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NATURAL DISASTER INSURANCE COVERAGE

Solving the Lethargy on Language Policy Will Help SMEs Island-wide

The limited use of disaster insurance in Sri Lanka is the result of many factors, some of which are already known and widely discussed. This policy note sets out a specific finding, not previously discussed, that emerged during an investigation conducted by Verité Research (VR) to understand the low take-up of natural disaster insurance amongst SMEs in Sri Lanka.

SUMMARY

An increasing number of natural disasters have affected Sri Lanka in recent years. Small and Medium Enterprises (SMEs) are particularly vulnerable to the impacts of these disasters, due to their lack of financial resources coupled with low investments in disaster resilience and business continuity plans.

Supported by the thirteenth amendment to the constitution in 1987,¹ Sri Lanka has committed to a policy of making all public communication available in the three primary languages spoken in the country: Sinhala, Tamil and English. VR found that the non-implementation of this policy with regard to insurance documents and information contributes significantly to the low coverage of natural disaster insurance in Sri Lanka.

The areas affected by natural disasters outside Colombo have an English literacy rate below 30%. Even in the greater Colombo area, English literacy is only about 45% on average. However, information on insurance is provided almost exclusively in English, by private insurance companies as well as state provided insurance welfare schemes. This impedes the Sinhala and Tamil speaking population from tapping into the benefits of natural disaster insurance.

KEY FINDINGS

1. Sri Lanka fares poorly in natural disaster insurance coverage, and SMEs are the worse off

- The insurance penetration rate, defined as the insurance premium as a percentage of GDP, in Sri Lanka is low in comparison to most other countries in the Asian region². Moreover, the penetra-

tion rate for natural disaster insurance, which is offered under fire insurance (a subclass of general or non-life insurance), is much lower. According to Swiss Re's review of world insurance in 2015, the non-life insurance penetration rate for Asia was 1.74.³ In contrast Sri Lanka's non-life insurance penetration rate was only 0.66. This rate is lower than that of other Asian countries such as India, Vietnam, Thailand, Malaysia as well as other low-middle income countries such as Morocco, Kenya, Tunisia and Angola.⁴

- In Sri Lanka, it is mostly major industrial and commercial properties that have natural disaster insurance coverage. Therefore, it is likely that the natural disaster insurance penetration rate among SMEs is even lower.

2. Private insurance providers exploit the language barrier

- The top six general insurance providers in Sri Lanka account for two-thirds of the market share. Only one provider (accounting for under 6% of the market) issued fire insurance policy documents in Sinhala. None of the insurance providers issued these documents in Tamil.
- SME owners who were affected by the May 2017 floods in the Ratnapura district, were of the view that they had purchased natural disaster insurance through agents representing private insurance companies. However, they realised that they had been misinformed by the agent selling the insurance only after the disaster, when they attempted to claim their compensation. The SME owners had not been able to verify the assurances provided by the agents as the documents they signed were exclusively in English.

POLICY NOTE

3. Information on state insurance welfare schemes are not informed in the vernacular

- The state funded National Natural Disaster Insurance Policy (NNDIP) is administered through the National Insurance Trust Fund (NITF). Until the latter part of 2017, information on the NNDIP was provided on the NITF website only in English (the website was last checked on 13 November 2017). Early 2018, the information was provided in Sinhala as well (at the time of publication of this note). The website still does not provide the information in Tamil.
- Surveys of SMEs in the Matara and Galle districts that were affected by the May 2017 floods revealed a lack of awareness about the existence of the NNDIP. Focus group discussions with representatives of a community-based organisation (consisting of 5,385 members) also revealed that they were unaware of the NNDIP. The general lack of awareness could be due to the lack of language-compatible access to information regarding the scheme.

4. Banking sector language regulations are not yet replicated in the insurance sector

- Regulations in the banking sector have addressed the language policy problem by issuing a direction to all licensed commercial banks, specifying that the terms and conditions of banking products and services shall be made available to customers in their preferred language.
- As of yet, there is no equivalent regulation in the insurance industry requiring companies to provide insurance documents in a customer compatible Sri Lankan language.

RESEARCH OVERVIEW

1. There is a low uptake of natural disaster insurance in Sri Lanka, particularly among SMEs

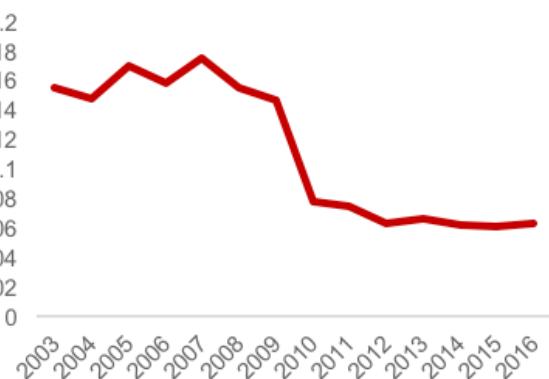
SMEs constitute 80% of all businesses in Sri Lanka, comprising 20% of industrial establishments, and 90% of the service sector.⁵ SMEs also contribute to approximately 52% of GDP and 45% of total employment in the country.⁶ Given the importance of SMEs to the economy and employment, it is critical to facilitate their timely recovery following a catastrophic natural disaster. SMEs are particularly vulnerable to the impacts of natural di-

sasters due to their lack of financial resources, coupled with low investments in disaster resilience and business continuity plans.

In Sri Lanka the coverage of private natural disaster insurance is sparse and usually limited to major industrial and commercial properties.⁷ The Sri Lankan private insurance market can be broadly categorised into long-term insurance (life insurance) and general insurance (non-life insurance). Natural disaster insurance coverage is offered as an extension to fire and lightning insurance policies, which are a sub class under general insurance. The insurance penetration rate in Sri Lanka is low in comparison to other countries in the Asian region.⁸ Sri Lanka's general insurance penetration rate in 2015 and 2016 was 0.66 and 0.67 respectively. In comparison the general insurance penetration rate in India, Vietnam, Thailand and Malaysia was 0.72, 0.74, 1.79 and 1.68 in 2015 respectively.⁹ The general insurance penetration rate of other low-middle income countries such as Morocco, Kenya, Tunisia and Angola recorded rates of 1.99, 1.88, 1.58 and 0.8, all higher rates than Sri Lanka.¹⁰

Fire insurance, which is a sub class of general insurance, has an even lower penetration rate in Sri Lanka as illustrated in Exhibit 1. Hence, the actual penetration of natural disaster or natural catastrophe insurance, which falls under fire insurance, is likely to be even lower. Furthermore, given that private insurance is largely extended to major industrial and commercial properties, the disaster insurance penetration is likely to be particularly low among SMEs.

Exhibit 1: Fire insurance penetration level in Sri Lanka (percentage)



Source: Authors' calculation based on IBSL annual reports

Note: Fire insurance penetration is measured as gross written premiums received from fire insurance policies as a percentage of GDP

POLICY NOTE

2. Private insurance industries exploit the language barrier

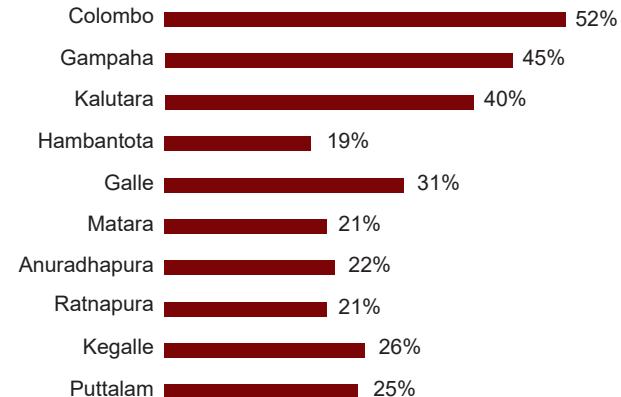
While there exist many failures in the provision of natural disaster insurance, our research revealed that language barriers were a significant impediment faced by SMEs in accessing and benefiting from natural disaster insurance. Entering into any contract requires all parties to understand the terms and conditions to ensure that the contract is executed effectively. However, terms and conditions of insurance policies are most often provided only in English. Moreover, they contain technical and legal clauses that are difficult to fully comprehend, even by those who have a good command of the language. Given that the average English literacy level of the population aged 15 and above is only 30% in Sri Lanka,¹¹ not providing insurance documents or any contractual documents in the vernacular language can impede many from both accessing and assessing such services, especially at the regional level.

Exhibit 2 illustrates the English literacy level of the population aged 15 and above of the 10 districts that were severely affected by the May 2016 and May 2017 floods. The English literacy level is substantially lower in the regions outside the western province. This data exposes the vulnerability of regional and rural business to potential exploitation by insurance agents. Generally, these agents are not direct employees of insurance companies, but are incentivised to sell as many insurance policies as possible as remuneration is based on the premiums collected and the number of new enrollments.

Discussions with SME owners who were affected by the May 2017 floods in the Ratnapura district,¹² revealed that many SMEs owners who had purchased private natural disaster insurance through agents were unable to obtain any compensation. These SME owners had received their policy terms and conditions in English. According to them, at the time of entering into the insurance contracts, they were informed by the insurance agents that flood coverage was included in their insurance policies. Subsequent to the floods, when the SMEs owners applied for compensation, they learned that flood-based losses were not covered under their policies.

The availability of fire insurance policy documents in all three languages of selected insurance companies is illustrated in Exhibit 3. The information was gathered through telephone calls to each of the insurance companies. All selected companies reported that the documents were readily available in English. Only People's Insurance supplied the documents in the Sinhala language.

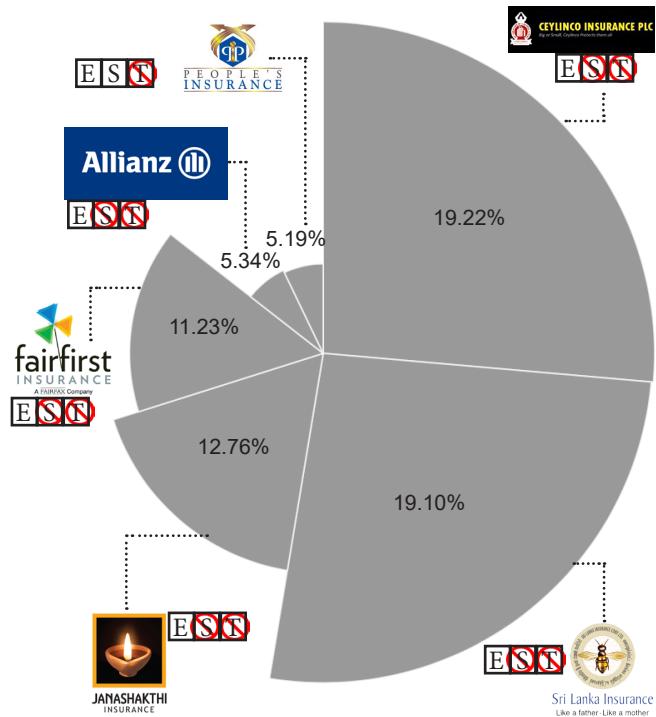
Exhibit 2: English literacy levels of selected districts



Source: *Census of population and housing of Sri Lanka, 2011*

Note: English literacy is measured as the ability to read and write in English

Exhibit 3: General insurance market share (% of general insurance GWP 2013)¹³ and availability of fire insurance policy documents in English (E), Sinhala (S) and Tamil (T)



Source: Telephone calls made to the head office of each of the above insurance companies

*Fairfirst Insurance merged with Union Assurance General Insurance. Hence the market share reported is an addition of Fairfirst and Union Assurance reported values in the IBSL 2016 report.

POLICY NOTE

3. State insurance schemes not informed in the vernacular

The Government of Sri Lanka introduced the NNDIP to address some of the gaps in the private insurance market. The NNDIP is administered by the NITF and came into effect on 1 April 2016.

This policy covers lives and properties, of all households and small business establishments up to LKR 2.5 million each, in respect of damages (per event) caused to their property and contents due to cyclones, storms, tempest, floods, landslides, hurricanes, earthquakes, tsunami and any other similar natural peril, excluding droughts.¹⁴ However, the small businesses that are covered under this policy are establishments that earn an annual revenue of less than LKR 10 million, therefore limiting coverage to only a subset of SMEs.¹⁵

Although the NNDIP scheme has been in existence for almost two years and through two major flood events (May 2016 and May 2017), the level of awareness about this scheme among its beneficiaries is very low. The Rapid Post-disaster Needs Assessment of the May 2017 floods, prepared by the Ministry of National Policies and Economic Affairs and the Ministry of Disaster Management, identified that the 'level of awareness of the general public regarding this scheme is not adequate'. The surveys conducted by VR of SMEs in the Matara and Galle districts,¹⁶ revealed that most SMEs that were eligible to claim compensation from the NNDIP were unaware of the existence of this scheme. Interviews with the Self-Help Group Resource Centre (SHGRC), a community-based organisation consisting of 5,385 members from the Bulathsinhala and Parlindanuwara Divisional Secretariat of the Kaluthara district, further confirmed this finding. The SHGRC conducted a comprehensive survey to assess the extent of destruction among their members soon after the May 2017 floods. The SHGRC survey identified 94 retail shops, 452 food/sweets producers and 19 vendors who were affected and required assistance. However, the affected SMEs were unaware of the NNDIP and did not seek compensation and assistance from this scheme.

The disaster information management system (DesInventar) of Sri Lanka does not provide data on the number of businesses affected by natural disasters. The Post Disaster Needs Assessment of the May 2017 floods also identifies this as an issue.

Exhibit 4: Comparison of the percentage of micro and small businesses filing claim application against percentage of people affected by the May 2017 floods

Districts most affected by the May 2017 floods	Number of established businesses (informal micro and formal small businesses)*	Applications received as a % of total established businesses (a)**	Number of persons affected as a % of total population (b)***	Ratio (b)/(a)
Ratnapura	41,439	9.6%	21.6%	2.25
Matara	40,417	7.1%	28.7%	4.04
Galle	44,944	6.2%	14.9%	2.40
Kaluthara	56,598	4.2%	15.0%	3.57
Hambantota	29,856	0.6%	16.6%	26.67

*Data extracted from the May 2017 Floods and Landslides, Rapid Post Disaster Needs Assessment

**Percentage was calculated based on the data provided by the NITF on the number of applications received as of 01.01.2017 from SMEs for building damage and stock damaged

***Percentage was calculated using data extracted from the May 2017 Floods and Landslides, Rapid Post Disaster Needs Assessment and Population data from the Census of Population and Housing 2012

However, it is possible to estimate the number of businesses that were affected by using a proxy indicator. The percentage of the population affected in each district can be used as a proxy for the percentage of businesses affected.

There is data available on the number of persons affected (affected, deaths, injured, missing) by the May 2017 floods, which was compiled by the National Disaster Relief Centre (NDRC) and reported in the May 2017 Rapid Post Disaster Needs Assessment. Exhibit 4 compares the percentage of micro and small businesses filing claim applications against the percentage of affected persons, in each district, in the floods of May 2017.

The percentage of people affected is much higher than the percentage of businesses filing claims. In most districts, the percentage of people affected is a ratio of 2-4 times the percentage of businesses that submitted claims. The ratio indicates the level of awareness among businesses about this freely available opportunity for compensation; the higher the ratio the lower the level of awareness.

While there may exist many reasons for the lack of awareness on this issue this research identified that there was a lack of information regarding this scheme in the vernacular. Information regarding the NNDIP on the NITF website was available in English only up until the end of the year 2017 (last checked on 13 November 2017). Early this year the website was updated to include information regarding the NNDIP in Sinhala. However, it was not updated to include information regarding the NNDIP in Tamil (refer Annex 1).

4. Banking sector language regulations not replicated in the insurance industry

At present, there is no legislation or rules and regulations in place to specify the language in which insurance documents need to be provided.¹⁷ However, making it mandatory by law to provide insurance documents in the preferred language of the customer can eliminate language as a barrier to accessing natural disaster risk insurance, and can be an important step towards increasing the confidence of SMEs in the insurance industry.

The banking sector in Sri Lanka has already identified this necessity and introduced a code of conduct for licensed commercial banks. Among other requirements, the code specifies that the terms and conditions of all banking products need to be made available in the customer's preferred language¹⁸ (Refer Box 1 for details.)

This policy reform can be tasked to the Insurance Board of Sri Lanka (IBSL), which is the regulatory body of the insurance industry, in Sri Lanka. The IBSL is governed by the Regulation of Insurance Industry (RII) Act No.43 of 2000 as amended by Act No.27 of 2007 and Act No.3 of 2011.¹⁹ As per RII Act, the IBSL is responsible for safeguarding the interests of policy holders and potential policy holders. The Act further empowers the IBSL to issue directions to insurers, brokers and loss adjusters in view of safeguarding the policy holder's interest. In the past the IBSL has issued directions to safeguard the interests of policy holders, such as specifying the timely supply of policy documents to policy holders, ensuring that insurance advertisements conform to the RII Act, and specifying the timeframe for insurance claim payouts.■

Box 1: Language specifications in the code of conduct for licensed banks

The Banking Act No.30 of 1988, last amended by the Banking Act No.46 of 2006, empowers the Monetary Board to issue directions to licensed banks regarding the manner in which any aspect of business is to be conducted. The Direction No.8 of 2011 issued a Customer Charter that specifies a code of conduct to be adopted by all licensed banks with a view to safeguarding the interest of the customer, building healthy relationships between customers and banks, and ensuring customer stability in the banking sector.

The Customer Charter specifies the manner in which the Terms and Conditions of banking products and services need to be provided:

“The customers have the right to access and to fully understand the terms and conditions relevant to each and every product or service they obtain from banks. In this regard, the licensed banks should ensure that:

- a) The *Terms and Conditions* associated with each product or service are made available to customers in languages preferred by them”

The banking and insurance industries both belong to the financial sector and deal with customers on a contractual basis. Drawing from the banking industries example, adopting a similar practice in the insurance industry will protect consumers from being misled and help improve the confidence of the public and the SMEs in the insurance industry.

POLICY NOTE

The Economics Research Team of Verité Research compiled this study.

The team comprised Sachintha Fernando and Vinura Jayasekera. Editorial support was provided by Venya De Silva. The overall research and editorial supervision was provided by Subhashini Abeysinghe and Nishan de Mel.

The team would especially like to thank the Sabaragamuwa Province Chamber of Commerce for facilitating field research in the Ratnapura district, as well as the Ceylon Chamber of Commerce and the Federation of Chamber of Commerce and Industry of Sri Lanka for facilitating this research. The team would also like to thank the Chamber of Commerce and Industry of Central Province, the Galle District Chamber of Commerce and Industry, the Trincomalee District Chamber of Commerce and Industry, the Chamber of Commerce and Industries of Yarlpanam, the Batticaloa District Chamber of Commerce Industry and Agriculture, the Ampara District Chamber of Commerce and Industry, the Hambantota District Chamber of Commerce, the Matara District Chamber of Commerce, the Wayamba Chamber of Commerce and Industry and the Anuradhapura District Chamber of Commerce, Industry and Agriculture for their insights and support.

POLICY NOTE**ENDNOTES**

¹ The Constitution of the Democratic Socialist Republic of Sri Lanka, available at :<http://www.parliament.lk/files/pdf/constitution.pdf>, [accessed on: December 2017].

² Insurance Board of Sri Lanka, 'Statistical Review 2016', 2016, available at: <http://www.ibsl.gov.lk/images/IBSL-AR%202016-Inner-21-59.pdf>, [accessed on: November 2017].

³ Swiss Re, Sigma No3/2016, 'World Insurance in 2015 – Steady growth amidst regional disparities', (2016), available a:t http://media.swissre.com/documents/sigma_3_2016_en.pdf, [accessed on: December 2017].

⁴ Ibid.

⁵ Secretariat for Senior Ministers, 'The National Human Resources and Employment Strategy for Sri Lanka', 2012, available at: http://www.nhrep.gov.lk/images/pdf/nhrep_final.pdf, [accessed on: January 2017].

⁶ Ministry of Industry of Commerce, 'SME – National Policy Framework for Small and Medium Scale Enterprise Development', available at: http://www.industry.gov.lk/web/images/pdf/framew_eng.pdf, [accessed on: January 2017].

⁷ Disaster Management Center, Ministry of Disaster Management, 'Sri Lankan National Disaster Management Plan 2013-2017', 2014

⁸ Insurance Board of Sri Lanka, 'Statistical Review 2016', 2016,available at: <http://www.ibsl.gov.lk/images/IBSL-AR%202016-Inner-21-59.pdf>, [accessed on: November 2017].

⁹ Op cit., Swiss Re.

¹⁰ Op cit., Insurance Board of Sri Lanka.

¹¹ Census of population and housing in Sri Lanka 2012, available at:<http://www.statistics.gov.lk/PopHouSat/CPH2011/index.php?fileName=FinalPopulation&gp=Activities&tpl=3>, [accessed on: January 2018]

¹² Focus group discussions with SMEs from the Ratnapura district who were affected by the May 2017 floods. The discussions were arranged by the Sabaragamuwa Chamber of Commerce. The focus group consisted of 10 SMEs.

¹³ Op cit., Insurance Board of Sri Lanka.

¹⁴ National Insurance Trust Fund, available at: <http://www.nitf.lk/ENGLISH/National%20Natural%20Disaster.html>, [accessed on: November 2017]

¹⁵ As per the SME National Policy Framework for Small and Medium Scale Enterprise Development (http://www.industry.gov.lk/web/images/pdf/framew_eng.pdf) SMEs are categorised as follows: Micro Enterprises are enterprises that earn less than LKR 15 million annual revenue; Small Enterprises are enterprises that earn an annual revenue of LKR 16 million – LKR 250 million; Medium Enterprises are enterprises that earn an annual revenue of LKR 251million – 750 million.

¹⁶ Four SMEs were surveyed from the Galle district and three SMEs from the Matara district who were affected by the 2017 May floods.

POLICY NOTE

¹⁷ Information obtained from an application to receive information under the Right to Information Act No.12 of 2016 submitted to the Insurance Board of Sri Lanka on 4th October 2017 requesting “All documents containing information on rules relating to the language which must be used in drafting insurance related documents in Sri Lanka”. The reply was received on 10th October 2017 stating “No rules or any related documents have been issued by the Insurance Board of Sri Lanka on specifying language to be used in drafting insurance related documents”.

¹⁸ Monetary Board of Central Bank of Sri Lanka, ‘Banking Act Direction No.8 of 2011 – Customer Charter of Licensed Banks’, 2011, available at: http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/directions/bsd/BSD_2013/bsd_LCB_Up_to_30_Nov_2013.pdf, [accessed on: January 2018].

¹⁹ Regulation of Insurance Industry Act, No.43 of 2000 as amended by Act, No. 27 of 2007 and Act, No. 03 of 2011, available at: <http://www.ibsl.gov.lk/images/RII-Act-No-43-of-2000.pdf>, [accessed on: January 2017].

POLICY NOTE

ANNEX 1 – SCREEN SHOTS OF THE NITF WEBSITE ACCESSED ON 13 NOVEMBER 2017

ENGLISH WEBSITE

The screenshot shows the homepage of the National Insurance Trust Fund (NITF). At the top, there are language selection options (Sinhala, English) and a search bar. The main header features the NITF logo and the text 'National Insurance Trust Fund - NITF Ministry of National Policies and Economic Affairs'. Below the header, there are links for Home, About, Insurance, News, Members of the Board, Management, Social Responsibilities, Contact Us, and Log In. The main content area is divided into several sections: 'Agrahara Health Insurance For Pensioners' (with an image of an elderly couple), 'NITF Agrahara' (with a video player), 'Motor Insurance' (with an image of a car), 'Non Motor Insurance' (with an image of a tree), and 'SRCC & Tr' (with an image of a megaphone). Each section contains a brief description and a 'Read more...' link.

SINHALA WEBSITE

TAMIL WEBSITE

POLICY NOTE

ANNEX 2 - RTI RESPONSE FROM IBSL

IBSL
INSURANCE
BOARD OF SRI LANKA

INSURANCE BOARD OF SRI LANKA
(Established under Act No. 43 of 2000)

Level 11, East Tower, World Trade Centre, Echelon Square, Colombo 1.
Tel: General : +94 11 2396184-9, Fax: +94 11 2396190 Website: www.ibsl.gov.lk



BY REGISTERED POST/FAX

Ref: IBSL/LEG/17/10/249

10th October 2017

[REDACTED]
No. 5A, Police Park Place
(Off Police Park Avenue),
Colombo 05.

Dear Madam,

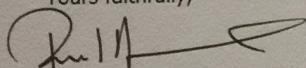
Application to receive information under the Right to Information Act, No. 12 of 2016

We refer to your letter dated 04th October 2017, on the above.

Responses to your application are listed below:

1. No Guidelines or any related documents have been issued by Insurance Board of Sri Lanka (IBSL) on drafting insurance proposals. However, Guidelines on Linked long term business dated 01-05-2007 and the amended Guidelines made thereto dated 15-03-2016 and 21-10-2016 can be downloaded from IBSL website from the following link:
["http://www.ibsl.gov.lk/instructions-and-guidelines/guidelines.html"](http://www.ibsl.gov.lk/instructions-and-guidelines/guidelines.html)
2. No Rules or any related documents have been issued by IBSL on specifying language to be used in drafting insurance related documents in Sri Lanka;
3. No Rules or any related documents have been issued by IBSL on setting limits for insurance proposals;
4. A List of all licensed insurance companies in Sri Lanka and their contact details can be downloaded from IBSL website from the following link. However, the branches of such companies which operate in Kandy has to be checked from such companies on an individual basis:
["http://www.ibsl.gov.lk/insurance-companies.html"](http://www.ibsl.gov.lk/insurance-companies.html)
5. Any Rules, Regulations, Orders, Determinations, Terms and Conditions made by IBSL can be downloaded from IBSL website from the following link:
["http://www.ibsl.gov.lk/insurance-legislation.html"](http://www.ibsl.gov.lk/insurance-legislation.html)

Yours faithfully,


Ranil Angunawela
Director Legal