



LMFPA News Bulletin – March 2013

LMFPA appoints Mr. M. M. Attanayake as President for 2012/2013

Following the resignation of Mr. Channa Jayatilleke from LMFPA Presidency, the board of management appointed Vice President Mr. M. M. Attanayake as the Interim President for the period 2012/2013. Mr. Attanayake, CEO of Lak Jaya Microfinance, has experience of 36 years in the Central Bank of Sri Lanka during which he held the position of Director in several departments. Representing the Central Bank he has served as Executive Chairman of Nuwara Eliya Regional Development Bank, (1988-1988); and Adviser to the SME Bank. He also served in Microfinance project implemented by UNDP in Papua New Guinea (1993-1995) as Chief Technical Officer. His expertise runs across many fields including Economics, Regional Development, Rural Credit, Micro, Small and Medium Enterprise Financing. He holds Master of Economic Degree from Monash University, Australia, Post Graduate Diploma from Vidyodaya University and B.A (Hons.) from University of Sri Lanka and served as visiting lecturer in universities in Sri Lanka, He is an expert trainer in Microfinance who can bring insights to developing the capacities of member organizations.

Micro Insurance in Sri Lanka

In theory Micro Insurance is a powerful tool against to cover the risks that poor people face and it is critical in providing Micro credit. However in practice, there's very little empirical evidence to prove whether poor people have benefitted from micro insurance. On the demand side it's important to assess under what circumstances does Micro Insurance benefit and how to increase the impact of Micro Insurance on poor households. The viability of Micro Insurance on a larger scale is still a question unanswered hence it is crucial to identify ways to make it viable and channel resources appropriately. On the supply side, the aggressive nature of many insurance agents trying to sell insurance products may be not appropriate with the targeted clientele of microcredit. Therefore it is important to have a simplistic nature for Micro Insurance products as the same manner as Micro credit products.

The advantages of implementing Micro Insurance accrue to three parties; the client, the MFI and the Insurer. The advantages to the client include access to a formal insurance cover, risk mitigation, guarantee on loan repayment in the event of death or permanent disability of borrower, family cover for both breadwinner and spouse and the coverage of loss of income during hospitalization. On the MFI's side it has security on its loan portfolio which minimizes the risk of unsecured loans. The MFI can also earn extra income on commission and profit sharing on marketing insurance products. Micro Insurance will also serve as a value added service for the clients. Since Micro Insurance is new to the market, insurance providers too can enjoy benefits they have a potential clientele for their mainstream products. It also increases the insurer's credibility and visibility through such outreach. Another advantage for the insurer is less administration costs as this is predominantly handled by the MFI.

Similar to the advantages, the disadvantages were also identified at the same three levels. Most of the clients of MFIs are not properly educated hence their literacy on finances are very poor. Their awareness on insurance could also be less or non existent. The insurance premiums on top of the loan repayments could be seen as an extra cost for the clients. The complicated documentation on insurance agreements can also be a turn off for many clients. The MFIs too have challenges. They will have extra work for their existing field staff to market the insurance products. The staff's knowledge on micro insurance is crucial hence there's an extra cost on the MFIs to build the capacity of their staff on the micro insurance products. The challenges that an insurance provider face are simplifying the industry jargons to accommodate the less educated masses, the lack of experience in working with low income communities and the total dependence on the MFIs on the collection of premiums and claims.



Discussion with Chairperson of Insurance Board of Sri Lanka Mrs. Indrani Sugathadasa

**Training of Trainers
Programme on Financial
Competency & Life Skills
Improvement**

Ensuring social performance requires client empowerment. Client empowerment can only be done through capacitating them to take informed decisions all the time. A client's ability to take financial decisions will determine the degree of financial inclusion. In fact the sole purpose of microfinance is effective and suitable financial inclusion. Financial literacy and competency is one of the key determinants of financial inclusion. **Financial**

All in all, the benefits of Microfinance are universally acknowledged and the practice of microfinance is already common in developing countries. In comparison however, micro insurance which has the potential to significantly aid millions of poverty stricken people, has received limited attention in Sri Lanka. Therefore LMFPFA held discussions with the Insurance Board of Sri Lanka (IBSL) this month to address this issue by creating more awareness on micro insurance among Microfinance Institutes.

competency is defined as the extent to which an individual, family and community engage in their financial roles and make financial decisions with competence and confidence. Also financial competency has both a knowledge component (i.e., individuals' performance on objective tests of financial knowledge) as well as a confidence component (i.e., individuals' self-reported knowledge, abilities, and efficacy related to financial matters). Thus LMFPFA is already undertaking some strong initiatives to improve the financial literacy among the clients of MFIs under the client protection principle implementation. Plan Sri Lanka's Financial Competency and Life Skills Program is seen as a balanced approach to see the social, economical and environmental factor through the lens of financial value. Thus it includes financial, economical, social and environmental costing. Therefore LMFPFA will be collaborating with Plan Sri Lanka to train the MFIs on Financial competencies and life Skills program which is scheduled to take place in May 2013.

Promotion of Mobile Banking in the Microfinance Industry

Following our previous article on Microfinance & Mobile Banking, LMFPFA took the initial steps to create a conducive environment for same. The EZ Cash service initiated by Dialog Axiata is fast becoming an invaluable tool which allows customers to perform financial transactions using their mobile phones anytime and anywhere. Therefore LMFPFA has identified this type of service can be greatly beneficial to the Microfinance sector in Sri Lanka. Initial discussions were held with Dialog Axiata during this month to explore the possibilities of integrating such system into MFI operations. LMFPFA looks forward to create more awareness about this system among its members and stakeholders through its upcoming discussion forums.

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