

Global Leaders Programme



**Protecting the Vulnerable:
Expanding microinsurance in Sri Lanka**

Table of Contents

Section	Pages
Executive Summary	3
Introduction to the project	5
Background to Sri Lanka	10
Microinsurance in Sri Lanka	13
Proposed products and services	22
The Business Model	40
Distribution and partnerships	45
Governance and organisational structure	60
Regulatory recommendations	67
Financial analysis	73
Measuring social impact	89
Conclusions	95

Executive Summary (1/2)

- **Microinsurance** is “the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the livelihood and cost of the risk involved”. It is designed for low-income individuals, families and enterprises that are more vulnerable to financial shocks and can be caught in a poverty trap in the event of a tragic life event.
- Microinsurance in developing economies has an estimated market size of 2.7 billion people and approximately US\$40 billion in potential annual premiums, with significant demand for health and life, agricultural and property insurance and catastrophe cover (MicroInsurance Centre). Premiums typically do not exceed US\$2.5/month.
- **In Sri Lanka**, insurance penetration remains low compared to other Asian markets and millions of people are in need of appropriately priced insurance products. Sri Lanka’s nascent microinsurance sector is characterised by simple insurance products and no regulatory framework. Insurance companies now recognise the opportunity provided by millions of low-income customers and are beginning to expand their microinsurance offerings. Besides profits, companies can also benefit from a large and diversified risk pool, improved brand image and reputation, and access to market intelligence and innovations applicable to other business activities.
- The Global Institute For Tomorrow (GIFT) partnered with **LOLC Insurance (LOIC)** a part of leading Sri Lankan conglomerate the LOLC Group, to develop a business plan to expand LOIC’s microinsurance business.
- LOIC currently offers loan protection insurance to thousands of customers of sister company LOLC Microcredit (LOMC).
- The financial success of this loan protection product has highlighted the opportunity to leverage internal group resources networks, an existing client base and reputation, especially LOMC and LOLC Finance (LOFIN) to expand the microinsurance business.

Executive summary (2/2)

- The following report makes recommendations to support that expansion in areas including:
 - **Product Development:** Simple and affordable products in response to demand in the market for critical illness, life and education cover;
 - **Strategic Partnerships** with LOFIN and remittance agencies, state-owned and private transport companies and agricultural input providers to bundle microinsurance products with savings accounts, bus passes and bags of fertilizer;
 - **Cost-effective Distribution Channels** such as LOMC loan officers and customers, SME clients of LOFIN and state-run Agrarian Service Centres to raise awareness about the benefits of insurance and achieve one-to-multiple sales of bundled product offerings;
 - **Regulatory Recommendations** to the Insurance Board of Sri Lanka (IBSL) to allow insurance companies to train and certify agents for specific microinsurance products and to simplifying insurance processes and procedures, such as reporting. Policy recommendations are also presented to various government ministries to provide tax incentives to SMEs providing microinsurance to employees and subsidies to support bundling microinsurance with fertilizer and bus passes. These measures would significantly increase insurance penetration in Sri Lanka.
- **The proposed business model is expected to deliver additional revenue of LKR 178.7 million in FY2016, with a Profit margin After Tax of 12.9%. Micro insurance revenues are expected to increase to LKR 370 million in 2020 with a profit margin of 17.4%.**
- **If IBSL relaxes regulations allowing LOMC loan officers to become certified microinsurance sales agents, 10% penetration among LOMC's exiting customers would result in additional revenues of LKR 57.6 million in FY2016.**



Introduction to the project

Global Leadership Programme



- **The Global Institute for Tomorrow (GIFT)** is an independent pan-Asian think tank providing content-rich and intellectually challenging executive education from an Asian worldview.
- **The Global Leaders Programme (GLP)** is GIFT's flagship executive education programme designed for managers from leading global organisations to think critically about the drivers of change in the 21st century and develop new business models that address the defining challenges of our time.

Project Team

- 28 participants from 11 countries and companies joined the GLP in Hong Kong and Sri Lanka in March 2015.
- In partnership with local partner LOLC Insurance (LOIC), participants worked to produce business recommendations for its nascent microinsurance sector in Sri Lanka.



International team of professionals exploring the opportunities and challenges of the microinsurance sector in Sri Lanka

Scope of Project (1/2)

Programme objectives

- Explore and gain a better understanding of the microinsurance industry in Sri Lanka and review the challenges and opportunities to the sector's growth
- Develop a financially viable business plan for LOIC that considers the :
 - Country context, including the social, political, economic and demographic environment that may impact microinsurance;
 - Supply-side of microinsurance, understanding the players (both formal and informal) and products in the insurance market and how they operate;
 - Demand-side, through interviews with target customers to qualify the low-income market, identify key concerns and assess levels of awareness and perceptions about insurance;
 - Regulatory constraints to the development of microinsurance in Sri Lanka.



Scope of Project (2/2)

Methodology

1. Insights from LOIC and LOMC management on the businesses' track record, on the microinsurance and insurance sectors in Sri Lanka and on the low-income customer segment.
2. Meetings and site visits in Digana and Kandy with LOMC customers and small entrepreneurs, LOFIN customers and SME employees, microfinance institutions (MFIs), LOLC personnel, local authorities and village communities & associations.
3. Group divided into various teams for consolidation of findings and into task forces to develop business models for LOIC's microinsurance business.
4. Development of a business plan with in-depth analysis of key focus areas such as product development; distribution channels & partnerships; governance; government policy recommendations; social impact metrics; and financial analysis.
5. Presentation of key highlights of the business plan to senior management of LOLC group in Colombo.





Background to Sri Lanka

Economic landscape of Sri Lanka

- Located off the southern tip of India, home to 21 million people.
- GDP growth rate of 7.3% and GDP of US\$ 67 billion (2014). Strong economic growth, especially following the end of the civil war in 2009.
- Sri Lanka transforming into a middle-income country with GDP per capita of US\$3,380.
- Agriculture accounts for 10.6% of GDP (2013) and employs over 30% of the labour force. 80% of the total population live in rural areas.
- Main agricultural products include rice, tea, rubber, pulses and spices. Main industries include agricultural processing, telecommunications, insurance & banking, textiles and construction.
- Unemployment rate of 4% and inflation rate of 6.9% (2013).
- An estimated 1.7 million economic migrants remitted ~ US\$ 6.8 billion in 2014.



Social development: Successes & challenges

- Country on track to meet most Millennium Development Goals, especially in primary education and gender equality.
- People below the poverty line – down from 15.2% (2006) to 6.7% (2013) – but still disparities across regions and social groups.
- Country vulnerable to natural disasters: floods and droughts in 2013 intensified vulnerability of poorer communities, affecting livelihoods and crops, especially rice production. Over 600,000 people affected in 2013.



Healthcare

- Widespread national social protection scheme for basic healthcare but insufficient infrastructure and resources to cover for critical illness and other diseases.
- Great strides in healthcare but remaining issues include poor nutrition and need for more health services to address non-communicable diseases.
- Increased reliance on the public healthcare system and rising demand for higher quality and affordable healthcare.

Education and literacy

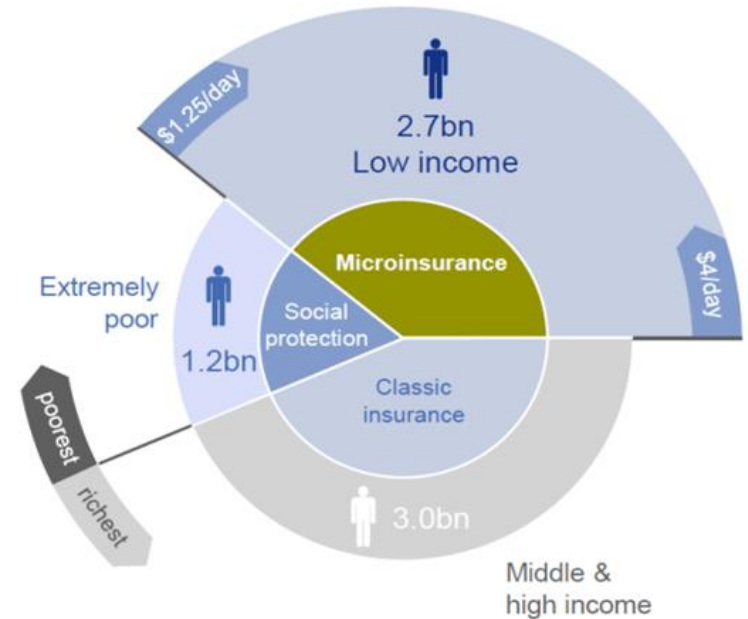
- Free education but households still struggle to pay for school materials, transportation, etc. for their children.
- High literacy rate (98%) but low financial literacy, especially amongst rural communities
- High mobile-phone penetration and mobile ownership: 53% in urban areas and 42% in rural areas (2013).



Microinsurance in Sri Lanka

Role of microinsurance: a new focus

- Microinsurance: “the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the livelihood and cost of the risk involved”.
- Valuable financial tool to help mitigate risks, protect life and assets and build resilience of low-income households.
- Premiums usually no more than US\$2.5/month and designed for low-income households, i.e. people living between US\$1.25/day and US\$4/day.



World population by income
Source: Microinsurance at Allianz Group

Sri Lanka

- Market for microinsurance estimated at US\$700 million with a 10% annual growth.
- Low insurance penetration compared to other emerging Asian markets.
- Large market potential with over 80% of the total population in low-income bracket living in rural areas.

Main features of microinsurance

- **Clients:** higher vulnerability and weak insurance culture
- **Distribution models:** sold by non-traditional intermediaries to clients with little experience of insurance
- **Policies:** used simple language; few if any exclusions; group policies
- **Premium calculation:** little historical data; group pricing; very price sensitive market
- **Premium collection:** frequent and irregular payments adapted to volatile cash flows of clients; often linked with other transactions (e.g. loan repayment)
- **Control of insurance risk:** broad eligibility; limited by effective controls (reduces costs); insurance risk included in premiums rather than controlled by exclusions; link to other services (e.g. credit)
- **Claims handling:** simple and fast procedures for small sums; efficient fraud control



Target customer profile

- Microinsurance products target low-income individuals, households and groups of people who earn an average monthly income per person of LKR 15,000 -25,000 in rural areas and LKR 20,000-35,000 in urban areas.
- Households save on average LKR 5,300/month, with most expenses on food, housing and transportation.
- Insurance should account for no more than 5% of a household's monthly expenses (based on field research).

Rural customers

- Farmers
- LOMC customers
- Small entrepreneurs
- Estate workers (tea plantations)
- Fishermen
- Teachers and parents

Urban customers

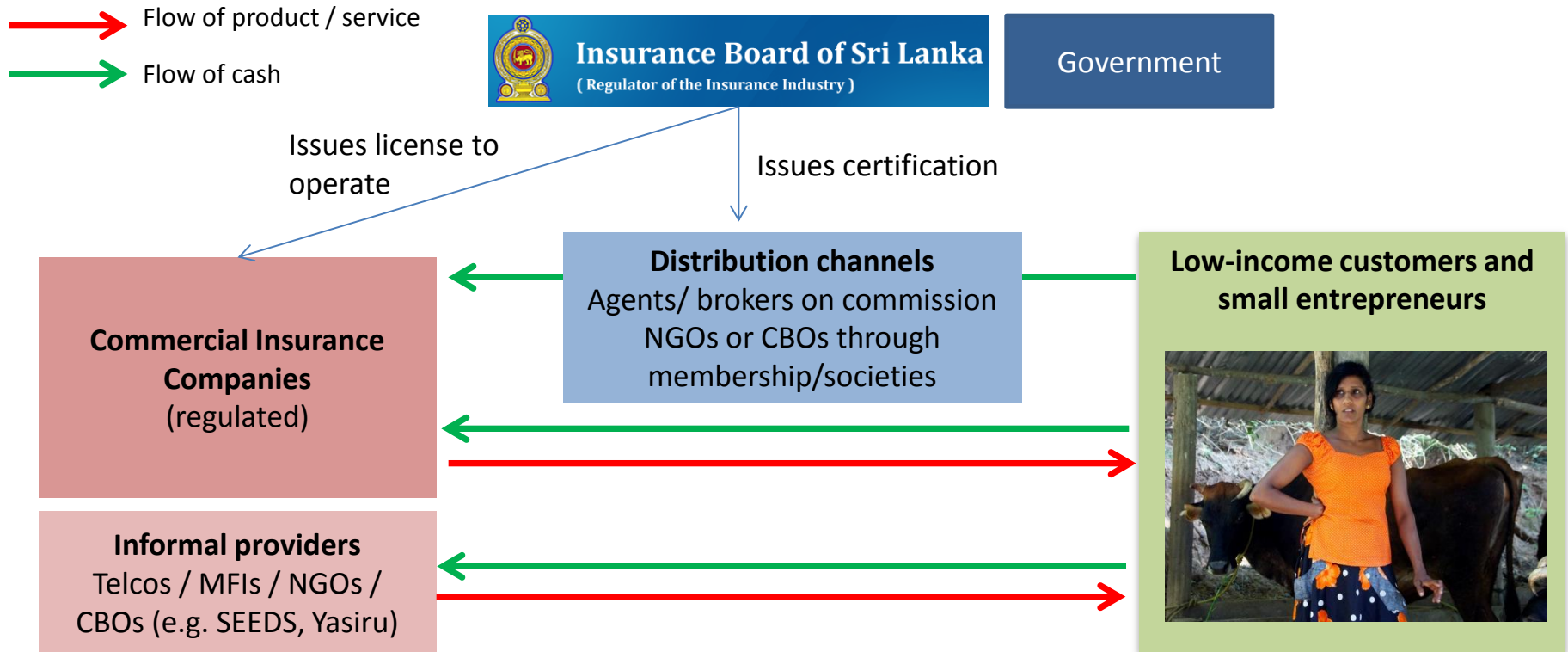
- SME workers (garment, construction, etc.)
- Tuk-tuk drivers
- Teachers and parents
- Migrants
- Small entrepreneurs



Low savings capacity in Sri Lanka calls for affordable microinsurance products

Landscape of microinsurance

- Nascent microinsurance sector under the purview of the Insurance Board of Sri Lanka (IBSL)
- Currently no Microinsurance Act
- Microinsurance provided by both regulated and informal entities



Microinsurance provided by both formal and informal insurance providers

Main insurance providers

Over 20 companies registered with IBSL, of which the top 5 account for almost 90% of total assets.

	Insurance companies	Assets: %	Class
Top-Tier 89% of total	Sri Lanka Insurance	40.08	Life & General
	Ceylinco	22.88	Life & General
	AIA	12.38	Life & General
	Union Assurance	8.43	Life & General
	Janashakthi	5.12	Life & General
Mid-Tier	HNB Assurance	2.25	Life & General
	Asian Alliance	2.06	Life & General
	People's	2.06	General
	Cooperative	1.08	General
	Allianz General	0.77	General
	Amana Takaful	0.72	Life & General
	LOIC	0.66	Life & General

Products

- Life insurance to cover for loss of income
- Funeral expenses
- Allowance for educational expenses
- Hospitalisation
- Property damage
- Tailored products for fishermen, teachers, etc.

* Microinsurance providers

Highly competitive insurance industry with market leaders entering microinsurance sector

Challenges in the microinsurance sector

- Households' need for protection does not necessarily translate into a demand for microinsurance.
- Low priority given to insurance despite insurance generally recognised as a valuable investment.
- Mistrust of the insurance sector; seen as complicated and opaque.
- Limited range of insurance products and services.
- Concerns over affordability.
- High administrative and distribution costs to reach communities in remote locations; low margins making it unattractive for commission-based agents to sell microinsurance.
- No microinsurance regulatory framework but drive by IBSL to increase insurance penetration in Sri Lanka.
- Underlying cultural belief in Sri Lanka that risks can be avoided if one leads a good and honest life.



Challenges in microinsurance sector highlight the need for tailored solutions from trusted brands like LOLC

Partner overview & position in the market



- **LOLC Group**, one of Sri Lanka's leading conglomerates active in agriculture & plantations, financial services, leisure, manufacturing & trading, construction and energy.
- Over 40 group companies and significant resources, networks and infrastructure to be shared across the group.
- Reputable brand and commitment to expanding financial services to low-income customer segments.



- **LOLC Insurance (LOIC)** established in 2011, moving from serving the insurance needs of the group to expanding life and general insurance offerings to external customers.
- Successful microinsurance products to date include loan protection cover for micro-credit customers of sister company LOMC. Very low loss ratio (ratio of premiums paid to claims settled) and high profit margins close to 90%.

LOLC well positioned to expand its microinsurance offerings

Other Group companies can play a role in microinsurance



- **LOLC Finance** (LOFIN), leading financial services provider, active in Islamic finance (Al-Falaah), SME finance and auto finance, savings and term deposit accounts, inward worker remittance, amongst others.
- Tailored financing solutions for its growing customer segments.
- Large network of sales points island-wide and of SME customers whose employees constitute potential microinsurance customers.



- **LOLC Microcredit** (LOMC), successful microfinance company with a growing number of active borrowers (~200,000 in 2014).
- Certified under the Smart Campaign Client Protection Certification Programme covering 30 “standards of care”.
- One of the largest sales forces in Sri Lanka with 395 loan officers.
- Clients: women (66% of total clients) and rural clients (93%).
- Strong relationship with customers and high client awareness of interest rate on loan, grievance mechanisms and insurance charge.
- Large customer base amongst micro-loan borrowers who are eligible for microinsurance.

LOMC & LOFIN: Huge untapped customer base for microinsurance products



Proposed products and services

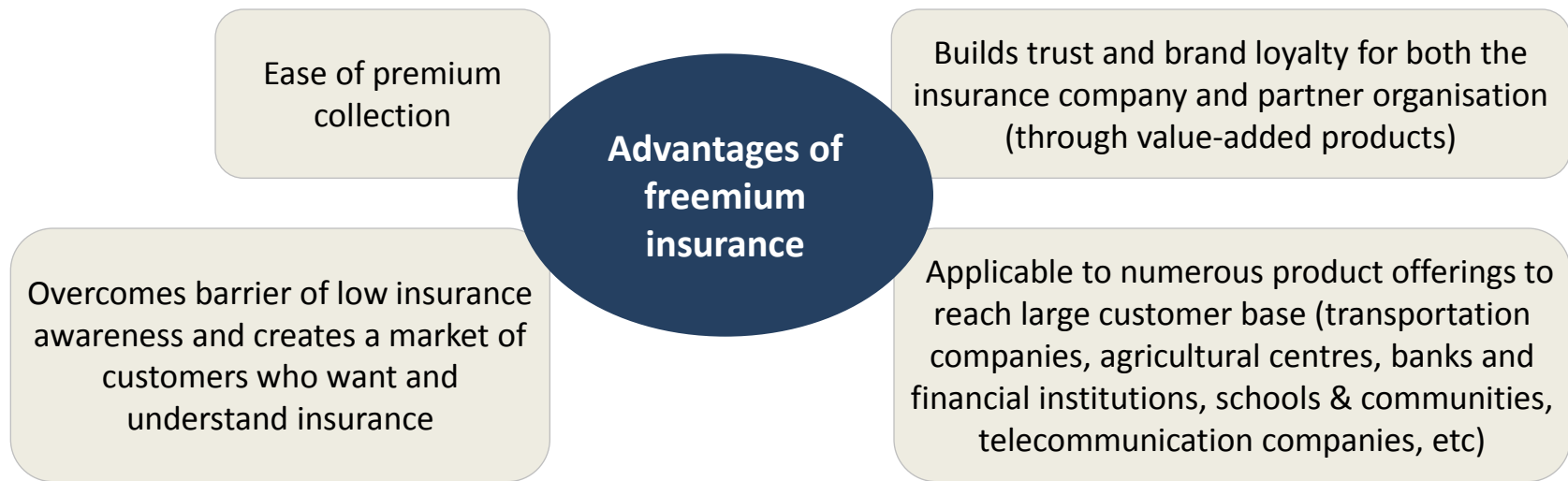
Summary

Main features of the proposal

- Introduce a suite of **affordable and adequate insurance products** complementary to LOIC's existing offerings designed to be simple to meet the needs of low-income households.
 - A basic life insurance cover through a **Freemium** model ("free" to the customer) to attract customers and introduce them to the concept of insurance
 - A range of **stand-alone insurance products** either added to the freemium or purchased individually:
 - *Life insurance upgrade* (Life Plus) with higher payout and additional benefits;
 - *Critical illness*: Protection if the person insured is diagnosed with one of nine specific illnesses;
 - *Child Education*: Similar to life insurance with benefit paid out in instalments to cover the education expenses of the insured's children.
- Freemium to be embedded into products and services of significance to customers and sold as **bundled offerings** for easier distribution and to access large customer base:
 - *Savings accounts*: offer lower interest rate and use percentage of interest to cover freemium amount;
 - *Bus pass*: negotiate bulk volume of bus passes at discounted price with price differential to cover freemium amount;
 - *Fertilizer bag*: negotiate government fertilizer subsidy to cover freemium amount.

Benefits of a freemium model in microinsurance

- Simple and basic services at no extra cost for the user and offers more advanced or additional services at a premium. For insurance, a freemium is an insurance product – typically Life insurance – embedded into another product, service or transaction to facilitate the uptake and distribution and raise awareness about insurance. (Microinsurance Centre).
- Freemium amount covered by a partner organisation or subsidised by the government to push for more insurance coverage and/or benefit from improved reputation for example.



Freemium model offers insurance at no extra cost to the user but provides revenues for the provider

Insurance product line-up

	Cover	Premium	Payout
Life Freemium (Base Cover)	Cover in case of Death or Total Permanent Disability (TPD)	<ul style="list-style-type: none"> • Free to customer • Freemium provided to LOIC via partnerships: <ul style="list-style-type: none"> ○ Savings: LKR625 p.a ○ Bus: LKR200 per month ○ Fertilizer: LKR200 per bag 	LKR 50,000
+			
Life Plus	Cover in case of Death / TPD	LKR 200/month	LKR 300,000
Critical Illness	Cover in case of critical illness (9 types identified)	LKR 200/month	Up to LKR 150,000 (<i>LKR100,000 for critical illness cover + LKR50,000 in event of death</i>)
Child Education	Cover in case of Death / TPD	LKR 200/month	LKR 300,000 Life (<i>LKR50,000 for death cover and LKR250,000 paid in annuities over 10 yrs to cover education expenses</i>)

* Critical illness payout commensurate with loss ratio for this type of microinsurance product

Note: Suggested premium and payout amount require further due diligence from LOIC in consultation with actuaries and management

Affordable insurance products to support households in times of crises and shock

Life insurance

What is Life insurance?

- Protection that pays out a sum of money either on the death or total and permanent disability of the insured person during the period of cover. Benefit to be used to compensate for loss of income that would result from an adverse life event.
- A measure of financial security for a policyholder's family.

Benefits of Life insurance

- Easy to understand, introduce, price and manage
- Resistant to fraud and moral hazard
- Easily linked to other products and packages

Proposed policy

Freemium: basic life insurance (in case of death or TPD) free to the customer when embedded into one of LOIC's offerings

Payout: LKR 50,000

Stand-alone insurance: Low premium of LKR 200/month

Policy term: 1 year

Payout: LKR 300,000



Critical Illness Cover

What is Critical Illness Cover?

Protection cover that pays out a (cash) payment if the person insured is diagnosed with one of the specific illnesses listed in the insurance policy.

Proposed policy

Stand-alone insurance (incl.Life): low premium of LKR 200/month to cover the insured in case of death or 9 critical illnesses:

- 1.Heart attack
- 2.By-pass surgery
- 3.Cancer
- 4.Kidney failure
- 5.Paralysis
6. Stroke
7. Blindness
8. Deafness
9. Liver failure

Policy Term: 1 to 5 yrs.

Payout: LKR 150,000 – LKR 100,000 to be used for the costs of care and treatment, to replace lost income due to decreasing ability to earn or to fund a change in lifestyle & LKR 50,000 in the event of death



Photo credit: Brett Davies

Critical illness insurance to protect households from Sri Lanka's most common illnesses

Child Education Cover

What is Child Education Cover?

Protection cover that pays out a (cash) payment if the person insured passes away or is victim of an accident. Designed as a savings tool to provide an amount of money for the child's education.

Proposed policy

- Parent as the Life Assured; Benefit to be paid out to spouse or relative
- Educational benefits: in the event of death (natural or accident) or TPD. Benefit to be paid in installments (LKR 6,000 over 10 years) into an education fund or LOFIN savings account for education-related expenses
- Designed to cover: school transportation, expenses for books, uniforms and other materials

Stand-alone insurance: low premium of LKR 200/month

Policy Term: 1 to 5 yrs.

Payout: LKR 300,000 (LKR50,000 for death cover and LKR250,000 paid in annuities over 10 yrs to cover education expenses)



Cover ensures education not sacrificed in event of tragedy in the family

Proposed product offerings (1/2)

- Due to low insurance awareness and penetration, basic life insurance to be bundled with existing products and services for easier distribution and at no extra cost for the customer:
 - **Savings accounts:** Important financial tool to encourage and protect savings
 - **Bus fare:** transportation required for rural and urban dwellers for daily commutes. Significant and regular expense for millions of Sri Lankan households (~LKR 2,000/month for a rural household)
 - **Fertilizer bag:** 4 million farmers in Sri Lanka purchase up to 10 bags of fertilizer every year to increase crop production

Offering	Insurance	
	Basic Life insurance	Stand-alone insurance
1. Savings	Freemium	Life Plus <i>and/or</i>
2. Bus	Freemium (Life)	Critical Illness <i>and/or</i>
3. Fertilizer	Freemium	Child Education



Bundled insurance products identified to tap into millions of potential rural and urban users

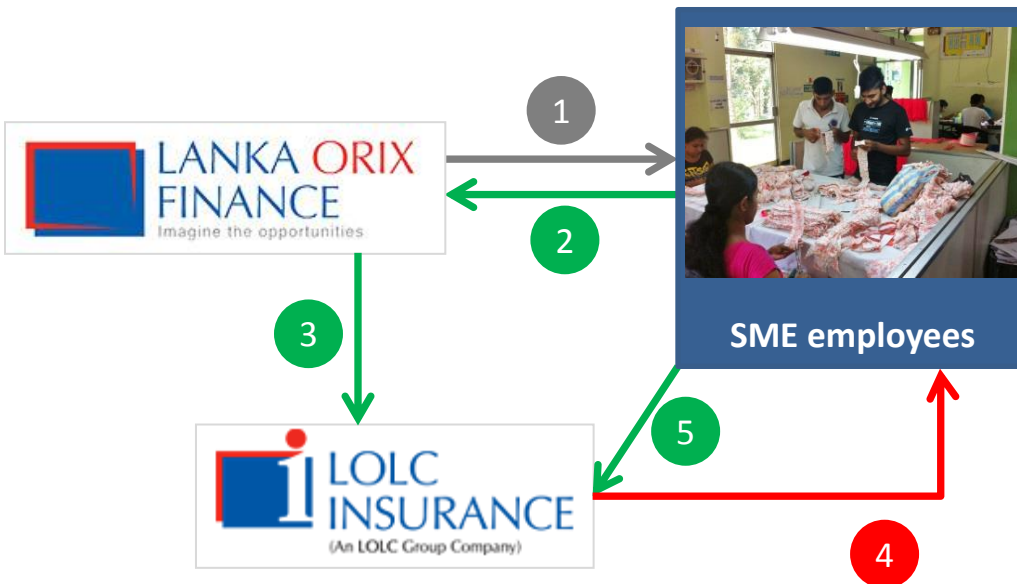
Proposed product offerings (2/2)

- **Key insurance products:** Life (in the event of Death or Total or Permanent Disability (TPD), Critical Illness and Child Education – to meet the most pressing needs of low-income communities
- **Bundled offerings:** simple for customers, affordable and associated with widely used products and services

Insurance product Offering	BASE	STAND ALONE PRODUCTS		
	Life Freemium	+ Life Insurance	+ Critical Illness	+ Child Education
Savings Offering	Savings Freemium in case of death or TPD <i>Freemium: LKR 625 p.a. Payout: LKR 50,000</i>	Savings + Life in case of death or TPD <i>Premium: LKR 200/mo. Payout: LKR 300,000</i>	Savings + Illness (incl. Life) If diagnosed with 1 of 9 critical illnesses <i>Premium: LKR 200/mo. Payout: LKR 150,000 (LKR100,000 for critical illness cover + LKR50,000 in event of death)</i>	Savings + Education (incl. Life) In case of death or TPD <i>Premium: LKR 200/mo. Payout: LKR 300,000 (LKR50,000 for death cover and LKR250,000 paid in annuities over 10 yrs to cover education expenses)</i>
Bus Offering	Bus Freemium (Life) in case of death or TPD <i>Freemium: LKR 200/mo. Payout: LKR 300,000</i>		Bus + Illness (incl. Life) If diagnosed with 1 of 9 critical illnesses <i>Premium: LKR 200/mo. Payout: LKR 150,000 (LKR100,000 for critical illness cover + LKR50,000 in event of death)</i>	Bus + Education (incl. Life) In case of death or TPD <i>Premium: LKR 200/mo. Payout: LKR 300,000 (LKR50,000 for death cover and LKR250,000 paid in annuities over 10 yrs to cover education expenses)</i>
Fertilizer Offering	Fertilizer Freemium (Life) in case of death or TPD <i>Freemium: LKR 200/bag Payout: LKR 300,000</i>		Fertilizer + Illness (incl. Life) If diagnosed with 1 of 9 critical illnesses <i>Premium: LKR 200/mo. Payout: LKR 150,000 (LKR100,000 for critical illness cover + LKR50,000 in event of death)</i>	Fertilizer + Education (incl. Life) In case of death or TPD <i>Premium: LKR 200/mo. Payout: LKR 300,000 (LKR50,000 for death cover and LKR250,000 paid in annuities over 10 yrs to cover education expenses)</i>

1. Savings offering

Savings + insurance offering designed to increase household savings rates in Sri Lanka and leverage potential customer pool accessible via existing LOFIN SME customers



- 1 LOFIN connects LOIC with SME employees via existing LOFIN SME customers. LOFIN provides platform for financial literacy and awareness campaigns on savings and insurance
- 2 SME employees open savings account or SME opens salary account for its employees
- 3 LOFIN pays premiums from savings account interest to LOIC
- 4 LOIC uses premiums to provide insurance protection for 1 year
- 5 SME employees make claims to LOIC as required

Attractive and easy offering to both SME employers and their employees

1. Savings offering (Freemium + Stand-alone insurance)

Target customers: SME employees in LOFIN SME customer factories, overseas migrant workers, urban and peri-urban based customers)

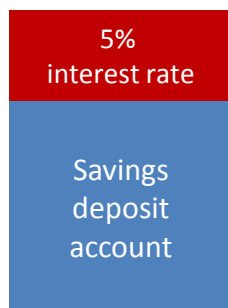
Partner: LOFIN & LOMC

Objective: Incentivise customers to open a savings account with LOFIN by offering free insurance

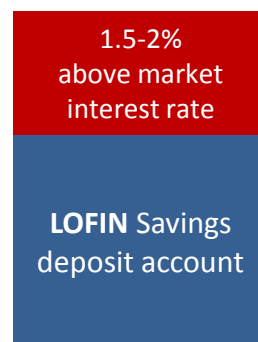
Features

- Average savings deposit to be maintained above LKR 25,000 p.a. to qualify for freemium life insurance.
- **Freemium:** LKR 625 (based on 2.5% interest of LKR25,000 p.a. average savings deposit) paid from LOFIN to LOIC on a yearly basis
- In case of default, the premium amount (LKR 625) should be covered out-of-pocket
- **Stand-alone insurance:** Premium of LKR 200/month to be deducted from savings account on a monthly basis (e.g. standing order). A handling fee from LOIC to LOFIN can be considered.

Standard market offering



LOFIN savings



LOFIN savings + Insurance



LKR 625 p.a. freemium cover

Remainder: interest to customer, at least 3-4%

Note: figures are indicative and should be further reviewed by LOFIN and LOLC

1. Savings offering: Stakeholder benefits

Benefits to LOFIN & LOLC

- Provide value-added products to micro-segment of the population, with appealing interest rate and free insurance to distinguish LOFIN accounts from competitors
- Increase volume of savings accounts
- Mass client acquisition and penetration for LOLC
- Empower migrant workers and support children's education
- Fulfil corporate social responsibility and business mandate by promoting inclusive financial services
- Higher customer retention as customers less likely to switch if insurance + savings account with the same group



Benefits to customer

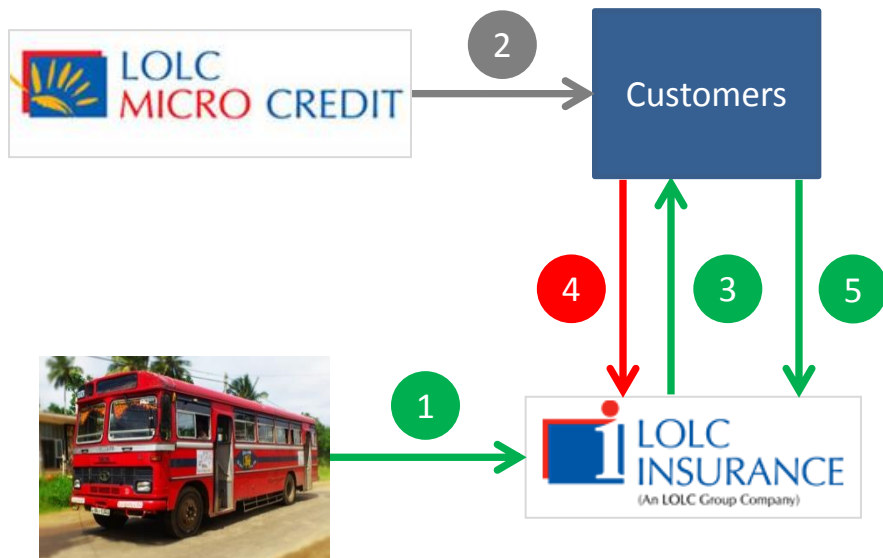
- Incentive to save and develop financial stability
- Attractive interest plus life insurance at no extra cost
- Hassle-free process with freemium collected directly from the interest on savings
- Flexible and simple policy with no extra administrative burden
- Option to easily sign on for stand-alone insurance with easy premium collection from savings account
- Access to 62 LOLC branches and no opening or monthly fee
- Debit card can be used at ATMs island-wide



Photo credit: Brett Davies

2. Bus offering

- Bus pass + insurance offering designed to access large pool of commuters in rural and urban areas



- 1 LOLC purchases group discount on bus fares from bus companies
- 2 LOMC introduces potential rural and urban customers through LOMC networks, schools and community leaders. Monthly LOMC meetings used as platform for awareness campaigns about insurance
- 3 Customers purchase bus freemium at standard bus price
- 4 LOLC uses price differential on bus fare to cover insurance premium
- 5 Customers make claims as required

Benefit from volume discount to cover insurance premium bundled with bus fare

2. Bus offering (Freemium + Stand-alone insurance)

Target customers: rural and urban dwellers who frequently use bus services for transportation

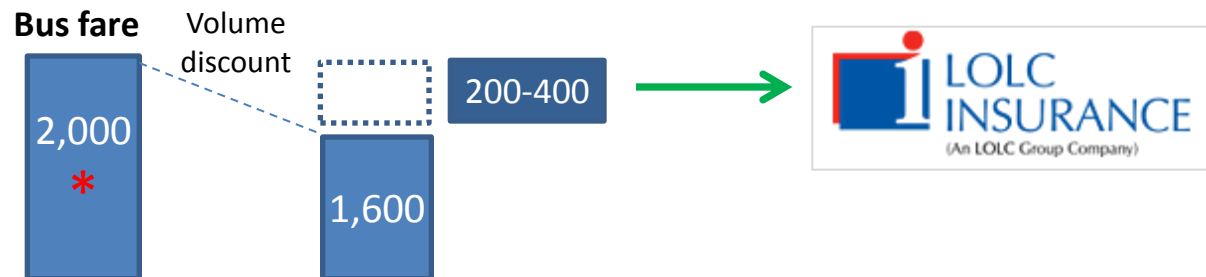
Partner: private and/or public transportation companies

Features:

- LOIC to negotiate with Bus companies for volume discount on bus passes
- Bus freemium to be sold to rural and urban users at standard bus fare through LOLC branches, LOMC agents (this requires a change in regulation – see *Distribution and partnerships*) or through other potential distribution channels such as telcos or retailers
- Bus pass becomes insurance policy document and includes hotline number to activate policy and to file claims
- **Freemium:** Estimated LKR 200 covered by price differential between standard and discounted bus fare for premium Life insurance (to be negotiated with transportation company)
- **Stand-alone insurance:** LKR 200/month to be purchased separately by customers through LOLC branch, LOIC, LOMC, etc.
- Opportunity for bus companies to use fleet of vehicles for widespread marketing campaigns

* LKR 2,000: Average monthly expenditure for one family on transportation

* Volume discount tentative; price differential of LKR 200 expected to cover 1 person per household



Policy reference and hotline number on bus pass for paperless, easy and free insurance policy

2. Bus offering : Stakeholder benefits

Benefits to transportation companies

- Added value to their core product to differentiate themselves from other transportation companies
- Increase in sales volumes and revenue
- Marketing strategy: bus + insurance on buses, at bus stops, in sales booths, etc.
- Fulfil corporate social responsibility by offering insurance at no extra cost to user
- Further fulfils social mandate for state-owned companies

Benefits to customer

- Hassle-free process insurance coverage at no extra cost
 - Flexible and simple policy with no extra administrative burden
 - Option to easily upgrade insurance plan to include extended Life insurance, critical illness and/or child education
-
- Opportunity to partner with public transport companies provided by the Sri Lanka Transport Board and with privately run bases
 - Passenger associations & other transportation companies such as trains

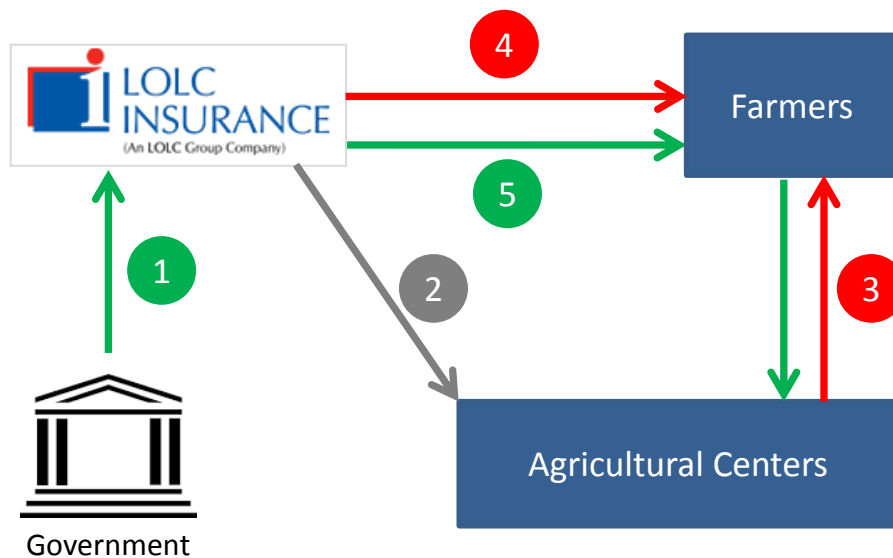


Photo credit: Brett Davies

Opportunities for significant scale by targeting millions of daily commuters

3. Fertilizer offering

- Fertilizer + insurance designed to tap into ~ 4 million farmers in Sri Lanka
- Government fertilizer subsidy: LKR 50 billion
- Inspired by similar cover (Sankat Haran) offered by India's largest fertilizer company IFFCO-Tokio to farmers



- 1 Government provides subsidy to cover insurance freemium
- 2 ASCs receive insurance underwriting on fertilizer bags
- 3 ASCs sell fertilizer + insurance to farmers
- 4 LOIC provides insurance protection to farmers
- 5 Farmer makes claims as required

→ Flow of product / service
→ Flow of cash

Government subsidies to cover basic insurance for farmers upon purchase of fertilizer bag from registered Agrarian Service Centres

3. Fertilizer offering (Freemium + Stand-alone insurance)

Target customers: smallholder and low-income farmers

Partner: Agrarian Services Centres (ASCs) under the Ministry of Agricultural Development and Agrarian Services

Features

- Bags purchased through ASCs by farmers to include a basic prepaid life insurance coverage
- Fertilizer bag purchased through ASCs becomes insurance policy document and includes hotline number to activate policy and to file claims
- Policy valid for one year from date of purchase
- Option to upsell optional insurance products for a monthly premium of LKR 200
- Opportunities for fertilizer companies to fund part or full freemium as a way to add-value to their products and differentiate themselves from competitors
- **Freemium:** LKR200/bag to be covered by portion of government fertilizer subsidy, either by increasing fertilizer subsidy (no extra cost to the farmer) or by allocating part of existing subsidy towards insurance (may slightly increase cost to the farmer)
- **Stand-alone insurance:** LKR 200/month to be paid directly to LOLC branch or through mobile



3. Fertilizer offering: Stakeholder benefits

Benefits to Agrarian Services Centres

- Added value to their core product to differentiate themselves from other fertilizer distribution outlets
- Increase in sales volumes and revenue
- Marketing strategy: fertilizer + insurance in selling stations, warehouses, etc.
- Increased customer retention
- Use trainings dispensed at ASCs as platform to also educate farmers on financial literacy



Benefits to farmer

- Hassle-free process insurance coverage at no extra cost
- Flexible and simple policy with no extra administrative burden. Hotline number to activate policy using serial number on fertilizer bag and to file a claim





The Business Model

Summary

Based on the products and offerings identified, the proposed business model seeks to:

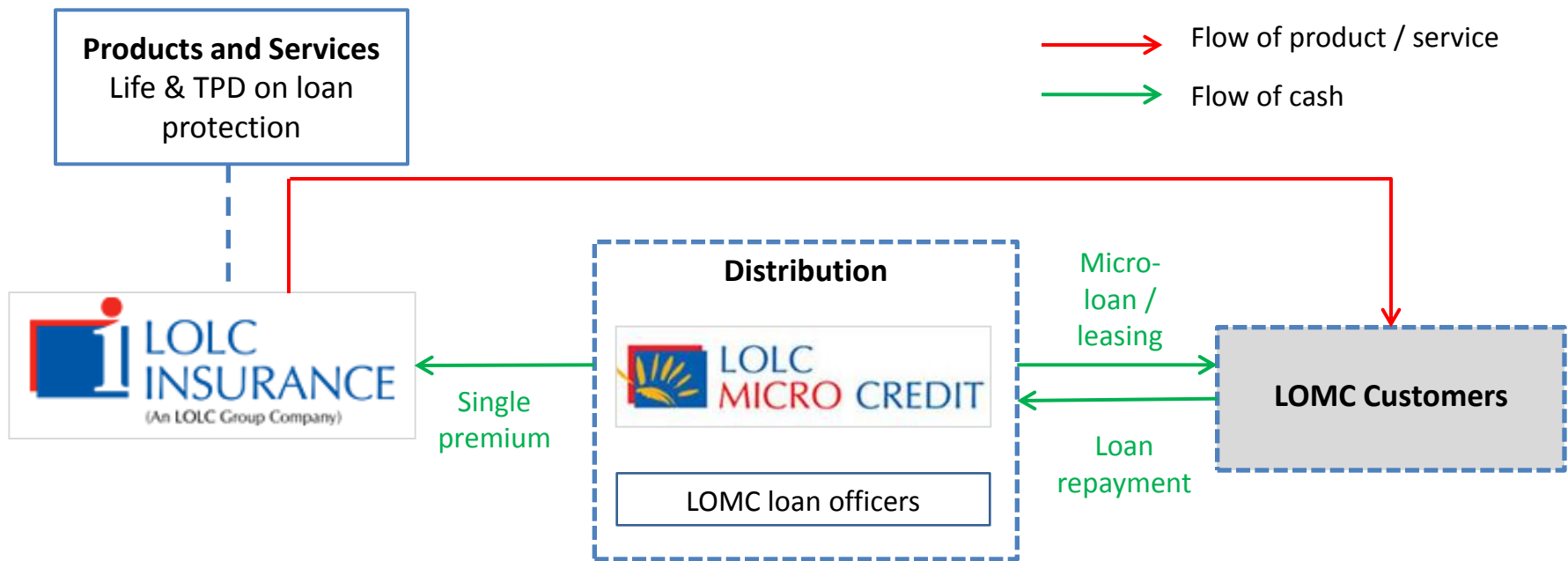
- **Leverage LOLC's existing customer base and relationships** to introduce LOIC offerings to low-income customers. Cross-sell products and benefit from shared revenue. Target urban, peri-urban and rural based customers such as LOMC customers, SME employees of LOFIN customers, overseas migrants, farmers, small entrepreneurs, etc.
- **Develop strategic partnerships** – with LOLC groups companies, bus companies, agrarian centres and fertilizer companies, remittance agencies and others – to cover the cost of the freemium, expand and achieve cost-efficient distribution channels, access a larger customer base and leverage existing infrastructures



Business model leverages bundled products and one-to-multiple distribution channels for successful scale-up of microinsurance

Current Business Model

- Current LOIC microinsurance product (life insurance) bundled with LOMC micro-loan and leasing products.
- Loan protection is mandatory and collected as a single premium (0.8% of loan amount)
- Products channeled through LOMC loan officers but not sold directly
- Minimises distribution and administrative costs to LOIC and brings in healthy profit margins (~90%)
- In the event of death or Total Permanent Disability (TPD), family receives pay-out and funeral benefits (LKR7,500)

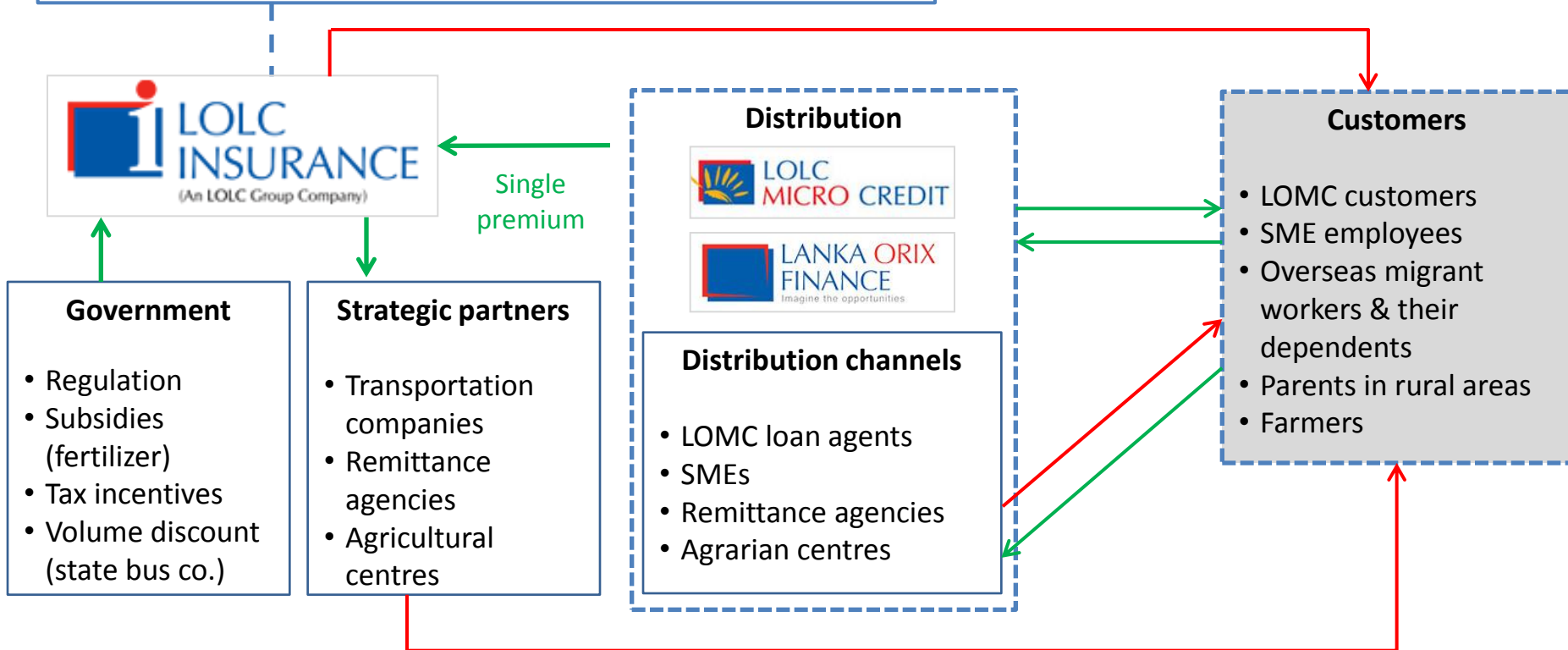
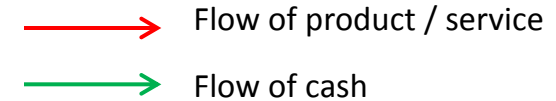


Current business model successful but limited to one product type and one distribution channel

Proposed Business Model

Products and Services

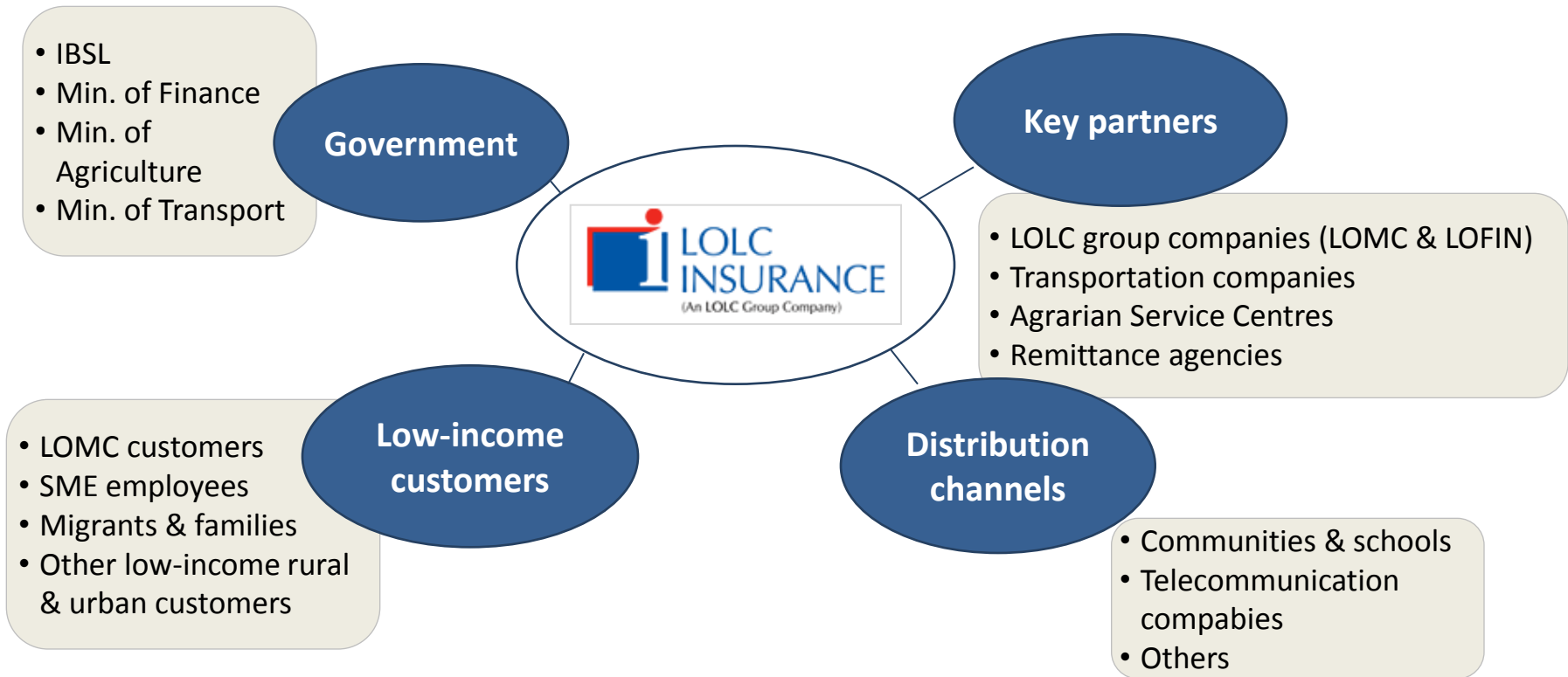
1. Saving Freemium (Base) and Stand-alone products
2. Bus Freemium (Base) and Stand-alone products
3. Fertilizer Freemium – selection of insurance by choice



Proposed business model leverages LOLC resources and external partnerships for broader customer outreach

Stakeholder mapping

- Specifically to its microinsurance business, LOIC will have to manage a range of stakeholders, ensuring they are regularly kept informed, are satisfied and/or have their needs met.



Range of stakeholders to be managed closely and regularly for sustained success



Distribution and partnerships

Summary (1/2)

- **One-to-multiple distribution** partners and channels are essential to bring products to clients for whom insurance may be fundamentally new.
- Post-offices, NGOs, employers and other organisations with large networks have the potential to reach significant numbers of customers at low-cost. Growth in microinsurance is attributed partly to new and alternative delivery channels and partnerships to help reach scale.
- Even if microinsurance is not directly related to partner's core business, it needs to add value to core operations, either by attracting new members or customers, helping improve customer satisfaction and loyalty or increasing the use of other services for example.
- For LOIC, the first priority is to **leverage resources and networks within the LOLC group** for the distribution of microinsurance products, including:
 - LOMC loan officers to cross-sell to existing LOMC customers and to offer a larger portfolio of products to new low-income customers.
 - Reach SME employees through LOFIN's existing SME customers



Summary (2/2)



Photo credit: Brett Davies

- **External partnerships** and distribution channels such as remittance agencies; transportation companies; and Agrarian Services Centres (ASCs) and other fertilizer distribution.
- Other indirect channels include NGOs, welfare associations and community leaders with a mandate to improve rural development, financial literacy and low-income communities' livelihoods.
- NGOs and community associations to be used as a platform for trainings and workshops to raise awareness on benefits of insurance but also frame the potential loss, to receive direct feedback on policies, products and services from customers, to encourage financial solutions amongst communities and identify customer needs. Workshops and insurance marketing can help make future needs more salient.

Overview of proposed distribution channels

- Key partnerships with LOLC group companies such as LOFIN, LOMC and others to channel sales of LOIC microinsurance products through customers and networks. Expected to increase LOLC’s customer base and customer retention, and build the group brand.
- External strategic partnerships with remittance agencies, agricultural input distributors and transport companies necessary for product bundling and tapping into their broad customer base.

	Partnership	Distribution channel
LOLC group companies	✓	✓
LOFIN SME customers	✓	✓
Remittance agencies	✓	✓
Agrarian Service Centres	✓	✓
Fertilizer companies	✓	
Transportation companies	✓	✓
Community leaders & NGOs		✓
Others (schools, telcos for e.g.)		✓

Key distribution partners (internal and external) to tap into large and existing base of low-income customers

Role of distribution in microinsurance



Key features

- Often the main cost in microinsurance due to time needed to build trust with customers and remoteness of communities
- Unattractive for traditional commission-based sales agents due to low margins
- Usually sold by non-traditional intermediaries to clients who have little awareness of insurance
- Relies on existing infrastructures and partnerships to access cost-effective channels and reduce costs
- Channeled through groups, associations and communities for scalability and reach a larger pool of customers

In Sri Lanka, only certified agents licensed by IBSL can sell microinsurance products although several informal players (NGOs, community-based organisations (CBOs) and other) fall outside the law and distribute microinsurance to society and community members.

Distribution: key success factor in microinsurance business to achieve scale

Priority channel 1: LOMC loan officers

- Leveraging LOMC resources and distribution capacity of sales agents requires a policy change to allow insurers to certify their own sales agents (see *Regulatory Recommendations*)

Current

- LOIC leveraging LOMC sales agents for a bundled loan protection cover to LOMC customers
- Service distribution & claims processing through LOLC branches and post-offices

Tapping into LOMC's customer base

- LOMC: 395 loan officers and ~200,000 customers island-wide
- Leverage LOMC's reputation and strong relationship with existing low-income customers to cross-sell microinsurance to support households' economic stability



LOMC's ~200,000 existing customers constitute key target audience for LOIC's microinsurance business

Priority channel 1: LOMC loan officers

- Monthly loan repayment gatherings can be used to:
 - Raise awareness about insurance benefits and promote LOIC’s suite of microinsurance products (Life, Critical Illness, Child Education)
 - Sign up interested parties and collect monthly premium (LKR 200/month)
 - Distribute Bus offering (bus fare) to interested parties
 - Discuss customer concerns and queries about microinsurance and products
 - “Loan leaders” to potentially operate as community “Ambassadors” to promote insurance amongst their peers

Potential financial impact

- A 10% uptake from LOMC’s existing customer base of ~200,000 customers could translate into an additional 20,000 policies for LOIC at a premium of LKR 200/month (H2 2015)
- **Based on financial projections, this could generate an additional LKR 57.6 million in revenue and 13.7% profit margin for 2016 (see slide 79).**



Monthly gatherings serve as multifunctional platform for promotion of financial solutions

Priority channel 2: LOFIN SMEs and their employees

- LOFIN network: 134 points island-wide (branches, savings centres, cash collection centres, student savings centres, Islamic Business units) and SME customers.
- Main market remains low-end of SME segments that is largely ignored by the formal banking sector.
- Estimated 75,000 LOFIN SME customers as potential distribution channels
- Many SMEs have grown with LOFIN over the years



Reaching low-income SME employees

- Leverage LOFIN reputation and relationship with SME customers to reach employees, introduce insurance concept and benefits and LOIC products and offerings, especially LOFIN savings accounts + free insurance
- Use introductory platform to promote market research, gain better understanding of customer needs, generate reliable insurance data and information on customer profile and preferences, assess business opportunities.
- Option for employers to have employees subscribe to LOFIN salary account for easier salary transfer

SME employees: potential LOIC customers with need for increased savings and insurance

Priority channel 2: Stakeholder benefits

SME employer

- Increases employee retention and loyalty by offering savings + insurance plan
- Greater employee engagement and motivation
- Option for employers to have employees sign up for a LOFIN salary account for easy and free transfer of wages into employee account

SME employee

- Free insurance provided upon opening savings account
- Optional insurance products such as critical health or child education for affordable monthly premium to be deducted automatically from savings

LOFIN

- Increased volume of savings accounts
- Improve customer satisfaction and loyalty
- Promoting financial inclusion by offering value-added product and service to low-income customer



Potential financial impact

- Projections made for 27,000 new policies/year at an average yearly premium of LKR 1,345/person (H2 2015).
- Based on financial projections, if 50% of total new accounts are reached through SMEs, this distribution channel could generate over **LKR21 million in additional revenue for 2016 (see slide 78).**

Priority channel 3: Remittance agencies

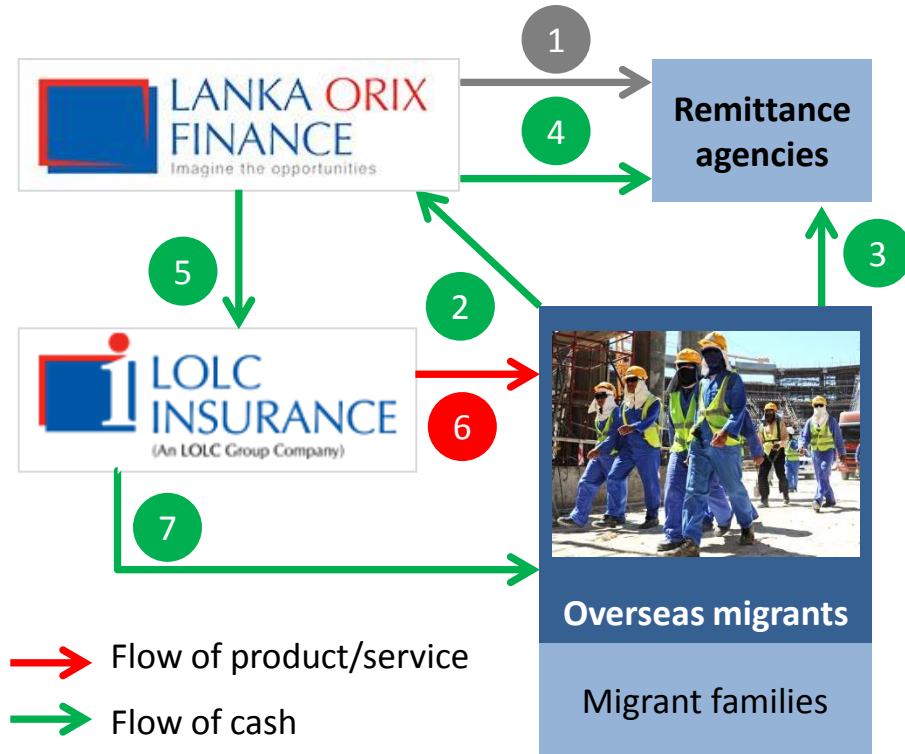
- Estimated 1.7 million overseas migrants and foreign employment impacting nearly 23% of the population
- An estimated ~ 1.2 million are considered low-income migrants
- Located mostly in the Middle East working in construction (men) or as domestic workers (women).
- In 2014, migrants remitted a total of ~US\$6.8 billion, larger than the national foreign exchange reserves and than earnings from tourism (US\$1.4 billion in 2014)
- Migrants pay substantial fees (6-8%) on every transfer through remittance agencies
- Remittances considered a driving force for poverty alleviation and rural development
- Government requires domestic workers to attend awareness programme to learn the laws, customs and basic language of destination country
- Largest remittance agencies:



Potential to reach overseas migrants and provide insurance to their families through LOFIN savings accounts

Priority channel 3: Remittance agencies

- Migrants to subscribe to Saving offering (described on slide 31) so dependents in Sri Lanka can benefit from free insurance
- Proposal to waive remittance fee (limited number of transactions) to attract migrants, maximise impact of remittances, and increase savings deposit into account



- 1 LOFIN negotiates reduces remittance fee with remittance agency
- 2 Migrants sign up for LOFIN savings account
- 3 Remittance agency waives transfer fee for migrants if remitting to a LOFIN savings account (limited # of transfers).
- 4 LOFIN pays a reduced remittance fee to agencies
- 5 LOFIN provides premium LOIC
- 6 LOIC provides protection to migrant's families
- 7 Migrants make claims as required

Extended offering to overseas migrants through partnership with remittance agencies

Priority channel 3: Stakeholder benefits

Migrants & their families

- Remittance fees waived by agencies when migrants remit to LOFIN savings account (number of free transfers to be determined by LOFIN)
- Basic insurance for dependents covered by interest earned on savings
- Remittance fee waived by major agencies such as MoneyGram and Western Union
- Promotes savings in addition to consumption

Remittance agencies

- Increased revenue from larger number of remittances
- “No fee” provides compelling value-added service and marketing tool to be used in branches worldwide or in countries with high density of Sri Lankan migrants
- Improve customer satisfaction and retention

LOFIN

- Increased revenue through additional remittances & number of new savings accounts
- Larger customer base in LOLC group
- Higher retention with insurance benefits to migrants and their families
- Consider partnership with Ministry of Foreign Employment to target potential migrants, migrants with planned departures and overseas migrants



Additional distribution channels & partnerships (1/3)



Transportation companies

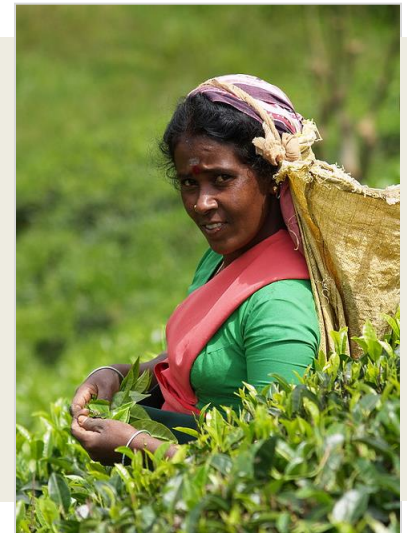
- Colombo has a ~ 500,000 daily commuter population & the railway moves ~ 300,000 passengers daily
- Households spend on average LKR 2,000 per month of bus fares
- Transportation companies managed by the Sri Lanka transportation Board

Opportunity to extend partnership for **Bus offering** to other transportation companies (railways, airlines and other) to reach scale

Agrarian Services Centres & Fertilizer companies

- Mandate to provide agricultural inputs and services to farmers
- Network of 554 agrarian centres island wide, each including a fertilizer distribution centre and a fertilizer warehouse
- Over LKR 50 billion spent on fertilizer subsidies accounting for 2-2.5% of total government expenditure
- 4 million farmers in Sri Lanka

Opportunity to partner with ASCs for the distribution of **Fertilizer offering**



Additional distribution channels & partnerships (2/3)

Telecommunication companies

- Partnership with telcos for cost-effective and efficient access to broad customer base.
- Development of IT and mobile platforms for mobile payment of premiums through airtime top-ups.
- Benefits to telco: value-added services to core business; corporate social responsibility by meeting customer key needs (healthcare and education); partnership with reputable insurance company.



Schools

- Potential partnership with school principals, parent-teacher associations, alumni associations to channel message about insurance.
- Opportunity for a percentage of each group policy to be paid back after a term period, to capitalise a community fund for the development of local infrastructure, purchase of needed education/medical equipment, etc.

Additional distribution channels & partnerships (3/3)

Community leaders, welfare associations and NGOs

- Partner with trusted opinion leaders to reach low-income communities.
- Create platform for awareness raising campaigns to promote the benefits of insurance, convey importance of financial literacy and encourage group discussions for shared experiences and concerns regarding risk management strategies. Workshops on microinsurance can also promote market research to enable insurers to collect valuable data and customer information and assess business opportunities.
- Fulfils social development mandate of NGOs.





Governance and organisational structure

Summary (1/2)

Proposed governance structure to meet governance objectives

- Streamline processes and establish an efficient organisational structure to facilitate and encourage cross-selling between different business lines (slide 65)
- Establish a rigorous governance framework to ensure compliance with local regulations and meet the social and financial aspirations of the company and its multiple stakeholders (internal & external) (slide 66)

Objectives of governance

- **Equitable treatment and alignment of interests**
 - Meet stakeholders' interest and ensure financial sustainability whilst achieving positive socio-economic impact for players involved in the microinsurance business
- **Clear decision making processes and defining roles**
 - Strike a balance between leveraging the resources and networks of the LOLC group to benefit LOIC whilst adding value to existing companies such as LOFIN and LOMC
 - Assess the current internal governance framework and restructure to meet the company's growing social and financial aspirations
 - Leverage the expertise and experience of the management team in a way that is transparent and accountable to all parties

Summary (2/2)

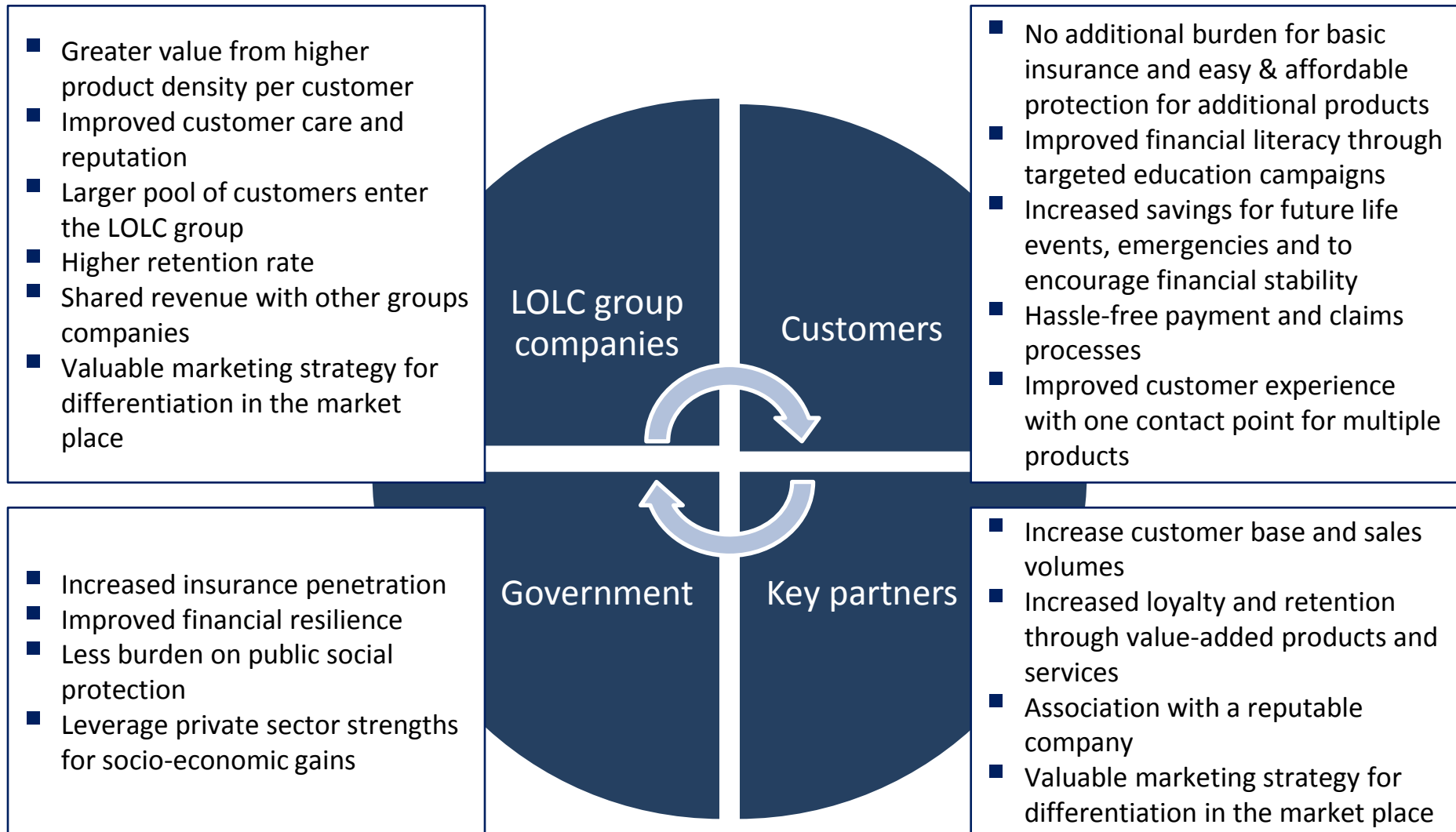
- **Social and financial sustainability**

- Streamline common processes and operations and help reduce start-up costs for LOIC
- Identifying potential projects, products and partnerships that meet social impact requirements whilst providing financial returns to the company
- Advocate for a more comprehensive and flexible regulatory framework for microinsurance that would support non-traditional but innovative solutions to provide microinsurance in Sri Lanka and increase insurance penetration



LOIC to achieve financial and social aspirations through strong governance mechanisms

Key stakeholders and interests



Current LOLC governance structure

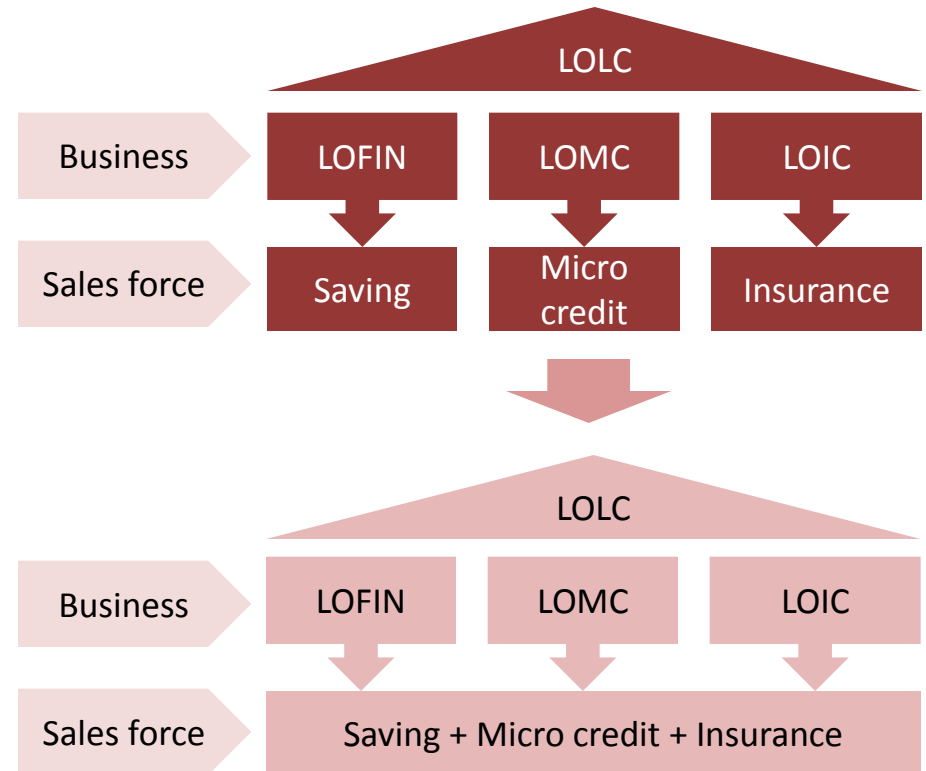
Status	Challenges
<ul style="list-style-type: none">• Businesses organised around product lines rather than customers• Cross selling has started, but limited to life insurance for micro-loans distributed by LOMC loan officers• Management committee includes senior managers from different businesses (LOFIN, LOMC, LOIC) but no cross-business coordination platform beyond top management level	<ul style="list-style-type: none">• Product driven vs. customer driven sales approach• Business opportunities in micro segment not fully explored• How to promote more collaboration across businesses• Centralised decision-making and oversight of business lines from top management• No channel to encourage bottom-up ideas for cross-selling and to facilitate the internalisation of cross-selling concept in existing sales forces

Proposed governance structure

- Priority: to streamline processes and establish an efficient organisational structure to facilitate and encourage cross selling between different business lines

Organisational Structure

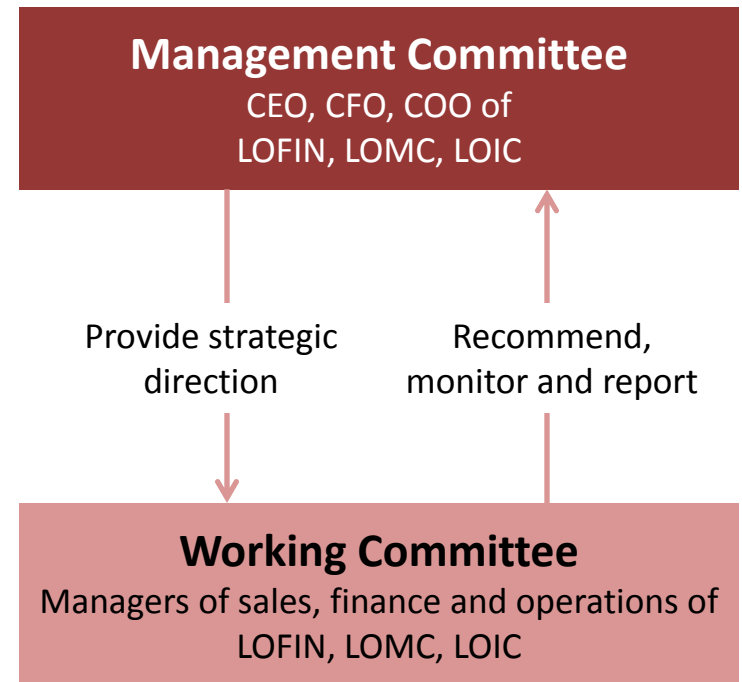
- Creation of Relationship Manager roles to coordinate sales efforts, targets and processes between different units
- Move away from product-specific sales approach to a more holistic sales force
- Reorganise and train sales force to fit relationship manager structure – provide one-stop shop product offerings to customers including credit, savings and insurance



Move from product sales model to relationship managers model to maximise cross-selling opportunities

Proposed governance structure

- Priority: to establish a rigorous governance framework to ensure compliance with local regulations and meet the social and financial aspirations of the company and its multiple stakeholders (internal & external).



Management and Working Committee to facilitate and manage operations and allocation of resources across group businesses



Regulatory recommendations

Summary

- A comprehensive regulatory framework should aim to strike a balance between promoting access to insurance and protecting consumers, i.e. allowing commercial insurance providers to experiment and assess new products and services whilst ensuring trust in insurance.
- The following section makes regulatory recommendations to both IBSL and to various Ministries in the government to support and create an enabling environment for the proposed business.

Recommendations to IBSL

- Relax the law to allow a registered insurance company to certify loan officers as insurance sales agents;
- Recognise simple policies with few exclusions and alternative control mechanisms, especially for critical illness cover. A simple product could justify simplified reporting procedures.

Recommendations to the government

- With the Min. of Finance and Planning (MoFP): tax concession for SMEs who provide pension and critical illness insurance to their employees;
- With the MoFP and the Min. of Agriculture and agrarian services: agricultural subsidy to cover a free basic life insurance protection for farmers, to be bundled with the fertilizer offering;
- With the Sri Lanka Transport Board: negotiate a discount on bulk volume purchases of transportation fares with state-owned public companies to cover a free basic life insurance protection for commuters in urban and peri-urban areas.

Recommendations to IBSL (1/2)

1. Certification of insurance agents

Existing regulation:
Only IBSL can certify insurance brokers.

Challenges

1. Limits the number of insurance agents who can be deployed to reach low-income communities
2. Increases distribution costs that eat into razor-thin margins
3. Difficulty to design microinsurance products that are affordable to low-income households given high costs

Proposed regulation:
Allow registered insurance companies to certify loan officers as insurance sales agents

Expected outcome

1. Increased number of sales agents with strong relationship with low-income households to reach rural customer base and cross-sell value-added products and services.
2. Increases insurance penetration amongst low-income communities
3. Reduces costs by leveraging existing networks and resources, making products more affordable to target customers

Alternatively, a new tier of insurer could be created with a special microinsurance license, such as the Mutual Benefit Associations overseen by the insurance supervisor in the Philippines.

Implication of policy change to LOIC

Current situation:

- LOMC has close to 400 sales agents island-wide and a customer-base of ~200,000
- LOMC and LOIC both target low-income customers and entrepreneurs
- Only agents licensed by IBSL can sell insurance

Proposed regulation

Allow registered insurance companies to certify loan officers as insurance sales agents

Implications:

- LOMC loan officers to receive training and certification from LOIC to become insurance agents
- Follow regular refresher courses for updates on regulation, procedures, products and partnerships
- Loan officer certified for specific microinsurance products only (Life, critical illness and child education)
- LOIC assumes liability of miss-selling

Recommendations to IBSL (2/2)

2. Simplification of insurance procedures

Existing regulation:
Rigorous insurance procedures (reporting, claims handling, etc).

Challenges

1. High-risk customers with little or no documentation, statements or medication history are left out of insurance schemes
2. Tedious process discourages insurance companies to target low-income customers
3. Time consuming and bureaucratic processes

Proposed regulation:
Recognise simple policies with few exclusions & alternative control mechanisms

Expected outcome

1. Higher insurance penetration amongst low-income policyholders who can only provide limited information on socio-economic background
2. Regulation adapted to realities and limitations on the ground, i.e. limited actuaries and microinsurance expert, limited information on policyholders
3. Simplified policies and products can justify simplified reporting

Recommendations to the government

- Besides regulatory recommendations to the IBSL, the government is encouraged to integrate microinsurance policies into many different government authorities to expand the impact of microinsurance.
- This includes for example the introduction of economic incentives such as tax exemptions and subsidies to support insurance penetration to low-income customers in rural, urban and peri-urban areas:

Discount on bulk fares

Coordination with the Sri Lanka **Transport Board** to negotiate with state-owned transportation companies a discount on bulk volume purchases of transportation fares to cover a free basic life insurance protection for commuters in urban and peri-urban areas

Economic incentives

Tax concession for SMEs

Coordination with the **Min. of Finance and Planning** to provide tax concessions to SMEs who provide pension and critical illness insurance to their employees

Life insurance for farmers

Coordination with the Min. of Finance and Planning and the **Min. of Agriculture and Agrarian Services** to provide an complementary subsidy to the existing fertilizer subsidy to cover a free basic life insurance cover for farmers, to be bundled with the fertilizer offering to be distributed through registered Agrarian Centres.



Financial analysis

Summary

- The launch of the proposed business recommendations presents an opportunity for LOIC to build on its successes to date and benefit from additional revenue with low capital costs.
- New products and offerings could generate extra revenues of LKR 178.7 million and a profit margin of 12.9% for 2016.
- A change in regulation to allow LOMC sales agents to sell microinsurance could see this potential revenue increase to LKR 236 million for the same period, up to LKR 460 in 2020.
- One-time product development estimated at LKR 4 million develop proposed products and offerings and LKR 3 million suggested for distribution channels, including social and community engagement.
- Financial projections are based on conservative assumptions in terms of target customers, with substantial room for growth.



Key assumptions

Projections

- 50% income realisation for FY 2015
- 5-year projections done for LOIC microinsurance (proposed) only (excluding current microloan protection and other insurance products)
- Gross Written Premium (GWP): total premiums on policies issued by an insurance company during a specific period of time
- Reinsurance cost and claims: 6% (respectively from gross written premium)
- Provision for life business (Life Fund): 70% of gross written premium
- Investment return: 8% return on Life Fund
- Total expenses: Insurance claims and benefits (net); provision for life fund; underwriting and net acquisition costs (including reinsurance); other operating, investments & administrative expenses

Savings + insurance

- Target customers: 150 new customers per month channeled through 15 branches → target: 27,000 people
- 2.5% interest from savings account curtailed to fund freemium
- Average savings deposit: LKR 25,000 p.a. → freemium amount: LKR 625 p.a.
- Premium amount for stand-alone insurance: LKR 200/month → LKR 2,400 p.a.
- Customer uptake for stand-alone insurance: 30% of total saving account holders (10% for each product)
- Average premium per person p.a.: LKR 1,345

Key assumptions

Bus + insurance

- Penetration of 0.2% of an estimated 3.4 million rural households → target: 6,800 households
- Average family expenditure for bus fare: LKR 2,000/month (estimate for 4 people)
- Discount on bulk volume: LKR 200-400 discount to be negotiated with government. LKR 200/month to cover 1 family member for 1 month (Life insurance)

Fertilizer + insurance

- Penetration of 1% of an estimated 4 million farmers → target: 40,000 farmers
- Expected subsidy from government to cover freemium: no less than
- Estimated consumption: 10 bags p.a.

LOMC Customers (on condition of regulatory change on licensing sales agents)

- Expected uptake: 10% of current 200,000 LOMC customers → target: 20,000 LOMC customers

Sensitivity analysis based on:

Base case: organic growth year-on-year of 20%

Best case: 10% uptake from LOMC customers (requires regulatory change on licensing sales agents)

Worst case scenario 1: 15% sales decrease

Worst case scenario : reinsurance raised to 10%, number of claims and costs increase by 10%

Current LOIC microinsurance figures

Since inception in 2011, LOIC has seen stable growth in the number of policies issues and in revenue from its current microinsurance products.

Financial Parameters	as of 31 Dec 2013	as of 31 Dec 2014	Projection under Status Quo (growth rate x1.33)
Total policies issued	155,221	280,950	373,664
Revenue (LKR Million)	180	270	359
PBT (LKR Million)	-26	-138	-184
Cash Profit/Loss (LKR Million)	70	77	102
Premium Per Policy (LKR)	1,159	961	961

Source: LOIC 's management account as of 31 Dec 2014 and business projection

Stable business presents further potential for growth

Financial projections (Base case)

REVENUE	YE 31 Dec 2015	YE 31 Dec 2016	YE 31 Dec 2017	YE 31 Dec 2018	YE 31 Dec 2019	YE 31 Dec 2020
• Savings + Insurance	18,157,500	43,578,000	52,293,600	62,752,320	75,302,784	90,363,341
• Bus + Insurance	16,320,000	39,168,000	47,001,600	56,401,920	67,682,304	81,218,765
• Fertilizer + Insurance	40,000,000	96,000,000	115,200,000	138,240,000	165,888,000	199,065,600
Total Gross Written Premium	74,477,500	178,746,000	214,495,200	257,394,240	308,873,088	370,647,706
Reinsurance premium	(4,468,650)	(10,724,760)	(12,869,712)	(15,443,654)	(18,532,385)	(22,238,862)
Net written/earned premium	70,008,850	168,021,240	201,625,488	241,950,586	290,340,703	348,408,843
BENEFITS, LOSSES & EXPENSES						
Total expenses	(69,137,225)	(149,129,340)	(178,163,208)	(212,924,650)	(253,592,940)	(302,394,887)
Underwriting profit/loss	871,625	18,891,900	23,462,280	29,025,936	36,747,763	46,013,956
Other revenue (investment return on life fund)	4,170,740	13,137,831	21,604,433	29,470,449	36,615,761	43,938,913
Profit before tax	5,042,365	32,029,731	45,066,713	58,496,385	73,363,524	89,952,869
Profit after tax	3,630,503	23,061,406	32,448,034	42,117,397	52,821,737	64,766,065
Net Profit margin (%)	4.87%	12.90%	15.13%	16.36%	17.10%	17.47%

Proposed model to deliver additional revenue of LKR 178.7 million for 2016 with 20% growth year-on-year

Financial projections (Best case)

REVENUE	YE 31 Dec 2015	YE 31 Dec 2016	YE 31 Dec 2017	YE 31 Dec 2018	YE 31 Dec 2019	YE 31 Dec 2020
• Savings + Insurance	18,157,500	43,578,000	52,293,600	62,752,320	75,302,784	90,363,341
• Bus + Insurance	16,320,000	39,168,000	47,001,600	56,401,920	67,682,304	81,218,765
• Fertilizer + Insurance	40,000,000	96,000,000	115,200,000	138,240,000	165,888,000	199,065,600
• Uptake form LOMC customers	24,000,000	57,600,000	69,120,000	82,944,000	99,532,800	119,439,360
Total Gross Written Premium	98,477,500	236,346,000	283,615,200	340,338,240	408,405,888	490,087,066
Reinsurance premium	(5,908,650)	(14,180,760)	(17,016,912)	(20,420,294)	(24,504,353)	(29,405,224)
Net written/earned premium	92,568,850	222,165,240	266,598,288	319,917,946	383,901,535	460,681,842
BENEFITS, LOSSES & EXPENSES						
Total expenses	(88,097,225)	(194,633,340)	(232,768,008)	(278,450,410)	(332,223,852)	(396,751,982)
Underwriting profit/loss	4,471,625	27,531,900	33,830,280	41,467,536	51,677,683	63,929,860
Other revenue (investment return on life fund)	5,514,740	17,371,431	28,566,353	38,967,153	48,415,005	58,098,006
Profit before tax	9,986,365	44,903,331	62,396,633	80,434,689	100,092,689	122,027,866
Profit after tax	7,190,183	32,330,398	44,925,576	57,912,976	72,066,736	87,860,064
Net Profit margin (%)	7.3%	13.7%	15.8%	17%	17.6%	17.9%

10% uptake by LOMC customers can deliver an additional 17.9% by 2020

Financial projections (Worst case 1)

REVENUE	YE 31 Dec 2015	YE 31 Dec 2016	YE 31 Dec 2017	YE 31 Dec 2018	YE 31 Dec 2019	YE 31 Dec 2020
• Savings + Insurance	15,433,875	31,485,105	32,114,807	32,757,103	33,412,245	34,080,490
• Bus + Insurance	13,872,000	28,298,880	28,864,858	29,442,155	30,030,998	30,631,618
• Fertilizer + Insurance	34,000,000	69,360,000	70,747,200	72,162,144	73,605,387	75,077,495
Total Gross Written Premium	63,305,875	129,143,985	131,726,865	134,361,402	137,048,630	139,789,603
Reinsurance premium	(3,798,353)	(7,748,639)	(7,903,612)	(8,061,684)	(8,222,918)	(8,387,376)
Net written/earned premium	59,507,523	121,395,346	123,823,253	126,299,718	128,825,712	131,402,226
BENEFITS, LOSSES & EXPENSES						
Total expenses	(60,311,641)	(109,943,748)	(112,776,223)	(115,728,708)	(117,851,618)	(120,016,986)
Underwriting profit/loss	(804,119)	11,451,598	11,047,030	10,571,010	10,974,095	11,385,240
Other revenue (investment return on life fund)	3,545,129	9,890,910	14,573,316	17,559,081	18,814,270	19,190,556
Profit before tax	2,741,010	21,342,508	25,620,346	28,130,091	29,788,365	30,575,796
Profit after tax	1,973,527	15,366,606	18,446,649	20,253,665	21,447,623	22,014,573
Net Profit margin (%)	3.12%	11.90%	14.00%	15.07%	15.65%	15.75%

Assumption:

- 15% sales decrease
- No uptake from LOMC customers

In case of 15% decrease in sales, business still profitable

Financial projections (Worst case 2)

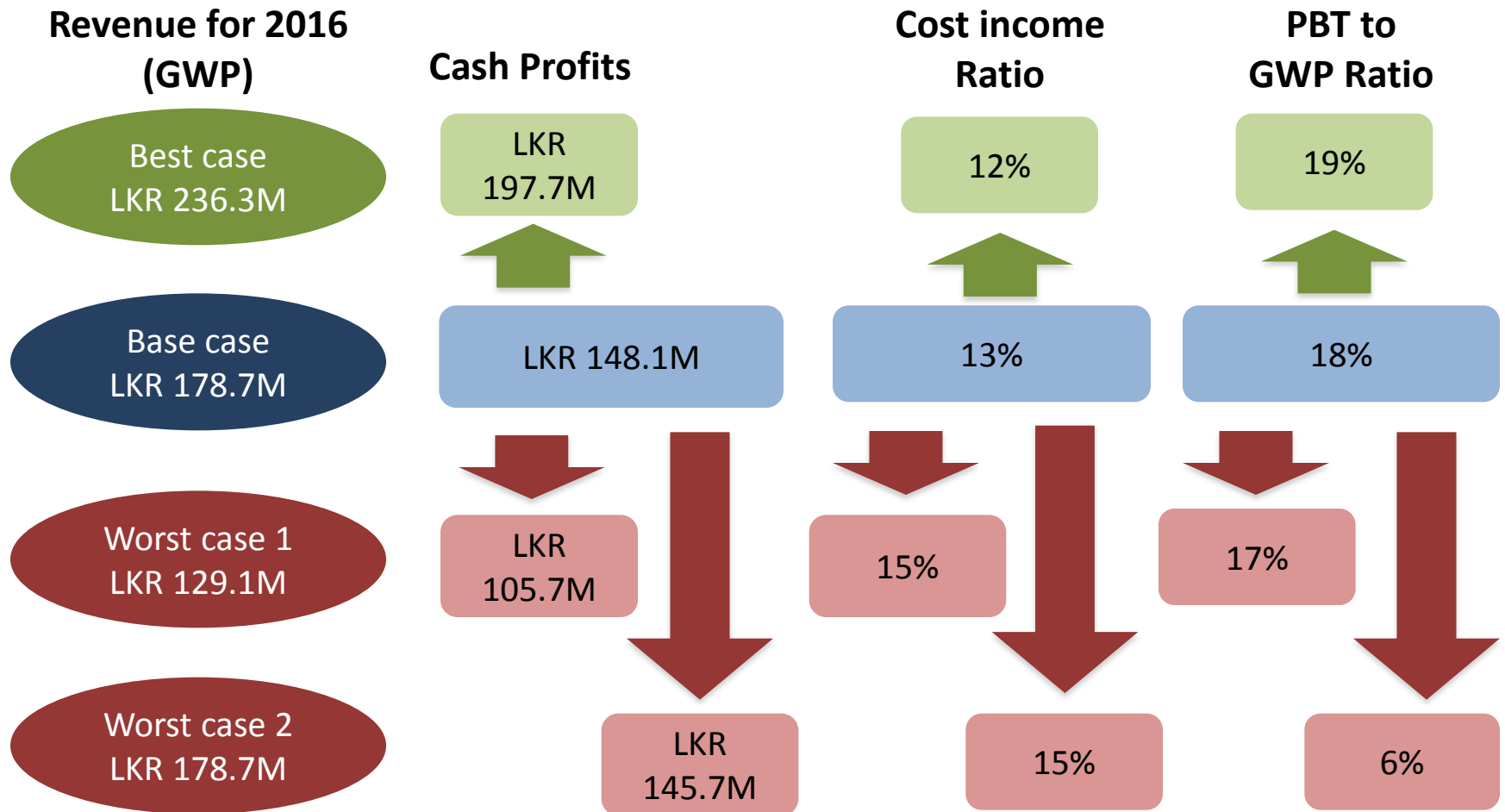
REVENUE	YE 31 Dec 2015	YE 31 Dec 2016	YE 31 Dec 2017	YE 31 Dec 2018	YE 31 Dec 2019	YE 31 Dec 2020
• Savings + Insurance	18,157,500	43,578,000	52,293,600	62,752,320	75,302,784	90,363,341
• Bus + Insurance	16,320,000	39,168,000	47,001,600	56,401,920	67,682,304	81,218,765
• Fertilizer + Insurance	40,000,000	96,000,000	115,200,000	138,240,000	165,888,000	199,065,600
Total Gross Written Premium	74,477,500	178,746,000	214,495,200	257,394,240	308,873,088	370,647,706
Reinsurance premium	(7,447,750)	(17,874,600)	(21,449,520)	(25,739,424)	(30,887,309)	(37,064,771)
Net written/earned premium	67,029,750	160,871,400	193,045,680	231,654,816	277,985,779	333,582,935
BENEFITS, LOSSES & EXPENSES						
Total expenses	(76,050,948)	(164,042,274)	(195,979,529)	(234,217,115)	(278,952,233)	(332,634,376)
Underwriting profit/loss	(9,021,198)	(3,170,874)	(2,933,849)	(2,562,299)	(966,454)	948,559
Other revenue (investment return on life fund)	4,587,814	14,451,614	23,764,877	32,417,494	40,277,337	48,332,804
Profit before tax	(4,433,384)	11,280,740	20,831,028	29,855,195	39,310,882	49,281,363
Profit after tax	(4,433,384)	8,122,133	14,998,340	21,495,741	28,303,835	35,482,581
Net Profit margin (%)	-5.95%	4.54%	6.99%	8.35%	9.16%	9.57%

Assumption:

- Reinsurance raised to 10%; number of claims and costs increase by 10%
- No uptake from LOMC customers

In case of increasing costs, claims and reinsurance fees, business still expected to see experience growth and be profitable after year 2.

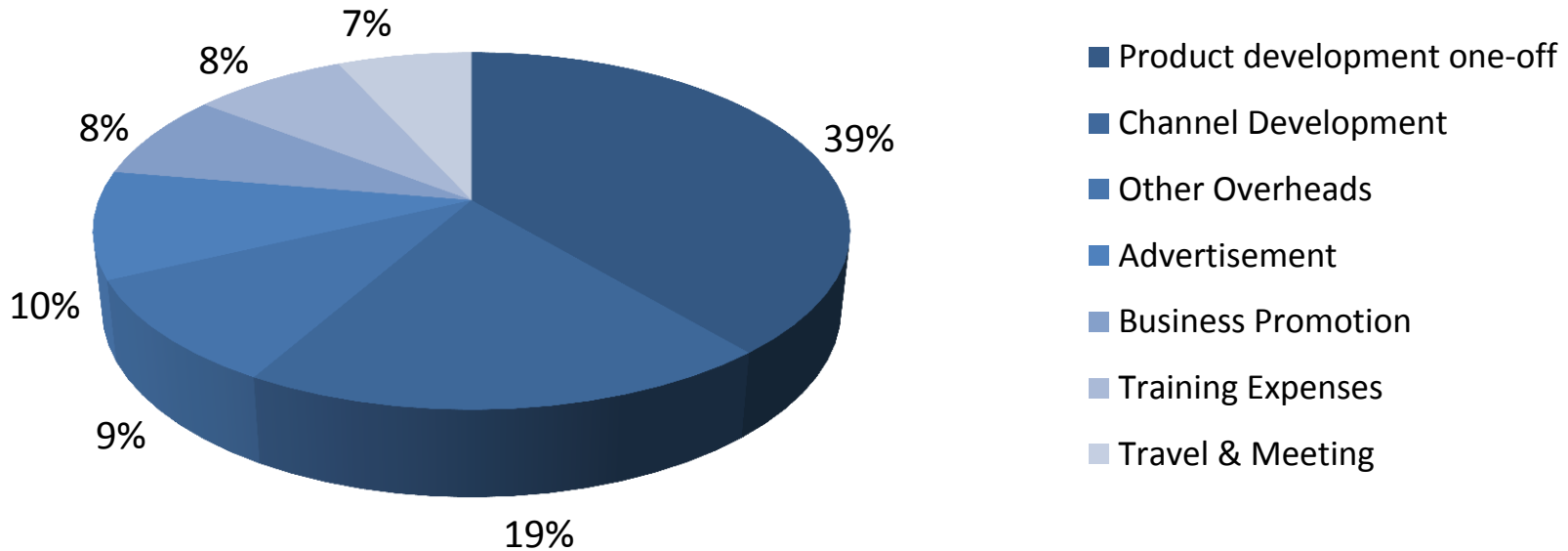
Sensitivity Analysis



Strong cash profit performance even under sensitized scenario

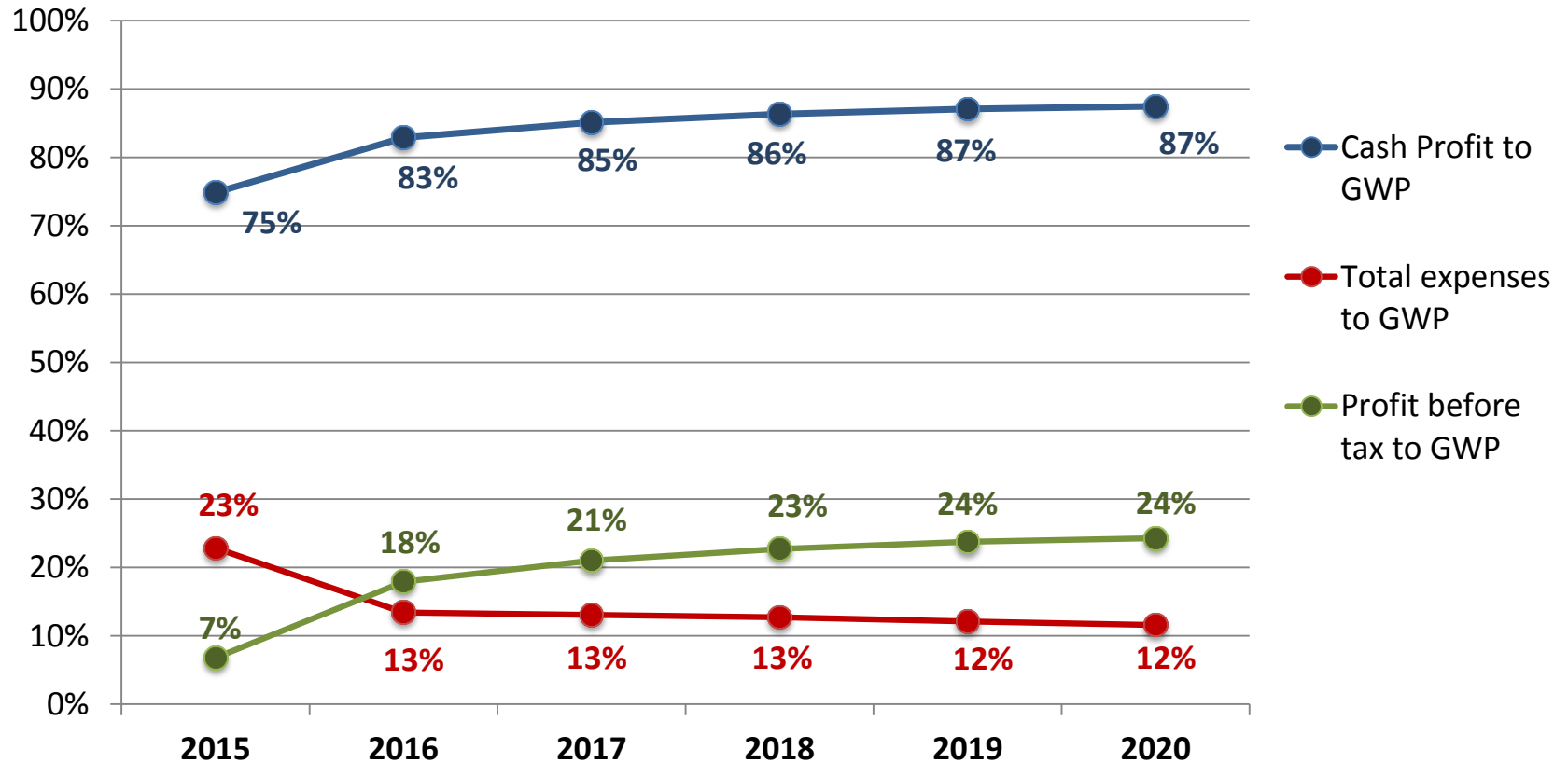
Cost Structure Analysis

- Costs break-up for the new business models in 2015 estimated at LKR 10.3 million with a one-off product development cost at LKR 4 million followed by LKR 3.3 million dedicated to distribution channels, including building social and community engagement
- Assumes no additional staff costs allocated for 2015



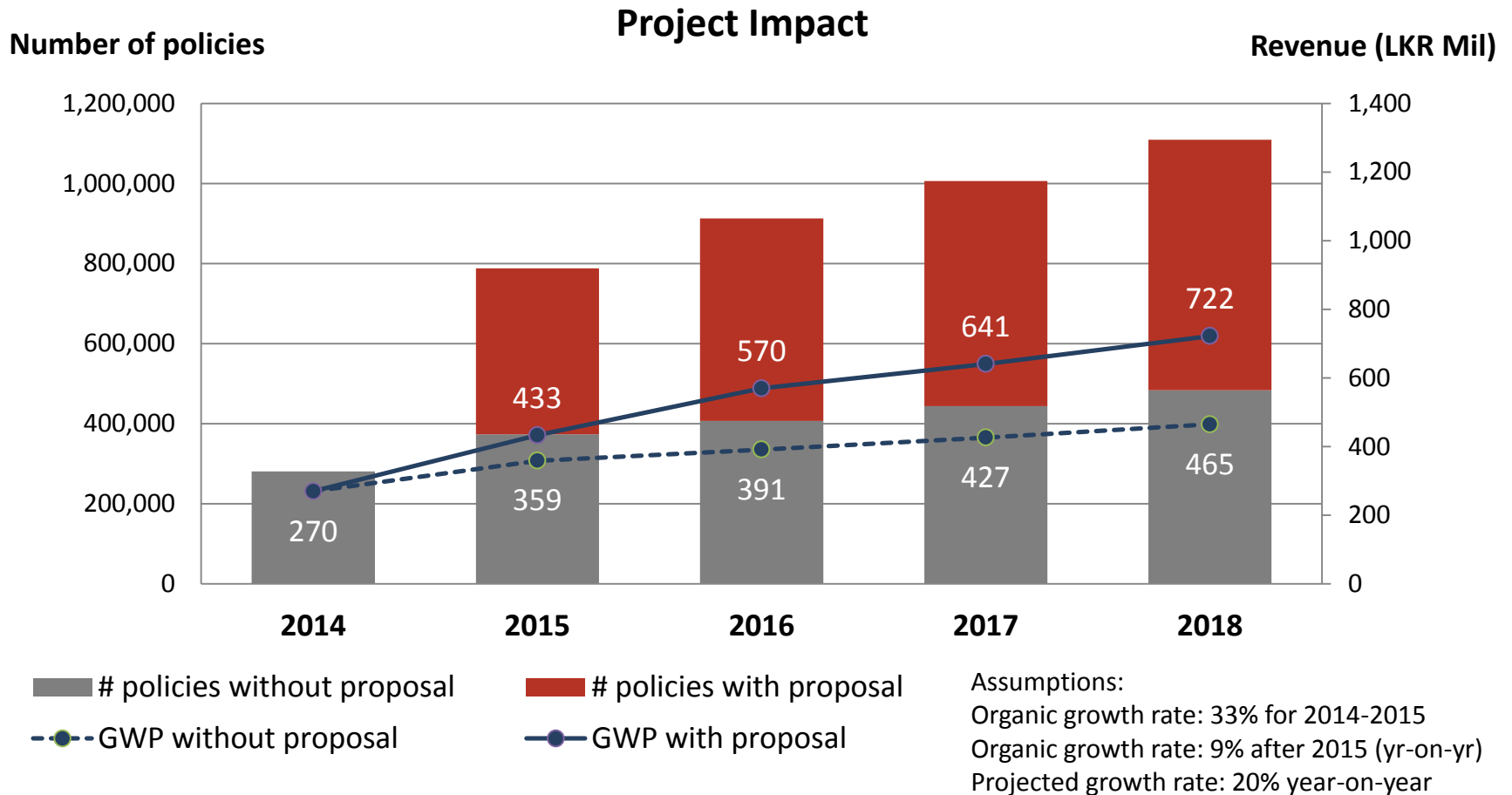
One-time product development cost representing no more than 5% of GWP for 2015 can bring significant upside to the business

Financial Ratio Analysis



Sustainable business presents strong cash profits and low costs over time

Financial Impact (Base case)



Significant business growth generated with proposal, despite conservative projections

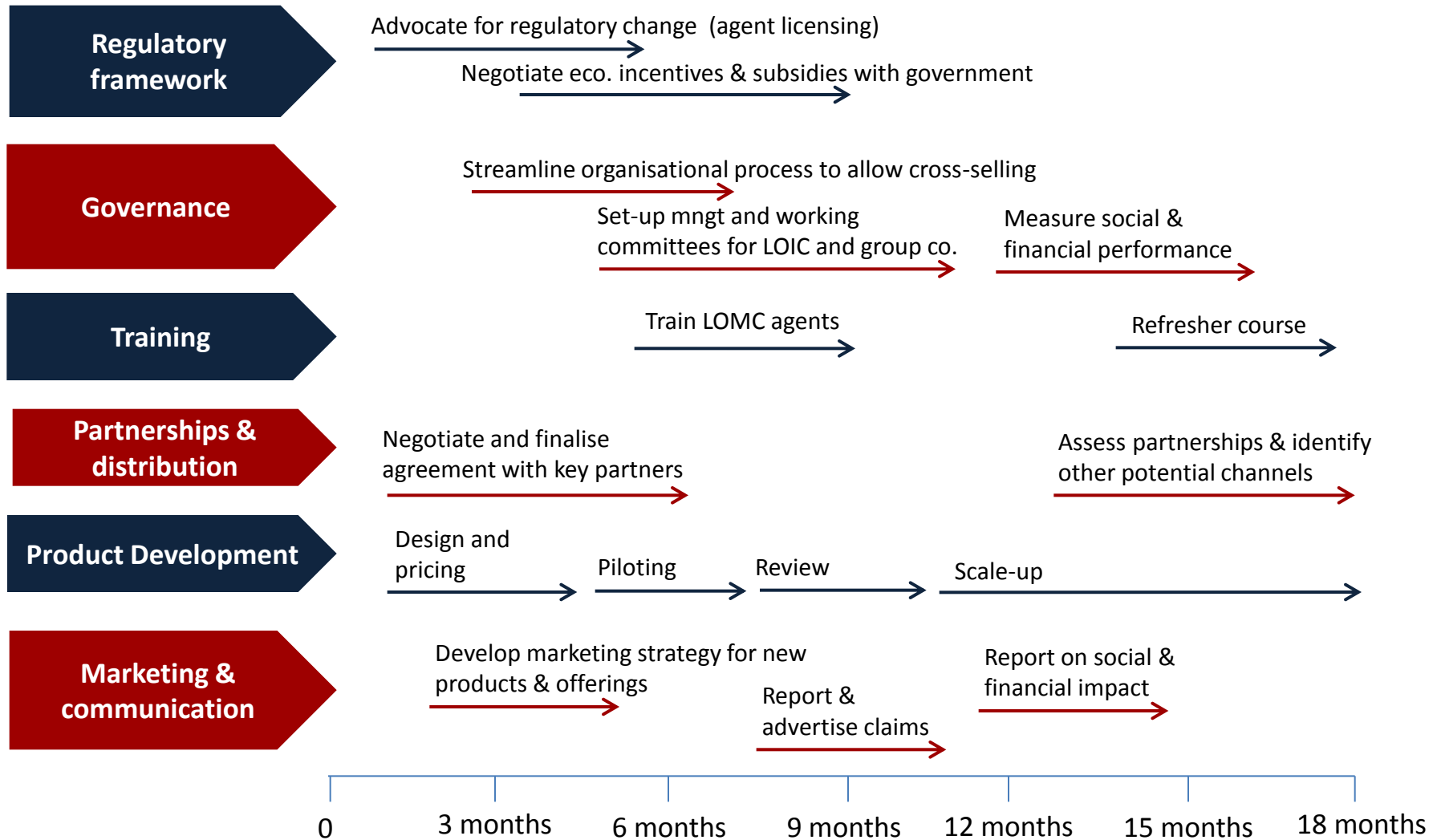
Risk and mitigation (1/2)

Risk	Potential Risk	Likelihood	Impact	Mitigation
Business	<ul style="list-style-type: none"> Miss-selling by sales staff 	Medium	High	<ul style="list-style-type: none"> Make products simple and easy to understand Test sales restructuring with a pilot branch before national rollout
	<ul style="list-style-type: none"> Restructuring organisational sales structure may bring resistance Decreased expertise and specialisation in one specific area 	High	High	<ul style="list-style-type: none"> Offer regular trainings to all sales staff (across businesses) Highlight benefit of increasing skill sets amongst sales force
Regulatory	<ul style="list-style-type: none"> Time consuming process to get the regulation changes to allow non-insurance agents to sell microinsurance Time consuming process to obtain licenses 	Low Medium	High Medium	<ul style="list-style-type: none"> LOLC supported by Group's legal team and relationship with IBSL to facilitate regulatory change and process for acquiring licenses
Operational	<ul style="list-style-type: none"> Fraud risk and security risk for sales staff to collect bus fare payment 			<ul style="list-style-type: none"> Offer regular trainings to all sales staff (across businesses) Introduce auto debit from LOFIN savings accounts for bus fare collection

Risk and mitigation (2/2)

Risk	Potential Risk	Likelihood	Impact	Mitigation
Reputational	<ul style="list-style-type: none"> Unfavorable customer experience leads to brand damage on other business lines 	Medium	High	<ul style="list-style-type: none"> Make products and processes simple and easy to understand Build 48-hour claim processing commitment Hotline available 24h/day for inquiries and feedback Monthly meetings through SMEs and LOMC loan officers for personal and direct interaction with customers to address grievances or other
Market	<ul style="list-style-type: none"> Low market demand for microinsurance products 	Low	Medium	<ul style="list-style-type: none"> Awareness raising campaigns and regular meetings with trusted LOFIN/LOMC staff and community leaders to promote the benefits of insurance Publicly advertise claim payouts to highlight the benefits Develop marketing strategy internally and with key partners (AVCs and bus company for e.g.) for widespread advertising

Implementation timeline





Measuring social impact

Summary

- Improved access to microinsurance carries benefits for various players and stakeholders, from low-income customers and their families, to communities and to the country as a whole.
- Livelihoods become more resilient to economic shocks, communities are more engaged through educational campaigns and society benefits through reduced burden on public services.
- Although there are no standard impact metrics available to measure the social impact of microinsurance, a number of tools and assessments provide guidelines to assess products and processes and customer satisfaction.
- Reporting social impact and performance can serve as a powerful marketing tool and contribute to advocacy efforts for policy change.



Expected benefits of microinsurance

- Stabilises consumption and creates income and savings stability by preventing the depletion of assets in the event of adverse and unforeseen life events
- Frees resources to savings and investments
- Reduce burden on public services
- For health insurance: increased use of health care services and reduced out-of-pocket expenditure
- Reduced gap in access to financial services between customers from different income brackets
- Allows low-income customers to participate fully in economic and social life
- Change in investment and savings behaviour: suggested that insurance allows low-income people to incur risks and engage in new and productive income-generating opportunities
- Empowerment of women and migrants, especially if products and services are tailored to their specific needs
- Improved financial literacy and supports children's education
- Strengthens community ties and engagement



Measuring microinsurance

- Despite the benefits of microinsurance, key questions remain amongst providers, governments and donors: what are the value and benefits created by microinsurance? Are clients benefiting? How is this measured? How can the value proposition to clients be improved?
- The most common and straightforward metrics include:
 - Number of lives covered and policies issued
 - Claims numbers and satisfied customers
 - Renewals and/or upgrades to optional insurance schemes
 - Insurance penetration and density
 - Product number and types, fair pricing and product value to customers
 - Workshops and awareness raising campaigns to promote benefits of insurance and financial literacy
- There are no standard impact metrics available, but a number of tools to measure and quantify performance and impact have been developed.

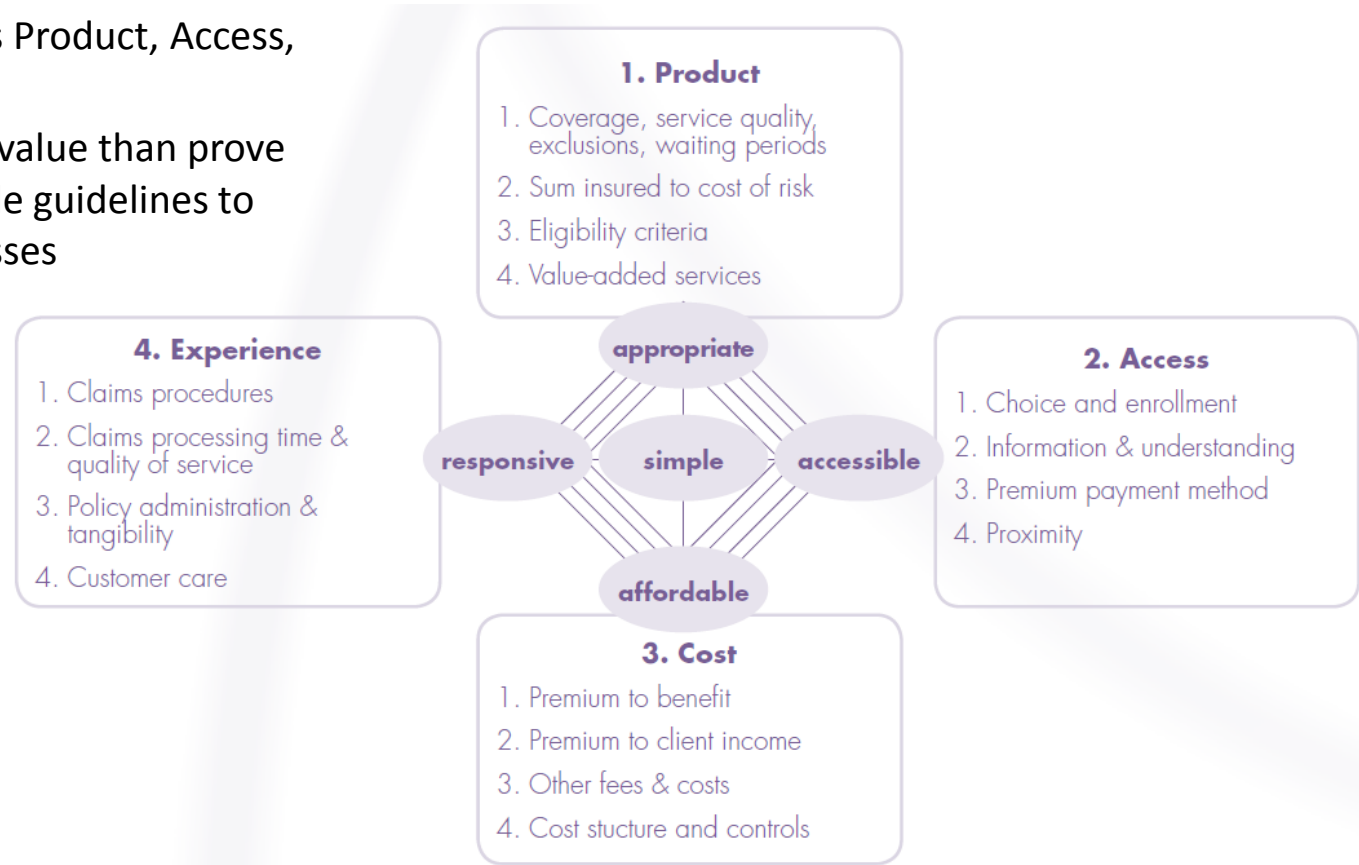


Measuring impact to emphasise LOLC's commitment to socio-economic advancement

ILO's client value assessment

ILO's PACE framework is a client value assessment that considers Product, Access, Cost and Experience.

Tool designed to improve value than prove value but provides valuable guidelines to assess product and processes



Impact assessment tools support company's drive towards more transparency and contribute to continuous improvement

Reporting social impact

- The reporting of socio-economic impacts is necessary to:
 - Increase transparency and accountability of the company's activities;
 - Monitor the benefits and shortfall of products, services, distribution channels and partnerships;
 - Publically advertise positive experiences of microinsurance to attract new customers;
 - Contribute a growing pool of knowledge and data on the experiences and lessons of microinsurance;
 - Advocate for adequate policy and regulatory frameworks.
- Social impact can be reported through a number of channels:
 - Case studies and claims stories videos;
 - Customer awareness surveys;
 - Assessment of products based on quality criteria: risk management, customers involvement, customer education, product simplicity for example;
 - Assessment of distribution channels and partners.

Reporting tools: case study & video (examples from Allianz)

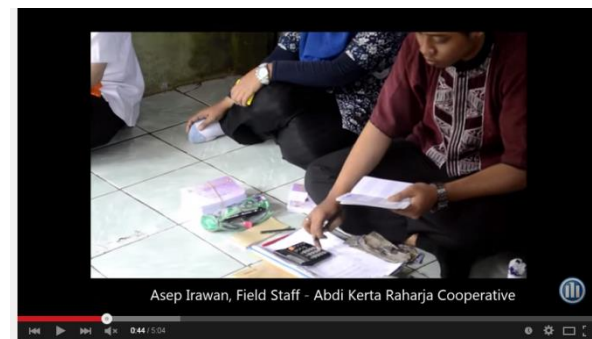
What is Microinsurance:
A Customer Story from Indonesia



- In 2007, Ms. Siti Muhibah takes out a 10-month microcredit of US\$100 from a microfinance institution in Jakarta to grow her cookies shop
- Her loan comes with an Allianz micro life insurance that costs US\$1.20 for 10 months
- On Oct 4, 2007 Siti dies of diabetes complications
- Her daughter Zakiyah (photo) receives US\$200 from Allianz
- On top, Allianz pays off the rest of the loan

Claim payout US\$200	US\$50 for funeral
	US\$15 as savings
	US\$135 as investment for her textile trading business

- As a result, Zakiyah increases her income from US\$2 to US\$6/day.
- She can compensate for her mother's lost income and take care of a family of six.



Microinsurance game from Allianz Indonesia

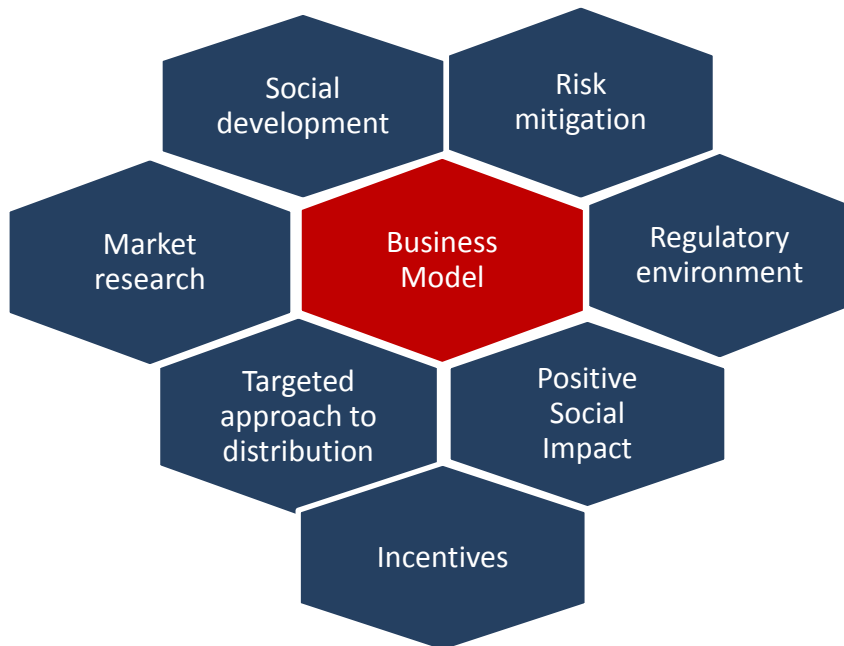
Reporting serves as powerful marketing tool to communicate to stakeholders and customers



Conclusions

Critical drivers for success

- LOLC group and LOIC are well-positioned to build on successes to date to become a market leader in microinsurance.
- LOIC's commercial viability and continued growth hinges on leveraging the group's assets and resources, developing simple but relevant and affordable products and offerings, exploring opportunities for partnerships and minimising costs associated with distribution and administration.
- LOIC has the potential to have a direct impact on the livelihoods of hundreds of thousands of low-income households at times when support and coverage is most needed and pressing.
- Several key drivers for success include:



- Strong focus on social development and financial stability without compromising profitability.
- Simple and robust business model to promote an insurance culture in low-income markets and foster customer protection.
- Identify risks and develop action plan to address risks efficiently and quickly.
- Targeted approach for each distribution channel and relevant stakeholders involved in the process.
- Regulatory changes critical to facilitate the active selling of microinsurance and increase insurance penetration in Sri Lanka.
- Incentives (economic and non-economic) along with training to offer freemiums to introduce microinsurance.