilute the understanding of the product but also drive up the cost of loans which is not favoured by the members. Subsequent to the support from the ILO’s Impact Insurance Facility, SANASA also received support from World Bank Group’s Global Index Insurance Facility which has helped in expanding to new products.

For the operation of weather index-based insurance, current data and the historical data for the analysis are obtained from the Department of Meteorology of Sri Lanka. At present, only 23 main stations are available with automated weather equipment to provide daily rainfall data, reason why products have been introduced in areas covered by these weather stations only.

Sri Lanka’s agro-industrial sector is the fastest growing industrial category, with an average annual growth rate of around 5%. However, agricultural productivity is low by global standards, and most farmers have not been able to migrate to value-added agricultural products, which are in demand by the
growing middle class and for export. Sanasa designed an index product for paddy farmers in 2011 and launched another product for tea farmers in 2012. Insurance will allow farmers access to scarce capital, new farming techniques and technologies and hopefully will lead to increased investment by farmers and improved harvests and livelihoods.

The project will achieve the following objectives by project completion:

- Support the development of a simple, flexible, affordable Weather-Index Based Crop Insurance product that will cater to diverse client needs for food crops in Sri Lanka
- Assist in developing institutional capacity of SICL (Sanasa Insurance) and selected agents
- Raise awareness among at least 50,000 farmers on the availability of the index insurance product/s and its benefits

**Learning Agenda**

The following questions were asked as part of the learning agenda of SANASA:

- How to improve farmer?s interest and trust in the product through better product design and processes?
- How to reduce turnaround time in enrolment and claims?
- How to provide better consumer education?
- How to improve efficiency of the cooperative society channel to provide better services for the weather index insurance product?
- What distribution channel ? cooperative versus bank branches ? is more effective in convincing customers to purchase the product, more efficient in terms of communication of product proposition and cost of delivery?
- How can technology driven processes be implemented to provide better experience for customers, improve customers’ overall product perception and acceptability?
- How to leverage the mobile phone platform for the weather index insurance program?
- What other technologies can be used to improve the coverage in addition to the existing weather stations? How to set up low-cost weather stations?
- What are the data requirements and data sources from where relevant weather and crop data can be obtained that can help in developing weather-based index insurance products?
- How do data requirements vary across different crops paddy, tea, rubber, maize, coconut and banana?
- Which consumer education/promotion tools are effective in explaining the index to small holder farmers?
- How effective are cooperative communities in product promotion and sales?
- How effective is it to bundle insurance with loans for crops? What is the impact of the increase in price on off take by farmers?

**Latest Updates**

As of 14/05/2015

The weather index-based insurance product that was introduced in 2010 for paddy and later for tea has helped covering about 25,000 farmers. SANASA is now trying to provide more value to clients by improving the product offering and related process. With this objective, SANASA hosted a peer exchange activity with support from the World Bank?s GIIF and the ILO?s Impact Insurance Facility wherein other partners of GIIF reviewed the various aspects of
the product and processes adopted by SANASA and suggested improvements.

There is also interest in using technology, such as mobile phone based technology, to help in better customer engagement. SANASA has tied up the largest mobile network service provider, Dialogue, to explore ways of providing better service for the clients across the insurance value chain.

Efforts are also on for setting up additional weather stations to help in expansion to other areas.

Lessons

**Offering other covers in addition to weather insurance can help in improving product acceptance.** The unique part of the product offered by SANASA is that it is bundled with other covers like accidental death and hospitalization which catered to various needs of the farmers and offered a good coverage for both production and livelihood risks. In addition, the support available with financial solutions for premium payment enhanced the attractiveness of the product.

**Data quality and quantity can prevent scaling up the product to new geographies and improving coverage with the societies.** There are very few weather stations and they are sometimes too far away to be accurate. This lead to a high potential of basis risk, and negatively impacted the scaling-up product to other areas: only 69 of the potential 8000+ societies offer the weather insurance product. SANASA will explore possibilities of using satellites data and other remote sensing techniques for product development. These can provide information over a larger area and on different crops, which can make scaling up possible in an efficient manner.

**Technology can be used to leverage the high touch society relationships.** SANASA? s marketing strategy currently relies heavily on human resources based on the relationship of the farmers? with the societies. While great for explaining about the product, this high touch engagement drives up the costs. For building better trust on the product and the insurer, mobile phone based technology can be used, in addition to enrolments, premium collection and claims settlement, for communicating and engaging with the customers over the life of the policy. Regular communication on the phone can be provided on how the index is performing, the progress of the index and when claims become payable. Value added services, like weather information and agriculture advisory services through SMS in local language and pre-recorder messages, can help in increasing trust on insurance as well as aid in renewals.

**Consumer education can positively impact demand.** Continuous farmer education is the most important factor for sales and expanding index insurance markets in Sri Lanka. Farmers need training on how indexes are structured, what they cover and how payouts are measured.

**Pricing can negatively impact uptake.** The high cost of premiums has inhibited sales of weather index products to paddy farmers. The Sanasa team plans to modify the design to reduce premium costs. Premium subsidies are also being explored as a possible means to reduce costs and expand the market.

**Promotion through mass media can improve sales.** A strong awareness campaign though mass media on weather index insurance is needed to promote sales. In addition, there have been difficulties obtaining rainfall data in a timely manner from the meteorological department which has challenged the smooth operation of WII in Sri Lanka.

**A growing number of micro and small farmers are hoping to benefit from growth in the agricultural sector.** There are two million farmers in Sri Lanka, and there is good market potential. The Sanasa Federation has excellent outreach to over one million members through its 8,400 savings and credit institutions in all provinces of the country. Sanasa Insurance hopes to have 50,000 farmers insured with weather index insurance by end 2015.

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