



Perfection In Regulation...

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Perfection In Regulation...

While regulatory requirements in keeping with developments in the industry brought about changes, we remained focused on our vision of reaching the status to be the benchmark insurance regulator in Asia.

The year 2013 signalled a new direction in insurance regulation, with the transition from a Rule Based Capital regime to a Risk Based Capital (RBC) regime.

The conducive macroeconomic environment and the streamlined regulatory approach assisted the insurance industry to sustain its growth momentum.

Accordingly, the road map is clear for our next years and we are confident of surging ahead towards our goals.

Vision

To be the benchmark Insurance Regulator in Asia.

Mission

To protect policyholders' interests whilst regulating, supervising and facilitating the development of the insurance industry.

Highlights of the Year

- 21 Insurance Companies
- 59 Insurance Brokers
- 38,896 Insurance Agents
- Insurance awareness reached 690 Grama Niladhari Divisions
- RBC Road Test completed and Framework finalized
- Commencing of Segregation Process

Performance of Insurance Industry

	2013	2012	Change %
Gross Written Premium (Rs. billions)	94.48	87.17	8.39
Total Assets (Rs. billions)	356.56	315.82	12.90
Penetration as a % of GDP	1.09	1.15	(5.22)
Insurance Density (Rs.)	4,612.76	4,288.23	7.57

Performance of the Board

	2013	2012	Change %
Policyholders' Protection Fund (Rs. billions)	1.78	1.62	9.9
Cess Income (Rs. millions)	245.74	236.53	3.9
Annual Fees (Rs. millions)	70.08	61.04	14.8

Rs. 356.56 Bn.

Total Assets of Insurance Industry

Rs. 94.48 Bn.

GWP of Insurance Industry

Chairperson's Message

“ The transition from a Rules Based Capital Regime to a Risk Based Capital (RBC) model was one of the important regulatory measures that the IBSL engaged in during the year under review ”



A sound regulatory and supervisory system is essential for maintaining a fair, safe, stable and efficient Insurance Industry which will lead to its growth and sustainability. We, the Regulator, remained focussed on our long-term strategic objectives to ensure we move towards fulfilling our vision “To be the benchmark Insurance Regulator in Asia”.

I am content with the progress made in the Insurance Industry in the year 2013. As the Regulator of the Insurance Industry, we strive to be the market enabler, committed to facilitating both the healthy development of the Industry and the protection of policyholders.

Conducive Economic Environment and Industry Performance

The sound knowledge and understanding of macroeconomic fundamentals is an essential background for effective business operations, including the Insurance Industry. The Sri Lankan economy grew by 7.2% in 2013, putting the country back on the higher growth trajectory, and it is envisaged to achieve a higher economic growth in the next 2–3 years with the accelerated development programmes implemented throughout the country. This augurs well for the Insurance Industry.

It was also a remarkable achievement to maintain the headline inflation to a single digit for over 5 years. The inflation level was at its lowest in December 2013 at 4.5%. This would result in increased disposable income of the average citizen, a welcome presage for the Insurance Industry. In addition, the Per Capita Income increased to \$3280 in 2013 which has a direct, positive bearing on our Industry.

In 2013, the Insurance Industry was able to achieve an overall Gross Written Premium (GWP) of approximately Rs.94,485 million (US\$730 million approx.) from life and non life insurance businesses recording a growth of Rs.7,312 million in absolute terms.

Further, there was a significant growth in the Total Assets of Insurance Companies during the last four years. In 2013, the total assets of the Insurance Companies had increased by Rs. 40,749 million in absolute terms than in the previous year.

Key Achievements

The transition from a Rules Based Capital Regime to a Risk Based Capital (RBC) model was one of the important regulatory measures that the IBSL engaged in during the year under review. In mid 2013, we were able to conclude the “Road Test”

Chairperson's Message

of the draft RBC framework which commenced in September 2012 with the participation of Insurance Companies. In the meantime, we organized an International Seminar on RBC, in collaboration with the Asia Insurance Review and another seminar with World Bank assistance to assist the industry in building required skills and capabilities, in addition to enhancing the supervisor's regulatory oversight. Based on the analysis of the concluded Road Test results and the industry feedback, the RBC framework was finalized and issued to the industry on time, enabling them to participate in the parallel run during the next 2 years.

With regard to the requirement of segregation, the 12 composite insurance companies submitted their proposed models for segregation following the guidelines prepared jointly by the IBSL and the industry representatives. IBSL has started analyzing the proposals in the light of policyholder protection and transparency with a view to registering newly created Insurance Companies. In the process of segregation, the Insurance Companies anticipated a substantial tax impact and we were successful in lobbying to obtain relief. On the request made by the IBSL to the Secretary, Ministry of Finance and Planning, our proposal to grant a tax exemption to the Companies which were supposed to be segregated was included in the Budget Proposals for 2014. This was undoubtedly a great relief to all relevant Insurance Companies.

With regard to policyholder's protection, we pay special attention to the numerous complaints we receive from policyholders and public. We strive to resolve them and give a redress whenever possible. To facilitate and formalize the procedure, a Complaint Handling Manual was prepared and introduced during the year.

We also expanded the market development and awareness creation activities from Divisional Secretariat to District Secretariat level, broadening the outreach and coverage in order to cater to a larger spectrum of the general public. These programmes were extremely successful due to the tremendous support given by the Divisional Secretariat and other public officials at rural levels.

The Organization Structure of the IBSL including internal administration was redesigned in 2013 in order to achieve optimal results from operations and improve overall efficiency.

Challenges and Way Forward

Enhancing insurance penetration has been a challenge since the beginning of the Insurance Industry and continues to be a challenge in countries like ours, which are categorized as developing economies. Despite the phenomenal GWP and asset growth, insurance penetration in Sri Lanka (as a percentage of GDP) still remains low at 1.10%. The studies reveal that only around 12% of the population has insurance covers. The industry is yet to reach the masses in rural and semi urban areas where approximately 75% of the population

resides, with appropriate products and effective distribution channels. Therefore, a vast potential exists to increase penetration in the country with a 20 million population.

Expanding micro insurance is an area of focus for the industry to enhance their growth as well as to provide security to communities who are most in need of insurance. Although there are few Insurance Companies which provide micro insurance products, the coverage is not adequate where inclusiveness is concerned.

In this context, the IBSL has gathered information related to existing micro insurance providers and available products in the formal and non formal sectors within the country as well as in other countries. Plans have already been made to bring all these groups together at one forum and with their feedback and participation, formulate a policy and action plan to formalize and regularize the micro insurance sector in Sri Lanka.

We will continue implementing the awareness raising programmes island-wide aimed at enhancing knowledge and awareness on "insurance" among the general public. It is really a challenge to convince policyholders that it is of utmost importance to be aware of the policy conditions before the product is purchased.

The IBSL has issued a Direction (No.2/2013) to all Insurance Companies on timely supply of policy documents to policyholders and obtaining an acknowledgement within a week. However, there is no guarantee that all policyholders go through the document carefully until or unless a problem arises regarding a claim. In our future awareness programmes, more emphasis will be given to this aspect.

2013 has been a successful year and we are confident that 2014 will be even better. Our focus and roadmap for 2014 is very clear.

I appreciate the unstinted guidance of the Secretary, Ministry of Finance & Planning and the valuable contribution and support of the Members of the Board. I also thank the industry stakeholders, including the Insurance Association of Sri Lanka, for their cooperation and the cordial relationship maintained with us.

I also take this opportunity to express my sincere thanks to the dedicated staff of the IBSL, including the former Director General and Director Investigation, for their invaluable contribution during the year. I am confident that the team is fully geared to execute the strategies of the IBSL in the near future.

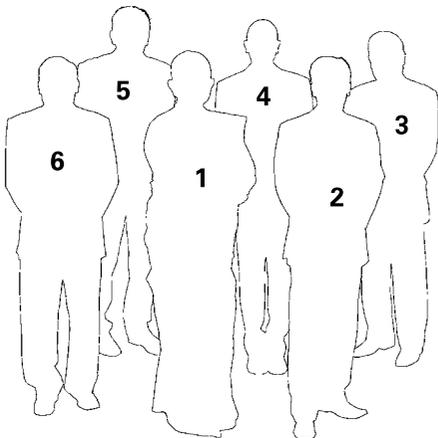


Indrani Sugathadasa

Chairperson

3rd November 2014

Members of The Board



1. Mrs. Indrani Sugathadasa
Chairperson

2. Mr. B. D. W. Ananda Silva
Member

3. Mr. Nalin Attygalle
Member

4. Mr. Samantha Kumarasinghe
Member

5. Mr. S. R. Attygalle
Member

6. Mr. D. N. R. Siriwardena
Member

Profiles of Members of the Board

Mrs. Indrani Sugathadasa has held the position of Chairperson of the Board since May 2010. A product of Musaeus College, she entered the University of Colombo and graduated with a Bachelor in Social Sciences. She is also a holder of a Masters (MBA/MPA) from Monash University, Australia. She was awarded the prestigious Hubert H. Humphrey Fellowship (Fulbright) by the Government of the United States and was attached to the City University of New York during the Fellowship period.

Mrs. Sugathadasa embarked on her career as a member of the Sri Lanka Administrative Service (SLAS) in 1977 at the Ministry of Plan Implementation. Her illustrious career of over 35 years in the public sector includes positions of Director, National Youth Services Council; Director, Women's Bureau; Secretary, Ministry of Child Development and Women's Empowerment; Secretary, Ministry of Plantation Industries and Chairperson, Securities and Exchange Commission.

Mrs. Sugathadasa has represented Sri Lanka in several Delegations to foreign States and has participated in many International Forums.

At present, she is a member of the Board of Directors of the National Development Bank PLC and Kalubowitiyana Tea Factory Limited. She has also served on the Boards of the Board of Investment, Export Development Board, Sri Lanka Tea Board, Central Environment Authority, Foreign Employment Bureau, National Youth Council, National Institute of Plantation Management and the Research Institutes of Tea, Rubber and Coconut.

Her contribution to the public service and leadership in numerous sectors in the country has been recognized through a number of accolades, including the Australian Alumni Excellence Award in 2013.

Mr. S. R. Attygalle is a Senior Economist of the Central Bank of Sri Lanka and has also served as a Director and Acting Chairman of National Savings Bank and a Director to the Board of Bank of Ceylon. He served as the Director General of Department of Fiscal Policy and the Director General of Department of Public Enterprises of the Ministry of Finance and Planning till the end of 2011.

He is presently a Deputy Secretary to the Treasury. He is also serving as a Director to the Board of National Savings Bank, a Member on the Board of University Grants Commission and the Board of Management of the Superior Courts Complex. Mr. Attygalle holds a Bachelor of Science (B.Sc.) Degree in Mathematics from the University of Colombo and a Masters Degree in Economics from Warwick University, United Kingdom.

Mr. B. D. W. Ananda Silva has been in the Central Bank for 31 years and has worked in Development Finance Department, Economic Research Department and Bank Supervision Department. In his 31 year career in the Central Bank, Mr. Silva has acquired wide experience in the areas of monetary policy, bank supervision, financial system stability, exchange rate policy, external trade and balance of payments. He is presently a Deputy Governor of Central Bank of Sri Lanka. He holds a B.Sc. First Class Degree from the University of Jaffna, a M.A. Degree from University of Iowa, USA and a M.Sc. Degree from University of Illinois, USA. He has been a visiting lecturer at the University of Colombo and a resource person for several high level courses conducted by the Central Bank.

Mr. Silva currently serves as the Chairman of Credit Information Bureau of Sri Lanka, Chairman of Institute of Bankers of Sri Lanka, Member of Securities and Exchange Commission of Sri Lanka, Member of Insurance Board of Sri Lanka, Director of Api Venuven Api Fund, a Member of the Quality Assurance Board of Institute of Chartered Accountants of Sri Lanka and a Director of West Coast Power (Pvt.) Ltd.

Mr. D. N. R. Siriwardena obtained a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a law degree (LL.B) from the Open University of Sri Lanka and a registered student in the LL.M Degree program conducted by the University of Colombo. He is an Attorney at Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988 as a Companies Inspector and was promoted to Assistant Registrar of Companies in 2001. He has been appointed as the Registrar General of Companies (Cover up duty). Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accounts of Sri Lanka and also an ex-officio member of the Securities and Exchange Commission of Sri Lanka.

Profiles of Members of The Board

Mr. Samantha Kumarasinghe a chemistry graduate from University of Peradeniya and an Alumnus of Harvard Business School of Boston, USA, started his entrepreneurial career in 1993.

He has many pioneering projects to his credit, including Nature's Secrets, Sri Lanka's No.01 herbal cosmetics brand which he plans to build to a global brand. He was awarded the coveted Entrepreneur of the Year Award for 2007 and served as a member of the Presidential Taxation Commission in the year 2009/2010.

Mr. Nalin Attygalle is a corporate expert and a veteran marketer with over 30 years of experience in private and public sector institutions. As a marketing and management consultant, as a trainer and as a lecturer, he has been involved in different areas of work ranging from Consumer durables, Electronics, Industrial goods, FMCG and services sector. Also he has conducted many successful corporate planning and strategic planning workshops to public and private sector institutions.

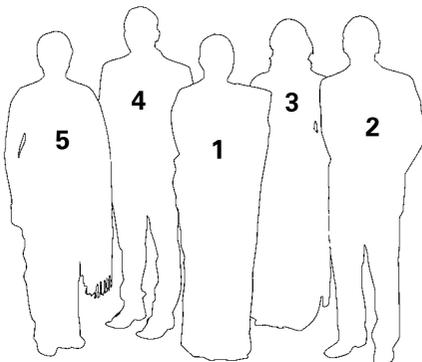
He was the chairman of Nuclear Entrepreneur Foundation (NEF), Council member of University of Colombo, senior council member of FCCISL, Past President of Sri Lanka Institute of Marketing (SLIM), Chairman - National Sports Council of Sri Lanka, Council member of University of Visual & Performing Arts, Board member of Family Planning Association, Chairman, Social Marketing Project of Family Planning Association, CEO of Hambantota 2018 (Pvt) Ltd, National Project Director, EU, OXFAM-GB funded project and Chief Consultant for EXPO 2012 initiated by Export Development Board (EDB).

At present he serves as a Member of Tertiary and Vocational Training Commission (TVEC), Member of Sri Lanka Accounting & Standards Institution, Secretary General/CEO of Federation of Chamber of Commerce & Industries of Sri Lanka-FCCISL and a Management Consultant & Marketing Specialist.

First ever Presidential Awards for Travel & Tourism, First ever International Boat Show - Sri Lanka, First ever South Asian Port Games-SAPOG and South Asian Games-SAG are some of the land mark events in Sri Lanka led by him as an overall event management specialist using his management expertise.

He was the Chairman Panel of Judges and also served as a member of several panels namely, Presidential Awards for Travel & Tourism (PATT), National Exports Awards (NCE), Sri Lankan Entrepreneur of the year (FCCISL), National Awards for Licensed Foreign Employment agencies (SLBFE), National Food Awards (SLFPA), National Quality Awards (SLSI), Women Entrepreneur of the year and many other such events.

Senior Management Team



1. Mrs. Damayanthi Fernando
(Director General)

2. Mr. Nihal Ramanayake
(Director Supervision)

3. Mrs. Chamarie Ekanayake
(Assistant Director Supervision)

4. Mr. Rajan Nirubasingham
(Assistant Director Legal)

5. Mrs. Chaya Withanawasam
(Director Finance and Administration)

Staff Members



Front Row

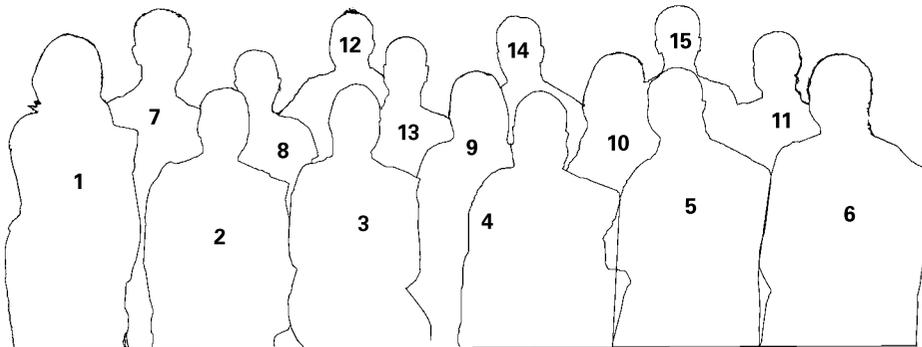
1. Mrs. Kaushali Dayaratne
2. Mrs. Kokila Siriwardana
3. Miss. Thushari Wijegunawardana
4. Mrs. Priyangi de Silva
5. Mrs. Lakmali Algama
6. Mrs. Pavithra Punchihewa

Middle Row

7. Mr. Kapila Thilakarathne
8. Mrs. Veena Dineka
9. Mrs. Chandima Kamburugamuwa
10. Miss. Upalakshi Ranasinghe
11. Mrs. Upendra Senevirathna

Back Row

12. Mr. Ethirraj Srikanthan
13. Mr. Chaminda Lal Kumara
14. Mr. H. P. Asanka
15. Mr. Sanath Udayanga



Staff Members



Front Row

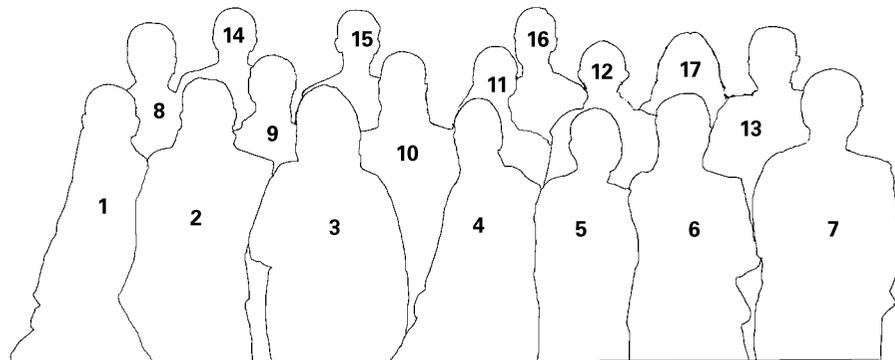
1. Mr. Bimsara Wijesinghe
2. Mrs. Shyamalie Attanayake
3. Mrs. Chathuri Bandara
4. Mrs. Lasanthi Thothahewa
5. Mrs. Thilini Wakista
6. Mrs. Ruvini Liyanage
7. Mrs. Decika Rathnayake

Middle Row

8. Mr. Luxman Wijesinghe
9. Mrs. Thanuja Antony
10. Mrs. Malhari Wickramasinghe
11. Mrs. Sashini Wathsala
12. Mrs. Sarika Watthuhewa
13. Mr. Saman Senadeera

Back Row

14. Mrs. Sujeewa Ranasinghe
15. Mr. Lakmal Kalubowila
16. Mr. Charitha Wickramasinghe
17. Mrs. Shanika Nanayakkara



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General Review

Administration of the Act

Legislation

The object and responsibility of the Board is to ensure that insurance business in Sri Lanka is transacted with integrity and in a professional and prudent manner with a view to safeguarding the interests of policyholders and potential policyholders.

The Regulation of Insurance Industry Act No. 43 of 2000 ("Act") provides the relevant legal framework for the regulation and supervision of insurance companies, insurance brokering companies, insurance agents and loss adjusters.

Many amendments have been made to the subordinate legislation promulgated under the Act during the year as described in the Regulatory Review of this report.

Market Structure

Insurers

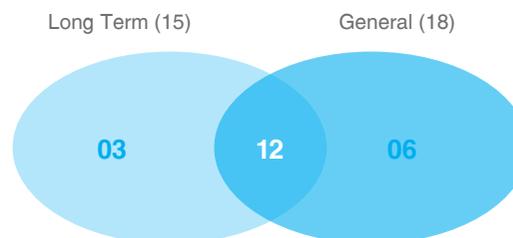
According to Section 12 of the Act, subject to the provisions of the Act, no person shall carry on insurance business in Sri Lanka unless such person is for the time being registered or deemed to be registered under the Act to carry on such business.

According to Section 13 of the Act, a person interested in engaging in insurance business in Sri Lanka should incorporate a public company under the Companies Act, No. 7 of 2007 and register as an insurer under the Act after having fulfilled all statutory requirements specified in the Act.

22 companies were registered as insurers under the Act as at the end of the year. However, only 21 companies were in operation and the suspension of registration imposed on Ceylinco Takaful Limited continues from 2009. Chart 01 depicts the classes of insurance business insurance companies are carrying on. Out of the 21 insurance companies in operation, 12 companies are registered as composite insurers, carrying on both long term insurance business and general insurance business, 3 companies are registered to carry on long term insurance business and 6 companies are registered to carry on general insurance business.

Chart 01

Classes of Insurance Business Carried on by Insurers



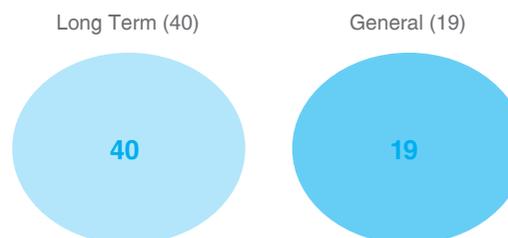
Insurance Brokers

An insurance broker is a company incorporated under the Companies Act, No. 7 of 2007 and registered under the Act to carry on insurance brokering business. Insurance Brokers function as intermediaries for the placing of insurance business for or on behalf of an insurer, a policyholder or a proposer for insurance or reinsurance, with an insurance company or a reinsurance company, in expectation of a payment by way of brokerage or commission.

59 companies were registered as insurance brokers at the end of the year. Out of the said companies, 40 companies are registered in both long term and general insurance brokering business while 19 companies are registered only in general insurance brokering business. Chart 02 depicts the classes of insurance brokering business insurance brokers carried on during the year.

Chart 02

Classes of Insurance Brokering Business Carried on by Insurance Brokers



General Review

Insurance Agents

Insurance Agents are individuals registered with an insurer or an insurance broker registered under the Act, and who in consideration of a commission solicits or procures insurance business for such insurer or insurance broker. Qualifications for registration have been specified by the Board.

The Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 ("Amendment Act") permits persons other than individuals to function as insurance agents and Rules have been drafted to specify the qualifications for registration.

As per Section 34 of the Act, insurance agents are one of the important distribution channels in which insurers procure insurance business.

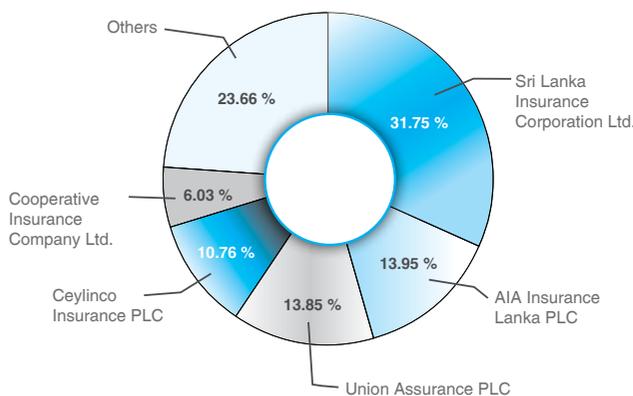
As per information given by insurers, the total number of individuals recruited as insurance agents during the year were approximately 15,606, a 23.82% increase from the previous year (12,604).

Total number of insurance agents representing insurers as at the end of year were approximately 38,635, a 4.98% increase from the previous year (36,801).

Chart 03 depicts insurance agents registered with insurance companies.

Chart 03

Insurance Agents Registered With Insurers



There were approximately 261 insurance agents registered with insurance brokering companies for the year 2013.

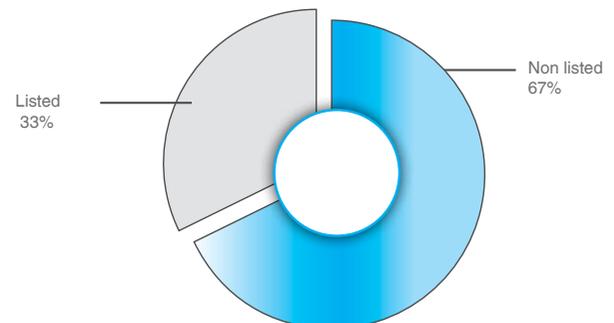
Accordingly, total number of insurance agents for the year 2013 were approximately 38,896.

Company Status and Changes in Capital

Out of the insurers, carrying on business, 7 companies are listed on the Colombo Stock Exchange namely, Ceylinco Insurance PLC, AIA Insurance Lanka PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC and Janashakthi Insurance PLC. Chart 04 depicts the percentage of listed and non-listed insurers.

Chart 04

Status on 'listed/non listed' insurers



The Amendment Act requires an existing insurer to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 on or before February 2016. Composite insurance companies would therefore, have to segregate its business into two separate companies on or before February 2015 prior to obtaining a listing.

The Board is working closely with the Insurance Association of Sri Lanka to facilitate a smooth process for segregation.

A new company registered as an insurer after the Amendment Act came into effect is required to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 within a period of three years of being issued a licence by the Board.

The paid up share capital of a company registered as an

General Review

insurer prior to June 2011 is required to be increased by the Board to a minimum of Rupees Five Hundred million, for each class of insurance business on or before 11th February 2015.

Insurance companies registered subsequent to June 2011 have a paid up share capital not less than Rs. 500 million.

The Board is also in the process of introducing the Risk Based Capital Rules for insurers. These Rules will replace the current Solvency Margin Rules and will be mandated to comply from year 2016 onwards.

In the case of insurance brokers, the Board requires a company registered as an insurance broker to have a paid up share capital of not less than Rupees Two million Five Hundred Thousand on or before 31st December 2014.

Levy of a Cess from Insurers

In terms of Section 7 of the Act, an order was made by the Hon. Minister of Finance and Planning for the levy of a Cess for the creation of a Policyholders' Protection Fund. By Gazette Notification No. 1244/5 on 9th July 2002 it has specified 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business to be credited to the Policyholders' Protection Fund. The collection of the Cess from insurers commenced with effect from January 2003 and the amount of Cess collected for the year 2013 was Rs. 246 million. Table 01 depicts the movement of the Cess and the Policyholders' Protection Fund.

Policyholders' Protection Fund

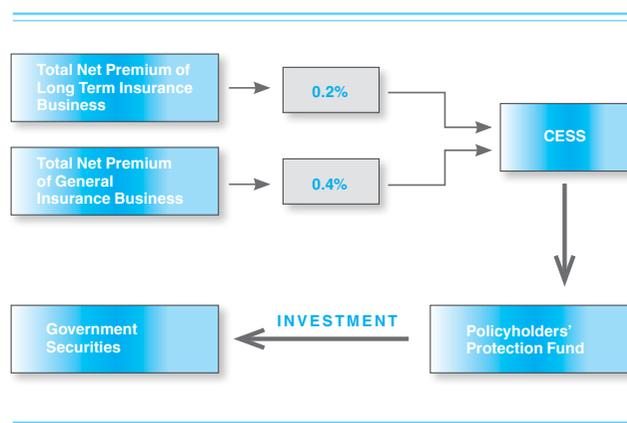
The Cess collected from insurers is deposited into the Policyholders' Protection Fund, established in terms of Section 103 of the Act. This Fund is utilized, inter alia, for the following purposes in so far as it would be for the benefit of the policyholders and potential policyholders :

- defraying the expenditure incurred in creating awareness of the insurance industry amongst the public and other expenditure incurred in the development of the insurance industry; and
- defraying the expenditure incurred by the Board in the exercise, discharge and performance of its powers, functions and duties.

The amount lying to the credit of the Policyholders' Protection Fund is invested in government securities. The accumulated amount in the Fund as at 31st December 2013 is Rs.1,778 million, a 9.62% increase from the previous year (Rs 1,622 million).

Table 01

Cess and the Policyholders' Protection Fund



Insurance Tariff

There are no tariffs at present on any class of general insurance business. Tariffs which existed for motor insurance, fire insurance and workmen's compensation insurance were de-tariffed with effect from 1st January 2002, 2005 and 2007 respectively.

Exemptions to the Application of the Act

According to Section 12(3) of the Act, provisions of the Act does not apply to the Agriculture and Agrarian Insurance Board established under the Agriculture and Agrarian Insurance Act No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978 and the Social Security Board established under the Social Security Board Act, No. 17 of 1996.

National Insurance Trust Fund (NITF)

The National Insurance Trust Fund Board established by the National Insurance Trust Fund Act No. 28 of 2006 (NITF Act) was brought under the purview of the Board by the Amendment Act.

General Review

In terms of the NITF Act, the NITF absorbed the Strike, Riot, Civil Commotion and Terrorism Fund maintained by the Ministry of Finance and Planning. Insurers issuing insurance covers against strike, riot, civil commotion and terrorism risks on behalf of the NITF are required to remit premiums collected on same to the NITF.

The Act as amended by Act No. 27 of 2007 requires all registered insurers to reinsure in respect of general insurance business a percentage not exceeding 50% of the liability sought to be reinsured with NITF. In terms of the above provision, an order has been made by the Hon. Minister of Finance & Planning directing all insurers to cede a percentage of all types of Reinsurance Treaties and Facultative Reinsurance arrangements to NITF. This percentage was increased from 20% to 30% with effect from 1st January 2013.

Other Related Matters

National Council for Road Safety (NCRS)

The National Council for Road Safety established under the Motor Traffic Act is under the purview of the Ministry of Transport. Every insurer providing motor insurance cover is required to contribute 1% of third-party insurance premiums to the Road Safety Fund created under the NCRS. The Board is represented on the Board of NCRS.

Inter Regulatory Institutions Council (IRIC)

The Inter Regulatory Institutions Council was established by the Central Bank of Sri Lanka (CBSL). This high-level committee chaired by the Governor of the CBSL was set up to ensure that appropriate policy directions are set out for orderly development of financial markets, and that all financial regulatory agencies co-ordinate and exchange information in the interests of the entire financial system. The Board is represented on the IRIC.

Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka (IASL) was established in 1989 and every insurer registered under the Act is eligible for membership. All insurers other than NITF are members of IASL.

The Executive Committee of IASL which comprises of CEOs of all insurance companies is responsible for the overall

management of Association activities, and is assisted by the following committees which make recommendations to the Executive Committee on subjects relating to their respective areas :

- Life Insurance Forum
- General Insurance Forum
- Finance Technical Sub-Committee
- Legal Advisory Forum
- HR Sub Committee
- IT Sub Committee
- Marketing and Sales Forum

The main objectives of IASL are to:-

1. Bring together all insurers in order to afford opportunities for consultation and co-operation in matters affecting the common interests and welfare of its members and the insuring public.
2. Promote and maintain uniform / sound practices and high ethical standards so as to develop confidence among the insuring public.
3. Build awareness regarding the need and value of insurance among the public.
4. Monitor legislative / regulatory requirements and make representations to the relevant authorities in order to ensure stability and growth in the industry.
5. Review and examine insurance practices and techniques in other countries and adopt best practices as applicable to the Sri Lankan market.
6. Encourage, actively assist and promote professionalism in the insurance industry through education and training by organizing and conducting classes, conferences, seminars, forums, consultations, workshops and meetings.

Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association (SLIBA) is the only Association of insurance brokers that has been approved by the Board. In terms of Section 79 of the Act, it is mandatory that all applicants seeking registration as insurance brokers obtain membership of this Association prior to registration as an insurance broker by the Board. The members are subject to a code of conduct adopted by SLIBA.

General Review

The main Objectives of SLIBA are:

To create awareness of the insurance broker's role to the public;

To enhance the technical knowledge of fellow members and build a high level of competency and professionalism;

To encourage and help members to follow insurance courses and obtain professional qualifications;

To maintain goodwill and mutually beneficial relationships with the Regulator, insurers and the public.

Sri Lanka Insurance Institute (SLII)

The Sri Lanka Insurance Institute (SLII) which was established in 1982 is a non-profit making organization whose main objective is to develop the skills and knowledge of persons who are in the insurance business. Funding for SLII is through contributions made by insurers and annual subscriptions from its members.

The main objectives of SLII are:

To provide and maintain a central organization for the promotion of efficiency, progress and general development among persons engaged or employed in insurance, whether members of the SLII or not, with a view not only to their own advantage but to rendering the conduct of such business more effective, and to instill and maintain professionalism in the industry;

To conduct courses leading to Diploma and Certificate qualifications in order to develop knowledge on insurance. Conduct examinations to encourage and assist the professional study of any subject bearing on any branch of insurance through any recognized educational institutions;

To hold conferences and meetings for the discussion of professional affairs, interests and duties, the reading of papers and delivery of lectures; to compile lists, registers and records of events and proceedings of interest to the members;

To exercise professional supervision and control over the members of SLII to safeguard their interests and welfare, to further their advancement, and to promote whatever may lead to the improvement of the status of insurance officials in general and the members of SLII in particular;

SLII is affiliated to the Chartered Insurance Institute of London and administers the examinations of professional bodies such as the Chartered Insurance Institute in London, Insurance Institute in India and the Actuarial Society of India. The Institute conducts short term Diploma Courses in insurance for persons employed in the insurance industry;

The Board has entrusted the institute with the responsibility for conducting the pre-recruitment tests for persons who wish to be appointed as insurance agents. The Institute continues to conduct pre-recruitment tests in respect of both classes of insurance business.

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors (IAIS), the Board regularly receives publications, guidelines such as insurance core principles, and information on the activities of IAIS. Some of the core principles recommended by the IAIS are adopted by the Board for effective supervision and monitoring of the insurance industry in Sri Lanka.

Statistical Review

An overview of the Insurance Industry

During the year 2013, Sri Lankan economy performed well with a growth of 7.3% and noticed a rise in per capita GDP from Rs. 372,814 (USD 2,922) to Rs. 423,467 (USD 3,280) year on year. Performance of the insurance industry continued to improve in 2013, despite the various challenges it faced.

In 2013, there were 21 players operating in the insurance industry including National Insurance Trust Fund (NITF). As depicted in Table 01, total gross written premium (GWP) generated by the insurance companies amounted to Rs. 94,483 million compared to previous year GWP of Rs. 87,171 million. As confirmed by the insurance companies, SRCC and T premium belonging to NITF amounted to Rs. 3,107 million and with same, the cumulative GWP amounted to Rs. 97,590 million in 2013 (2012: Rs. 89,410 million). The insurance industry has recorded GWP growth rate of 8.39% in 2013 compared to 11.06% recorded in 2012.

Long term insurance business recorded premium income of Rs. 41,306 million and grew by 10.22% year on year. In 2013, premium growth of long term insurance business was mainly driven by different underwriting and product strategies, where companies focused on products coupled with investments, savings, and retirements.

As in the past years, general insurance business has led the market with a share of 56.28% of the total GWP. In 2013, general insurance business recorded premium income of Rs. 53,177 million compared to Rs. 49,694 million recorded in 2012. GWP of general insurance business has grown by 7.01% year on year.

Insurance penetration which is expressed as insurance premium, as a percentage of GDP was 1.09 in year 2013. Penetration of long term insurance business was 0.48 in 2013 (2012:0.49) and recorded a slight decline compared to previous year. Although long term insurance business has grown in absolute terms over the last five years; long term insurance penetration was comparatively low due to various reasons such as attitudes of the general public towards insurance, lack of adequate awareness, inefficiencies in policy management etc. Penetration of general insurance business too has witnessed a reduction from 0.66 recorded in 2012 to 0.61 in 2013.

Insurance density, which is stated as the ratio of premium to total population has continuously increased during last five years. In 2013, insurance density was recorded as Rs. 4,613 compared to Rs. 4,288 recorded in 2012.

Table 01

Premium Income & Penetration

	2009	2010	2011	2012(a)	2013(b)
Long Term Insurance (Rs. millions)	24,005	31,152	35,162	37,477	41,306
General Insurance (Rs. millions)	33,548	35,101	43,329	49,694	53,177
Total Premium Income (Rs. millions)	57,553	66,253	78,491	87,171	94,483
Growth Rate in Total Premium (%)	(1.06)	15.12	18.47	11.06	8.39
Gross Domestic Product (Rs. billions)*	4,835	5,604	6,544	7,579	8,674
GDP Growth Rate %*	3.5	8.0	8.2	6.3	7.3
Penetration % (Total Industry Premium as a % of GDP)	1.19	1.18	1.20	1.15	1.09
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.50	0.56	0.54	0.49	0.48
Penetration % (Premium of General Insurance Business as a % of GDP)	0.69	0.63	0.66	0.66	0.61
Insurance Density - (Total Premium Income/ population) (Rs.)	2,814	3,208	3,761	4,288	4,613
Mid Year Population ('000)*	20,450	20,653	20,869	20,328	20,483

* Source: Department of Census and Statistics

(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010

Statistical Review

Total Assets of Insurance Companies

As depicted in Table 02, total assets held by insurance companies amounted to Rs. 356,566 million at the end of year 2013 compared to Rs. 315,817 million recorded at the end of year 2012. Growth rate of the assets continued at 12.90% with the associated growth in the economy. However, growth rate of the assets has considerably reduced in year 2013 compared to the 20.81% growth rate recorded in 2012.

The assets of long term insurance business amounted to Rs. 217,004 million as at 31st December 2013 (2012: Rs. 190,642 million) and the remaining assets of Rs. 146,778 million (2012: Rs. 131,202 million) belong to the general insurance business and shareholders. The assets of long term insurance business and general insurance business have grown by 13.83% and 11.87% respectively year on year. Chart 01 illustrates the total assets and growth rates of assets of insurance industry from 2009 to 2013.

Table 02

Assets of Insurance Companies

	2009	2010	2011	2012(a)	2013(b)
Long Term Insurance (Rs. millions)	118,305	139,647	165,519	190,642	217,004
General Insurance & Shareholders (Rs. millions)	62,740	82,450	100,192	131,202	146,778
Total	181,045	*219,102	*261,412	*315,817	*356,566

*Intersegment transactions (long term and general) of composite insurance companies have been eliminated as per Table 03

(a) Reinstated audited figures

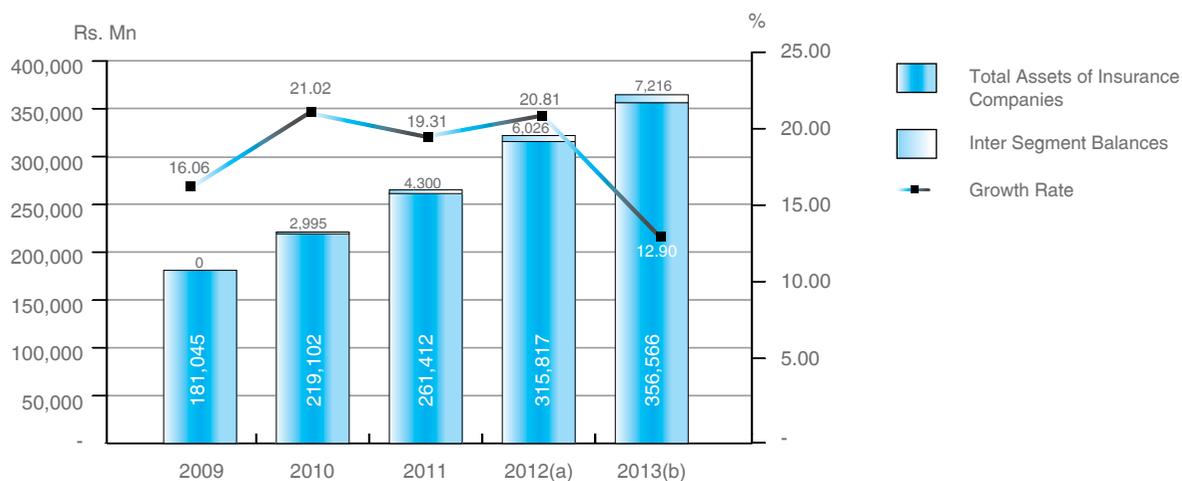
(b) Provisional figures

Notes:

1. Above analysis does not include information of NITF since required information was not submitted to the Board.
2. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010
3. The assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business.

Chart 01

Total Assets and Assets Growth Rate of Insurance Industry



(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

Distribution of Assets of Insurance Companies

Table 03 and Chart 02 illustrate the company wise distribution of assets as at 31st December 2013. Total assets belonging to the insurance companies were Rs. 356,566 million after excluding intersegment balance of Rs. 7,216 million. SLIC remained in the top position by holding Rs. 142,905 million of assets which represented 40.08% of total assets in 2013. As per class of insurance business, SLIC represented 36.98% of assets of long term insurance business and 42.69% of the assets of general insurance business and shareholders.

Ceylinco, was the second largest owner of assets by recording Rs. 81,574 million (22.88%), followed by AIA (Rs. 44,158 million, 12.38%), UAL (Rs. 30,061 million, 8.43%) and Janashakthi (Rs. 18,246 million, 5.12%).

These five insurance companies owned 88.89% of total assets while the remaining 11.11% of assets were owned by the other fifteen insurance companies. Assets of all insurance companies' have increased compared to the previous year and significant growth rates were recorded by Allianz Life (72.06%), Allianz Gen (38.46%) and AIG (36.58%).

Table 03

Company-wise Analysis of Total Assets

Insurer	Distribution of Assets									
	2012 (a)					2013 (b)				
	Long Term Insurance (Rs.'000)	General Insurance & Shareholders (Rs.'000)	Inter Segment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%	Long Term Insurance (Rs.'000)	General Insurance & Shareholders (Rs.'000)	Inter Segment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%
AIA	33,250,987	7,695,830	189	40,946,628	12.97	35,442,431	8,742,090	26,385	44,158,136	12.38
AIG	-	877,850	-	877,850	0.28	-	1,198,947	-	1,198,947	0.34
Allianz Gen.	-	1,970,061	-	1,970,061	0.62	-	2,727,780	-	2,727,780	0.77
Allianz Life	621,738	-	-	621,738	0.20	1,069,784	-	-	1,069,784	0.30
Amana Takaful	799,002	1,437,353	66,277	2,170,078	0.69	1,006,856	1,602,460	44,253	2,565,063	0.72
Arpico	574,549	-	-	574,549	0.18	740,875	-	-	740,875	0.21
Asian Alliance	3,396,594	2,309,537	-	5,706,131	1.81	4,418,928	2,921,100	-	7,340,028	2.06
Ceylinco	47,823,738	25,321,135	4,809,161	68,335,712	21.64	57,204,038	30,853,084	6,483,228	81,573,894	22.88
Continental	-	1,313,231	-	1,313,231	0.42	-	1,415,145	-	1,415,145	0.40
Cooperative	706,116	1,638,413	24,584	2,319,945	0.73	832,844	2,176,431	6,386	3,002,889	0.84
HNBA	3,875,310	3,143,968	-	7,019,278	2.22	4,598,540	3,436,137	-	8,034,677	2.25
Janashakthi	6,854,363	9,580,533	-	16,434,896	5.20	7,553,509	10,692,654	-	18,246,163	5.12
LIC	1,404,322	-	-	1,404,322	0.44	1,666,226	-	-	1,666,226	0.47
LOLC	125,900	1,808,243	3,814	1,930,329	0.61	291,199	2,073,617	6,398	2,358,418	0.66
MBSL	191,718	1,113,219	-	1,304,937	0.41	257,450	1,270,345	-	1,527,795	0.43
Orient	-	928,425	-	928,425	0.29	-	929,206	-	929,206	0.26
People's	-	3,163,419	-	3,163,419	1.00	-	3,853,669	-	3,853,669	1.08
Sanasa	363,054	595,524	-	958,578	0.30	572,540	617,857	-	1,190,397	0.33
SLIC	72,615,041	59,767,334	282,157	132,100,218	41.83	80,245,761	62,659,721	-	142,905,482	40.08
UAL	18,039,393	8,537,445	839,915	25,736,923	8.15	21,103,511	9,607,354	649,778	30,061,087	8.43
Total	190,641,825	131,201,520	6,026,097	315,817,248	100	217,004,492	146,777,597	7,216,428	356,565,661	100

(a) Reinstated audited figures

(b) Provisional figures

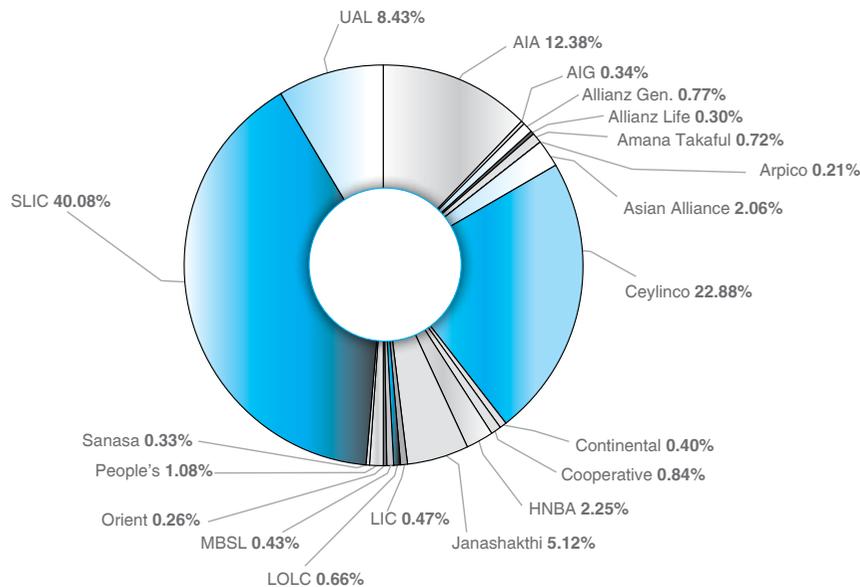
Notes:

1. Above analysis does not include information of NITF since required information was not submitted to the Board.
2. Intersegment balances include amounts receivable from each other segment, i.e. long term and general insurance segments of composite insurance companies.
3. Assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business.

Statistical Review

Chart 02

Company-wise analysis of Concentration of Assets – 31st December 2013



Shareholder's Funds of Insurance Companies

As depicted in Table 04, total shareholders' funds of insurance companies amounted to Rs. 84,407 million as at 31st December 2013 compared to Rs. 74,023 million recorded as at 31st December 2012. This comprised of share capital of Rs. 20,551 million (2012: Rs. 20,137 million) and reserves of Rs. 63,856 million (2012:Rs. 53,886 million).

Total shareholders' funds constituted an increase of 14.03% compared to year 2012 and this was mainly driven by increase in reserves of 18.50%. The majority of shareholders' funds were held by SLIC which represented 51.94% (2012: 54.86%), followed by Ceylinco at 17.81% (2012: 15.57%). Furthermore, shareholders' funds of Ceylinco have increased

by 30.48% in 2013 to Rs. 15,036 million. UAL and AIA owned 5.65% and 5.38% of total shareholders' funds and claimed third and fourth places. Both UAL and AIA, shareholders' funds have increased by 17.37% and 12.97% respectively year on year.

Janashakthi owned 4.77% of total shareholders' funds of insurance companies by recording funds of Rs. 4,028 million (2011: Rs. 3,376 million) and was in the fifth position.

Despite the negative reserves recorded by Allianz life and AIG, shareholders' funds of these companies have increased by 68.86% and 49.48% respectively compared to 2012. Six companies out of twenty companies have recorded negative reserves at the end of year 2013.

Statistical Review

Table 04
Total Shareholders' Funds of Insurance Companies

Insurer	2012(a)		2013(b)			
	Total Shareholders' Funds (Rs.'000)	%	Share Capital (Rs.'000)	Total Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA	4,017,462	5.43	300,000	4,238,450	4,538,450	5.38
AIG	229,339	0.31	536,265	(193,459)	342,806	0.41
Allianz Gen.	780,285	1.05	250,000	624,849	874,849	1.04
Allianz Life	155,105	0.21	592,624	(330,710)	261,914	0.31
Amana Takaful	837,987	1.13	1,250,001	(343,269)	906,732	1.07
Arpico	470,459	0.64	563,000	(46,334)	516,666	0.61
Asian Alliance	1,424,951	1.93	1,062,500	667,214	1,729,714	2.05
Ceylinco	11,523,688	15.57	1,324,822	13,710,905	15,035,727	17.81
Continental	504,078	0.68	500,000	67,276	567,276	0.67
Cooperative	750,943	1.01	632,020	360,945	992,965	1.18
HNBA	1,868,281	2.52	1,171,875	944,741	2,116,616	2.51
Janashakthi	3,376,380	4.56	1,496,000	2,532,491	4,028,491	4.77
LIC	508,724	0.69	500,000	89,632	589,632	0.70
LOLC	586,357	0.79	650,000	65,244	715,244	0.85
MBSL	400,851	0.54	880,724	(481,673)	399,051	0.47
Orient	673,561	0.91	750,000	(69,670)	680,330	0.81
People's	863,002	1.17	600,000	484,881	1,084,881	1.29
Sanasa	377,602	0.51	352,922	63,789	416,711	0.49
SLIC	40,609,497	54.86	6,000,000	37,837,829	43,837,829	51.94
UAL	4,064,678	5.49	1,138,432	3,632,439	4,770,871	5.65
Total	74,023,230	100	20,551,185	63,855,570	84,406,755	100

(a) Reinstated audited figures

(b) Provisional figures

Note:

Above analysis does not include information of NITF since required information was not submitted to the Board.

Statistical Review

Distribution of Total Assets of Major Financial Sectors

As illustrated in Table 05, total assets of major financial sectors were Rs. 10,314 billion at the end of 2013, indicating a growth of 13.72% when compared to assets of Rs. 9,070 billion recorded in 2012. However, there was a reduction in growth rate of assets of these financial institutions in 2013, compared to average growth rate of 17% recorded in last three years. In 2013, other deposit taking financial institutions and specialized financial institutions have recorded growth of 21.76% and 21.10% respectively. In comparison, assets

of banking sector, contractual savings institutions and insurance companies have recorded moderate growth of 12.71%, 13.30% and 12.9% respectively.

As per Table 05 and Chart 03, banking sector reported assets of Rs. 7,187.5 billion which represented 69.7% of total assets of major financial institutions, followed by contractual savings institutions with assets of Rs. 1,637.9 billion. Other deposit taking financial institutions and specialized financial institutions have increased their share in total assets and represented 7.3% and 3.6% respectively. The share of insurance companies was sustained at 3.5%.

Table 05
Distribution of Total Assets of Major Financial Sectors

Financial Sectors	Distribution of Assets									
	2009		2010		2011		2012 (a)		2013 (b)	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	3,832.0	68.2	4,527.3	68.9	5,375.6	69.7	6,377.0	70.3	7,187.5	69.7
Other Deposit Taking Financial Institutions	315.1	5.6	295.0	4.5	427.1	5.5	621.2	6.9	756.4	7.3
Specialized Financial Institutions	265.3	4.7	354.3	5.4	338.8	4.4	310.4	3.4	375.9	3.6
Contractual Savings Institutions	1,022.6	18.3	1,178.7	17.9	1,305.4	16.9	1,445.6	15.9	1,637.9	15.9
Insurance Companies	181.0	3.2	219.10	3.3	261.4	3.4	315.8(a)	3.5	356.6(b)	3.5
Total	5,616.0	100	6,574.4	100	7,708.3	100	9,070.0	100	10,314.3	100

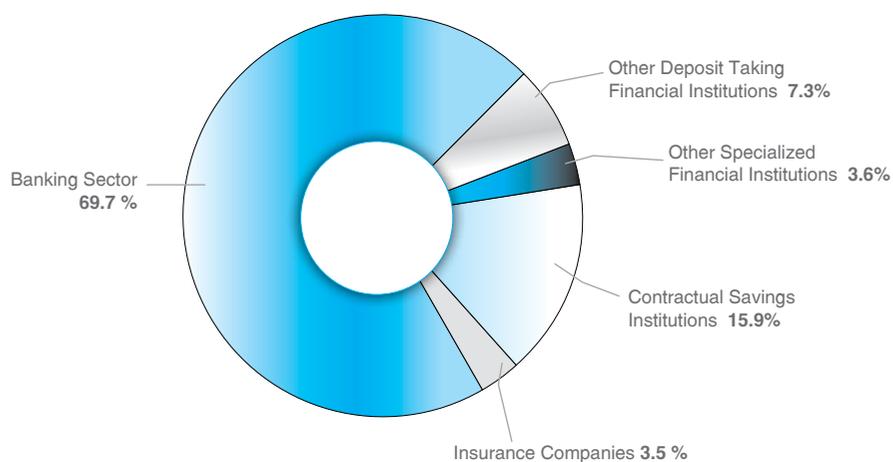
Source: Central Bank of Sri Lanka Annual Report - 2013 (Assets of insurance companies and contractual savings institutions are reinstated based on data received from insurance companies).

(a) Reinstated audited figures

(b) Provisional figures

Chart 03

Distribution of Total Assets of Major Financial Sectors as at 31st December 2013



Statistical Review

Marketing Structure of Insurance Companies

Insurance companies have adopted different strategies to gain their market share. In the recent past, companies have enhanced their scope to market products via e-services especially for products like motor insurance. Further certain companies have derived benefits through group conglomerates while some have focused on areas such as niche segments, micro insurance, etc.

Employees

The insurance industry has immensely contributed to the direct and indirect employment in Sri Lanka. As per Table 06, there were 13,764 (2012: 12,471) employees directly employed in the insurance industry. Majority of employees were located in the Western Province representing 62.58%, followed by the Southern Province (7.60%), Central province (7.49%), and North Western Province (5.44%). All other provinces have recorded employees less than 5% of the total number of employees.

Branch Network

Total number of branches of insurance companies were 1,379 in 2013 (2012: 1,184). This included branches which carried out general (389), long term (466) and composite (524) insurance businesses. Western province continued

to be the dominant market for the insurance industry where 489 branches of insurance companies were located. Further insurance companies have expanded their branch network by adding 195 new branches out of which 99 new branches were located in the Western Province. Other new branches were scattered in all the Provinces by improving accessibility for the policyholders except in Uva Province where there were a reduction in branches from 79 in 2012 to 67 in 2013.

Agents of Insurers

In 2013, 38,635 (2012: 36,801) agents operated in the insurance market. Long term insurance business mainly relied on agents where there were 20,909 agents selling only life insurance products. Further 13,649 agents were involved in selling both life and general insurance products while 4,077 involved in selling only general insurance products.

Chart 04 provides details regarding the number of branches, employees and agents operated in each province as at 31st December 2013.

Table 06

Number of Branches, Employees and Agents as at 31st December 2013 and 2012

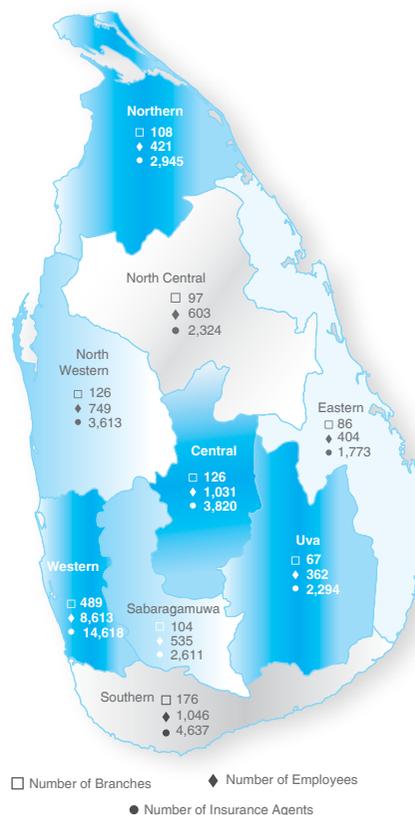
Province	No. of Branches		No. of Employees including employees at Head Office		No. of Agents	
	2013	2012	2013	2012	2013	2012
Central Province	126	112	1,031	800	3,820	3,338
Eastern Province	86	71	404	343	1,773	1,916
North Central Province	97	95	603	540	2,324	2,363
North Western Province	126	116	749	780	3,613	3,592
North Province	108	83	421	364	2,945	2,704
Sabaragamuwa Province	104	95	535	500	2,611	2,257
Southern Province	176	143	1,046	948	4,637	4,080
Uva Province	67	79	362	492	2,294	2,200
Western Province	489	390	8,613	7,704	14,618	14,351
Total	1,379	1,184	13,764	12,471	38,635	36,801

Note:

Above analysis does not include information of NITF since required complete information was not submitted to the Board.

Chart 04

Number of Branches, Employees and Agents as at 31st December 2013



Statistical Review

Distribution Channels of Insurance Companies

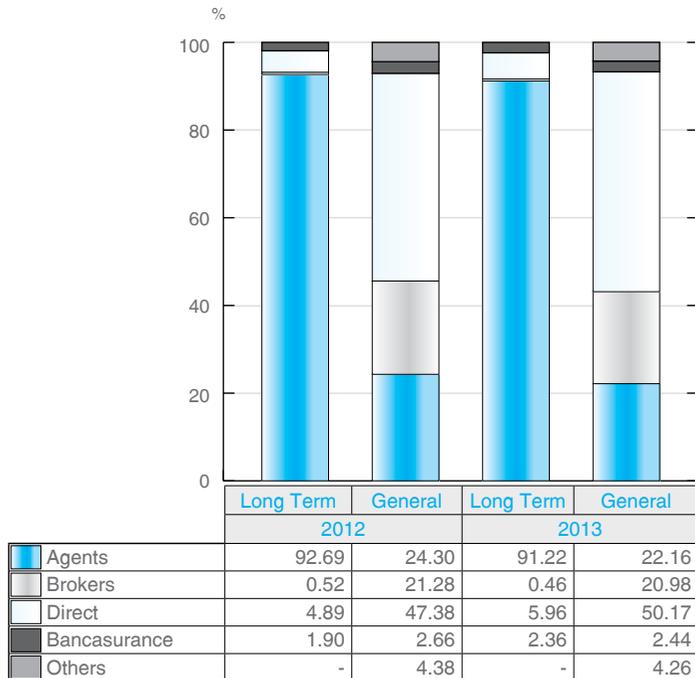
Agents continued to be the main distribution channel of the long term insurance business where 91.22% of the premium was written through agents in 2013. Long term insurance premium written through other channels; direct marketing (5.96%), bancassurance (2.36%), and brokering companies (0.46%).

Unlike long term insurance business, insurance companies make use of multiple distribution channels to sell general

insurance products. As reflected in Chart 05, premium written through direct marketing has risen to 50.17% of the total GWP in 2013 compared to 47.38% in 2012. Further it indicated that direct marketing has been growing gradually from 2011 compared to other distribution channels. Agents continued to be the second largest distribution channel and accounted for 22.16% of the GWP in 2013. In addition, contribution for GWP of general insurance business from brokering companies and bancassurance accounted for 20.98% and 2.44% respectively in 2013.

Chart 05

Distribution Channels of Insurance Companies



Statistical Review

Long Term Insurance Business

Gross Written Premium

GWP of long term insurance business amounted to Rs. 41,306 million in year 2013 (2012: Rs. 37,477 million) and grew by 10.22% when compared to the previous year. In comparison, GWP of long term insurance business grew by 6.58% in 2012. Further, GWP of long term insurance business has increased by 72.07% between 2009 and 2013 although low penetration levels reported in the long term insurance business.

Despite the slight decrease in the market share, Ceylinco led the long term insurance market by recording GWP of

Rs. 11,123 million (2012: Rs. 10,829 million) with a market share of 26.93% (2012: 28.90%). SLIC was the second largest player in the market with a share of 19.54%, followed by AIA (16.62%) and UAL (13.35%). Asian Alliance gained a market share of 6.10% (2012: 5.43%) and remained in the fifth position of the long term insurance market in 2013.

There was a noticeable growth in GWP of new players such as LOLC (158.66%) and Arpico (102.64%) and also in companies such as Allianz Life (55.75%) and Amana Takaful (48.86%) in 2013 when compared to 2012. Table 07 and Chart 06 illustrate the company wise market share of GWP of long term insurance business.

Table 07

Company-wise Gross Written Premium and Market Share - Long Term Insurance Business

Insurer	2009		2010		2011		2012(a)		2013(b)	
	Premium (Rs. '000)	Market Share (%)								
AIA	4,632,490	19.30	7,783,925	24.99	7,846,447	22.32	6,495,863	17.33	6,863,047	16.62
Allianz Life	101,816	0.42	204,814	0.66	351,299	1.00	532,142	1.42	828,790	2.01
Amana Takaful	207,097	0.86	240,156	0.77	303,786	0.86	364,759	0.97	542,986	1.31
Arpico	-	-	-	-	-	-	101,900	0.27	206,494	0.50
Asian Alliance	1,009,031	4.20	1,242,608	3.99	1,579,191	4.49	2,034,084	5.43	2,520,283	6.10
Ceylinco	7,522,328	31.34	8,786,120	28.21	9,815,943	27.91	10,829,470	28.90	11,122,906	26.93
Cooperative	149,401	0.62	233,540	0.75	269,579	0.77	312,056	0.83	337,976	0.82
HNBA	984,866	4.10	1,084,480	3.48	1,290,367	3.67	1,500,028	4.00	2,014,547	4.88
Janashakthi	1,431,628	5.96	1,685,409	5.42	1,871,986	5.32	2,025,075	5.40	2,150,507	5.21
LIC	251,150	1.05	252,656	0.81	295,859	0.84	303,344	0.81	322,712	0.78
LOLC	-	-	-	-	51,427	0.15	106,238	0.28	274,798	0.67
MBSL	55,606	0.24	89,984	0.28	143,156	0.41	192,780	0.51	251,720	0.61
Sanasa	61,563	0.26	73,030	0.23	128,113	0.36	203,616	0.54	283,975	0.69
SLIC	4,819,860	20.08	6,009,859	19.29	6,743,073	19.18	7,369,031	19.66	8,069,964	19.54
UAL	2,778,184	11.57	3,465,505	11.12	4,471,627	12.72	5,106,323	13.63	5,515,063	13.35
Total	24,005,020	100	31,152,086	100	35,161,853	100	37,476,709	100	41,305,768	100
Growth Rate (%)	1.66		29.77		12.87		6.58		10.22	

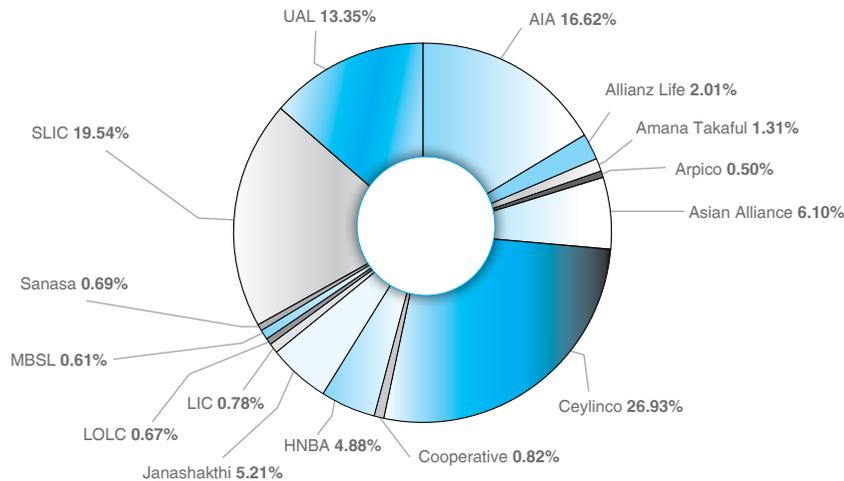
(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

Chart 06

Company-wise Market Share of Gross Written Premium - Long Term Insurance Business for the year ended 31st December 2013



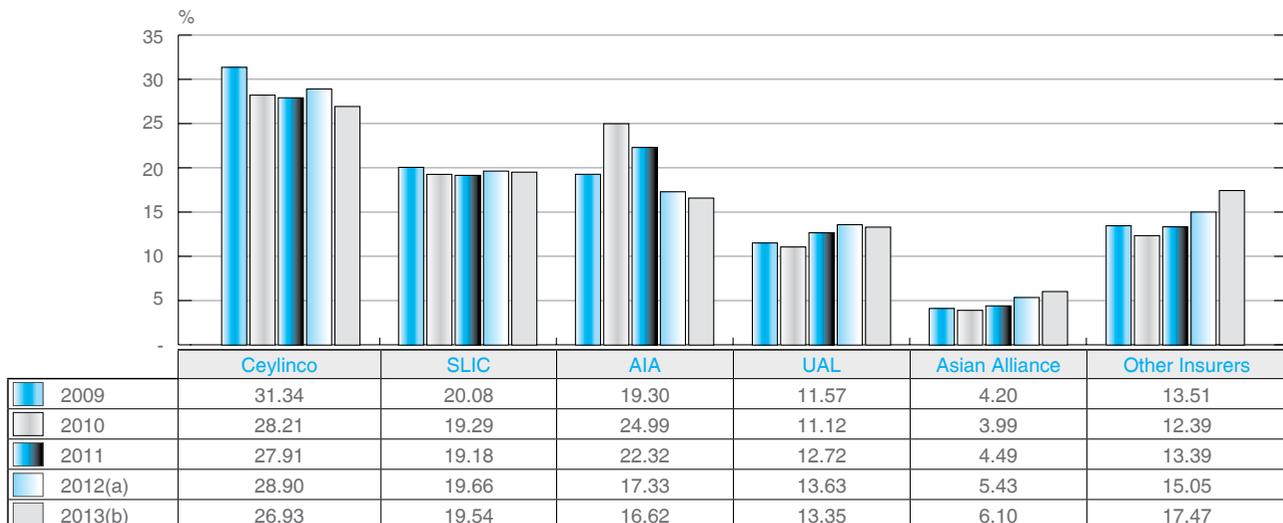
Market Share of Top Five Contributors of Gross Written Premium and other Insurers - Long Term Insurance Business

As depicted in Table 07, Ceylinco, SLIC, AIA, UAL and Asian Alliance were able to secure top five positions in the market.

However, high level of competition from other fifteen players have reduced the accumulated market share of GWP of these top five companies from 84.95% in 2012 to 82.54% in 2013. The analysis of market share of these five companies and other insurers are reflected in Chart 07.

Chart 07

Market Share of Top Five Contributors of Gross Written Premium and Other Insurers for the Years 2009 to 2013 - Long Term Insurance Business



(a) Reinstated audited figures
(b) Provisional figures

Statistical Review

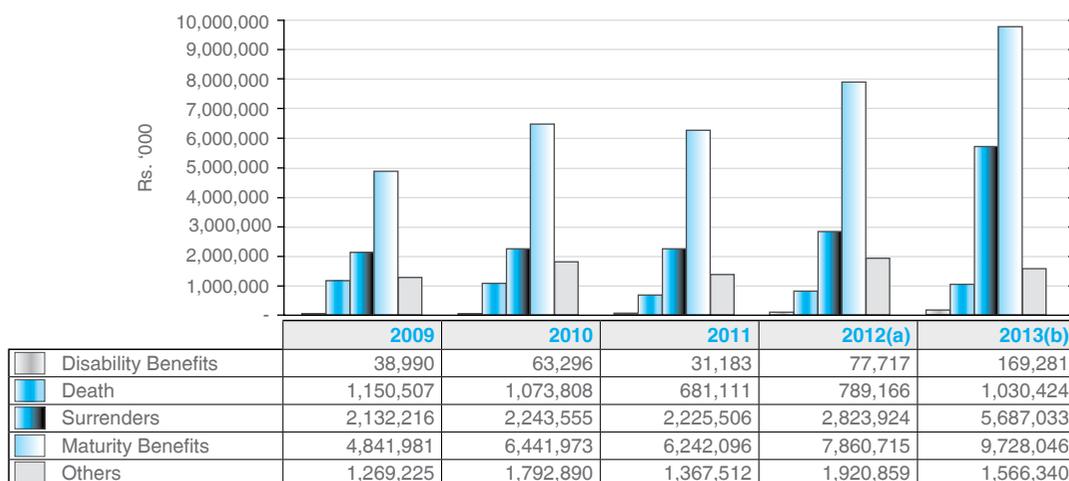
Claims Incurred by Insurance Companies - Long Term Insurance Business

Chart 08 illustrates claims incurred by the insurers engaged in long term insurance business during last five years. Total long term insurance claims incurred by the companies for year 2013 amounted to Rs. 18,181 million (2012: Rs. 13,472 million) which represented an increase of 34.95% compared to 2012. Maturity claims amounted to Rs. 9,728 million (2012: Rs. 7,861 million) which represented 53.51% of the total claims.

There was a noticeable increase in surrender of unit linked products during 2013, which resulted in surrender claims of Rs. 5,687 million compared to Rs. 2,824 million recorded in 2012. This represented 31.28% of the total claims incurred in 2013. Death claims amounted to Rs. 1,030 million (2012: Rs. 789 million) while other claims including advance payments, cash bonuses, and prematurity payments etc. amounted to Rs. 1,566 million (2012: Rs. 1,921 million).

Chart 08

Claims Incurred by Insurance Companies - Long Term Insurance Business



(a) Reinstated audited figures

(b) Provisional figures

Number of Insurance Claims – Long Term Insurance Business

In 2013, there were 284,103 claims incurred by the long term insurance companies. The matured claims accounted for 46% of total claims. Further other claims and surrender

claims represented 34.90% and 14.77% of total number of long term insurance claims respectively. Table 08 depicts the category wise break up of number of long term insurance claims incurred for the years 2009 to 2013.

Table 08

Number of Insurance Claims–Long Term Insurance Business

	2009	2010	2011	2012(a)	2013(b)
Disability Benefits	441	628	569	578	7,009
Death	4,423	5,063	4,328	4,358	5,278
Surrenders	27,150	25,771	25,661	24,631	41,976
Maturity Benefits	58,265	87,742	98,363	102,465	130,692
Others	37,685	42,939	45,885	51,773	99,148
Total	127,964	162,143	174,806	183,805	284,103

(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

Assets of Long Term Insurance Business

Table 09 and Chart 09 illustrate the concentration of assets of long term insurance business. Due to the long term nature of liabilities, investments of long term insurance business have reflected a significant exposure to secured long term investment instruments mainly in government securities and deposits which represented more than 62.15% (2012: 68.16%) of the total assets.

Investments in government securities remained as the main investment category by representing 43.33% of the total assets as at 31st December 2013. The share of government securities in the total assets has considerably reduced during 2013, compared to 51.48% share maintained in the previous year.

Table 09

Concentration of Assets as at 31st December 2013 and 2012 - Long Term Insurance Business

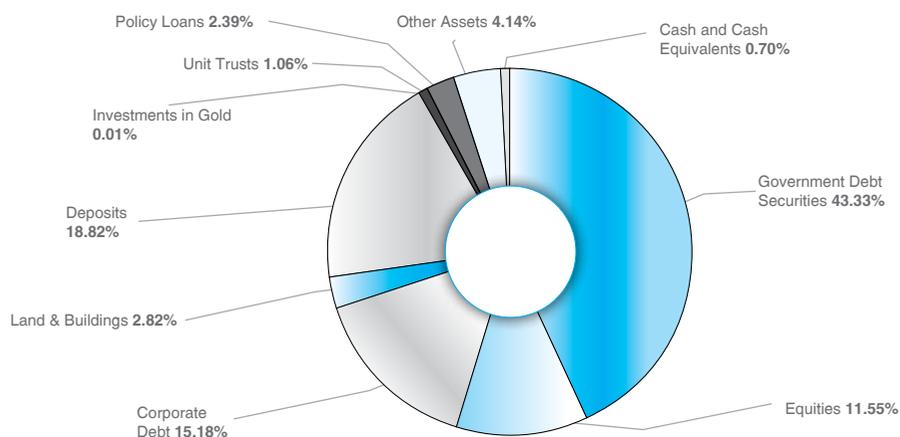
Type of Asset	2012(a)		2013(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	98,146,810	51.48	94,024,169	43.33
Equities	26,404,884	13.85	25,061,264	11.55
Corporate Debt	13,285,667	6.97	32,934,384	15.18
Land & Buildings	5,951,450	3.12	6,129,837	2.82
Deposits	31,790,111	16.68	40,837,963	18.82
Unit Trusts	1,589,873	0.83	2,302,039	1.06
Investments in Gold	31,832	0.02	29,295	0.01
Policy Loans	4,678,904	2.45	5,182,399	2.39
Other Assets	7,349,386	3.86	8,988,394	4.14
Cash and Cash Equivalents	1,412,907	0.74	1,514,748	0.70
Total	190,641,825	100	217,004,492	100

(a) Reinstated Audited figures

(b) Provisional figures

Chart 09

Concentration of Assets as at 31st December 2013 - Long Term Insurance Business



Statistical Review

Investment Income of Long Term Insurance Business

Table 10 illustrates the average investments, investment income and yield of long term insurance business for the years 2012 and 2013. Total investment income amounted to Rs. 21,479 million in 2013. The growth of investment income was 25.08% in 2013 compared to Rs. 17,172 million recorded in 2012.

Government securities recorded the highest income during the year which amounted to Rs. 11,880 million. Investment income from deposits amounted to Rs. 5,814 million and recorded the highest investment yield of 16.01%. This was due to long term insurers investing in high yield bank deposits during the time of high interest rates. The companies were able to reap benefits of these long term deposits during the year 2013. Further insurance companies have generated

investment income amounting to Rs. 5,650 million from bank deposits when compared to investment income of Rs. 164 million generated from deposits in finance companies. Furthermore, growth of income from deposits was recorded as 53.87% year on year.

The average investment in corporate debts has risen significantly (92.80%), and the yield was recorded as 11.07% in 2013 (2012: 13.65%). Equity investments have shown positive returns in year 2013 with some signs of recovery of the stock market operations. Despite the capital losses of Rs.93 million in 2013 (2012: Rs.856 million), income from equity has recorded positive balance of Rs. 914 million due to receipt of dividend income.

As a result of drop in price of gold, insurance companies have recorded loss of Rs.11 million in 2013 compared to profit of Rs. 26 million earned in 2012.

Table 10

Breakup of Investment Income and Average Investments - Long Term Insurance Business

Category	2012(a)			2013(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
Government Debt Securities	10,972,525	91,445,229	12.00	11,880,429	96,085,490	12.36
- Treasury Bonds	9,137,669			9,612,859		
- Treasury Bills	186,642			249,377		
- Others (REPO)	1,648,214			2,018,193		
Equity	(69,948)	24,759,142	(0.28)	914,353	25,733,074	3.55
- Capital Gain/Losses	(855,777)			(92,781)		
- Dividend	785,829			1,007,134		
Corporate Debts	1,636,239	11,986,395	13.65	2,558,858	23,110,025	11.07
- Debentures	1,504,615			2,419,957		
- Commercial Papers	125,876			119,306		
- Asset Backed Securities	5,748			19,595		
- Other Similar Financial Instruments	-			-		
Land and Buildings	56,209	5,915,963	0.95	65,636	6,040,644	1.09
Deposits	3,778,232	28,815,685	13.11	5,813,633	36,314,037	16.01
- Banks	3,656,310			5,649,639		
- Finance Companies	121,922			163,994		
Unit Trust	123,617	1,441,082	8.58	106,619	1,945,956	5.48
Gold	25,887	71,374	36.27	(10,968)	30,564	(35.89)
Policy Loans	17,178	4,463,050	0.38	25,895	4,930,651	0.53
Others	632,488	867,219	72.93	124,374	943,539	13.18
Total	17,172,427	169,765,139	10.12	21,478,829	195,133,980	11.01

(a) Reinstated audited figures

(b) Provisional figures

Note:

The investment income and average investments belonging to shareholders of Allianz Life, Arpico, and LIC have been reported under long term insurance business.

Statistical Review

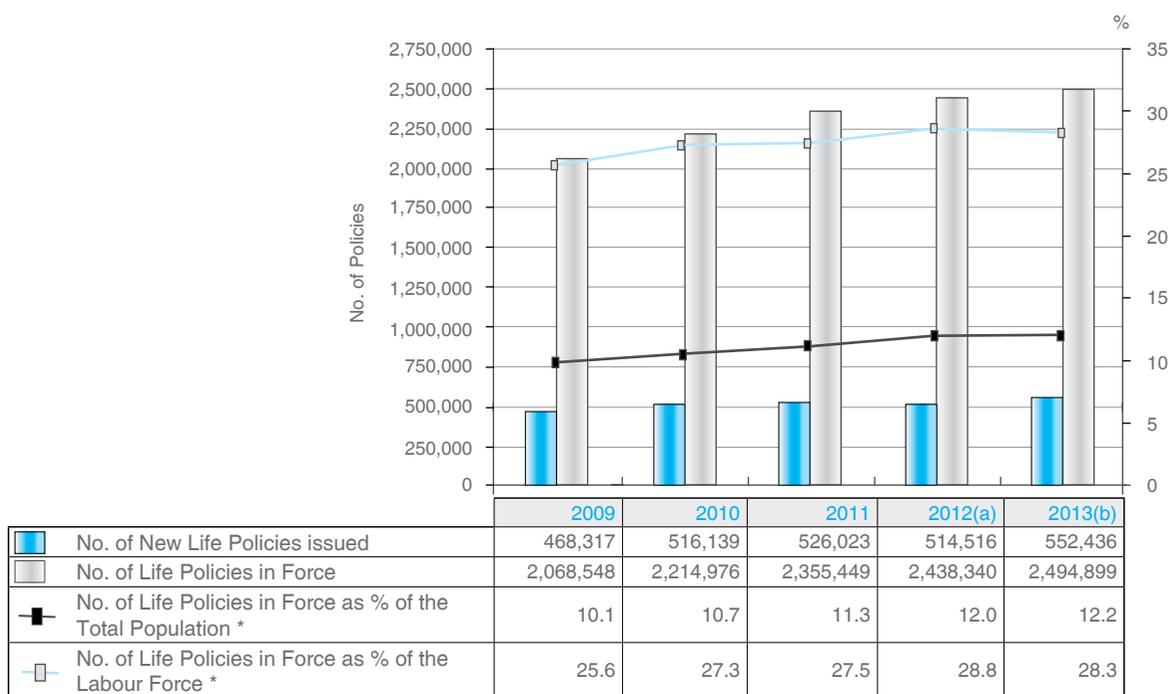
Number of Insurance Policies Issued and Policies in Force – Long Term Insurance Business

At end of 2013, total number of long term insurance policies in force was 2,494,899. Long term insurance policies in force have slightly increased by 2.32% compared to 2,438,340 policies in force at the end of 2012. As indicated in Chart

10, insurance companies have issued 552,436 new long term insurance policies in 2013. Similar to previous year, number of effective policies in force as a percentage of total population was 12%. Further long term insurance policies in force as a percentage of labour force have reduced slightly by 0.5% compared to 28.8% recorded in 2012.

Chart 10

Number of Insurance Policies Issued and Policies in force - Long Term Insurance Business



* Source: Mid year labour force and population - Department of Census and Statistics

(a) Reinstated audited figures.

(b) Provisional figures.

Statistical Review

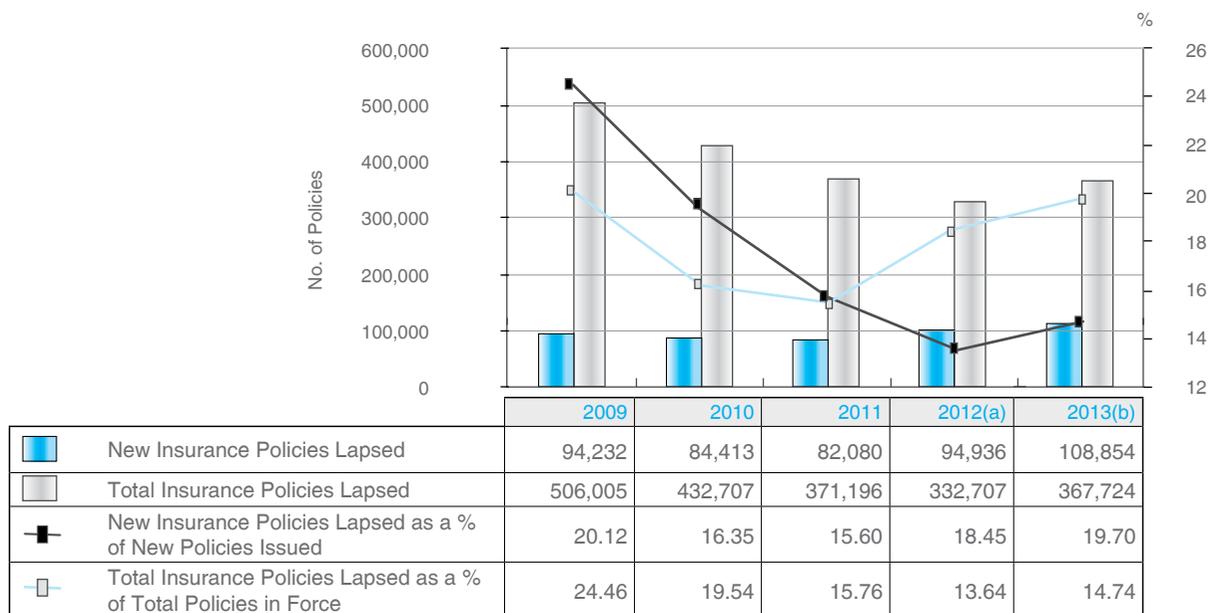
Insurance Policy Lapses - Long Term Insurance Business

New business play a vital role in the long term insurance business. Lapsation of new policies have been considerably high in the long term insurance business due to various reasons such as inefficiencies in policy management, push marketing strategies, changes in consumer needs etc. Lapse ratio of new policies was 19.70% out of 552,436 new long term insurance policies issued in 2013.

Persistency has been a difficult task for long term insurance companies despite the various initiatives taken to minimize the policies lapsation. During the year, 367,724 (2012: 332,707) policies of long term insurance business lapsed and 29.60% of these policies represented new business generated in 2013. In 2013, total policies lapsed as a percentage of total policies in force was 14.74% compared to 13.64% recorded in 2012. Chart 11 illustrates the details of long term insurance policies lapsed from 2009 to 2013.

Chart 11

Number of Policies Lapsed and Lapse Ratio from 2009 to 2013 - Long Term Insurance Business



(a) Reinstated as per the Actuarial Returns submitted to the Board

(b) Provisional figures

Statistical Review

Solvency Position of Insurance Companies – Long Term Insurance Business

The insurance companies are required to comply with solvency margin requirement which need to be computed in accordance with rules issued by the Board. Table 11 depicts solvency ratio and policy liabilities of long term

insurance companies as at 31st December 2012 and 2013. Two Insurance companies could not meet the required solvency ratio of '01' as at 31st December 2013 and IBSL has taken necessary actions regarding same. Total policy liabilities of long term insurance business was Rs. 130,368 million as at 31st December 2013 when compared with Rs. 119,214 million recorded as at 31st December 2012.

Table 11

Company-wise Analysis of Solvency Position and Policy Liabilities as at 31st December 2012 & 2013 - Long Term Insurance Business

Insurer	As at 31 st December 2012(a)		As at 31 st December 2013(b)			
	Solvency Ratio	Value of Policy Liabilities (Rs. '000)	Available Solvency Margin (ASM) (Rs.'000)	Required Solvency Margin (RSM) (5%*Policy Liabilities) (Rs. '000)	Solvency Ratio (ASM/RSM)	Value of Policy Liabilities (Rs. '000)
AIA	2.53	22,399,842	3,421,556	1,182,239	2.89	23,644,788
Allianz Life	4.67	370,898	179,234	33,184	5.40	663,689
Amana Takaful	3.71	530,026	54,461	26,928	2.02	538,568
Arpico	41.32	47,568	63,545	7,673	8.28	153,458
Asian Alliance	1.88	2,857,628	458,470	184,898	2.48	3,697,969
Ceylinco	10.76	29,176,262	20,933,232	1,629,674	12.85	32,593,476
Cooperative	1.76	579,790	51,870	35,716	1.45	714,312
HNBA	2.28	3,332,214	411,966	201,666	2.04	4,033,316
Janashakthi	4.08	5,087,080	1,789,900	264,268	6.77	5,285,357
LIC	10.79	759,476	521,098	43,674	11.93	873,476
LOLC	44.00	64,793	(140,605)	12,576	*(11.18)	251,522
MBSL	3.30	136,510	(1,802)	10,928	(0.16)	218,559
Sanasa	1.69	330,899	27,719	26,900	1.03	537,990
SLIC	10.14	39,968,188	26,763,191	2,055,326	13.02	41,106,515
UAL	2.79	13,572,802	3,203,778	802,734	3.99	16,054,685
Total/Overall	7.17	119,213,976	57,737,613	6,518,384	8.86	130,367,680

* Subsequently Corrected

(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

General Insurance Business

Gross Written Premium

Similar to previous years, GWP of insurance industry has mainly driven by general insurance business which accounted for 56.28% of the total GWP. As depicted in Table 12 and Chart 12, GWP of general insurance business amounted to Rs. 53,177 compared to Rs. 49,694 million recorded in 2012. As confirmed by the insurance companies' premium income of SRCC and T amounted to Rs. 3,107 million and with same GWP General Insurance Business amounted to Rs. 56,285 million.

In 2013, GWP has grown by 7.01% which was driven by many development activities, such as large scale infrastructure development programmes, private constructions, other economic activities etc. This was further strengthened with the expanded branch network of insurance companies.

However growth rate of GWP was at a slower pace in 2013 compared to previous year growth rate of 14.69%.

SLIC led the market by achieving a market share of 24.04% to Rs. 12,786 million in 2013. SLIC was able to secure its top position in the general insurance business for the fourth consecutive year. Ceylinco, continued to be the second largest by recording GWP of Rs. 10,311 million (2012: Rs. 10,435 million) and has experienced a slight drop in its GWP in 2013. Together, these two companies held 43.43% of the market share in 2013. Janashakthi (11.93%), UAL (9.62%) and People's (5.80%) have achieved the third, fourth and fifth positions in the general insurance business respectively. Allianz Gen. has moved up its position in the market by recording GWP of Rs. 1,965 million in 2013 (2012: Rs. 1,397 million). Further slight reduction was noticed in the market share of five insurance companies namely SLIC, Ceylinco, Continental, MBSL and Sanasa.

Table 12

Company - wise Gross Written Premium and Market Share - General Insurance Business

Insurer	2009		2010		2011		2012(a)		2013(b)	
	Premium (Rs. '000)	Market Share (%)								
AIA	2,503,628	7.46	2,490,843	7.10	2,456,347	5.67	2,143,252	4.31	2,428,675	4.57
AIG	879,285	2.62	890,387	2.54	942,901	2.18	819,448	1.65	880,059	1.65
Allianz Gen.	1,174,822	3.50	1,356,660	3.86	1,379,406	3.18	1,397,127	2.81	1,964,907	3.70
Amana Takaful	953,798	2.84	908,756	2.59	916,754	2.12	1,125,838	2.27	1,232,433	2.32
Asian Alliance	496,749	1.48	397,789	1.13	582,257	1.34	1,133,240	2.28	1,376,657	2.59
Ceylinco	9,081,297	27.07	8,724,292	24.85	9,558,942	22.06	10,434,917	21.00	10,311,479	19.39
Ceylinco Takaful	28,324	0.08	-	-	-	-	-	-	-	-
Continental	-	-	359,105	1.02	1,149,121	2.65	1,545,225	3.11	1,330,515	2.50
Cooperative	596,183	1.78	644,814	1.84	922,859	2.13	1,135,011	2.28	1,272,941	2.39
HNBA	1,130,781	3.37	1,255,190	3.58	1,623,830	3.75	1,635,306	3.29	1,767,361	3.32
Janashakthi	4,272,926	12.74	4,324,170	12.32	5,086,207	11.74	5,773,429	11.62	6,342,546	11.93
LOLC	-	-	-	-	364,735	0.84	1,295,133	2.61	1,485,521	2.79
MBSL	271,309	0.81	467,606	1.33	636,738	1.47	1,049,147	2.11	1,118,983	2.10
Orient	-	-	-	-	1,749	0.00	308,547	0.62	355,002	0.67
People's	-	-	847,064	2.42	2,284,578	5.27	2,795,448	5.63	3,085,041	5.80
Sanasa	184,409	0.55	234,914	0.67	232,374	0.54	308,142	0.62	322,591	0.61
SLIC	8,764,539	26.13	8,766,027	24.97	11,134,583	25.70	12,359,188	24.87	12,785,671	24.04
UAL	3,210,217	9.57	3,433,830	9.78	4,055,443	9.36	4,436,052	8.93	5,116,966	9.62
Total	33,548,266	100	35,101,447	100	43,328,824	100	49,694,450	100	53,177,348	100
Growth Rate (%)	(2.92)		4.63		23.44		14.69		7.01	

(a) Reinstated audited figures

(b) Provisional figures

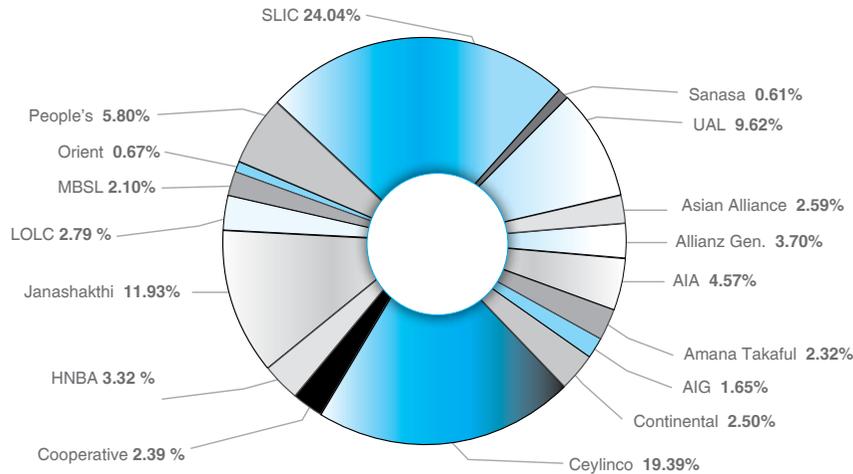
Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010.

Statistical Review

Chart 12

Company-wise Market Share of Gross Written Premium - General Insurance Business (for the year ended 31st December 2013)



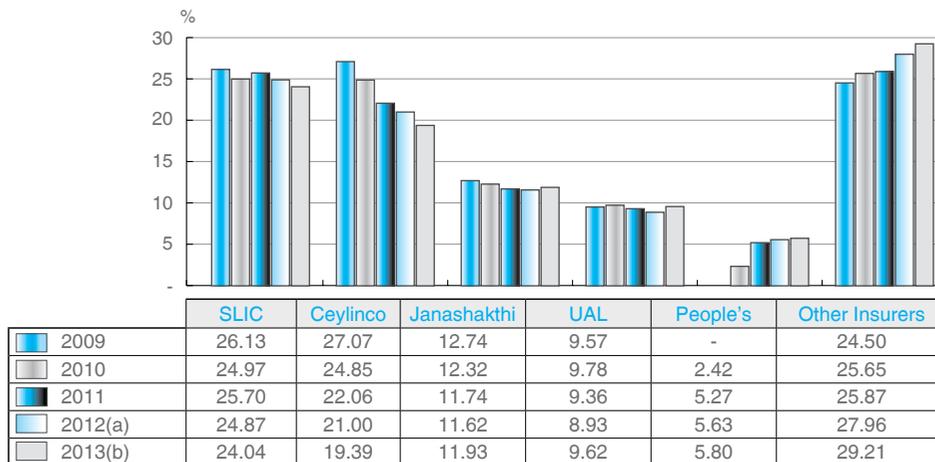
Market Share of Top Five Contributors of Gross Written Premium and Other Insurers – General Insurance Business

Chart 13 depicts highest contributors to the GWP and other insurers of the general insurance business. SLIC, Ceylinco, Janashakthi, UAL and People's were five main contributors

to the GWP. Together, they have accounted for 70.78% of the GWP in 2013. With the competitive pressure from other smaller players slight reduction in the market share of these five companies were witnessed in 2013 compared to 72.05% recorded in 2012. Further market share of Ceylinco has reduced during last five years. People's in its fourth year of operation was able to maintain the fifth position in the market.

Chart 13

Market Share of Top Five Contributors of Gross Written Premium and Other Insurers – General Insurance Business



(a) Reinstated audited figures
 (b) Provisional figures

Statistical Review

Class-wise Analysis of Gross Written Premium - General Insurance Business

Table 13 and Chart 14 illustrate the GWP generated from fire, marine, motor and miscellaneous classes of general insurance business during last five years. Motor insurance business has achieved the largest market share of 62.21%, followed by miscellaneous (22.46%), fire (11.87%) and Marine (3.46%) insurance businesses respectively.

Motor insurance business has negatively influenced by reduction in registration of new motor vehicles and price competition among the insurance companies. Growth rate of motor insurance business has considerably decreased

(4.56%) compared to double digit growth (16.57%) recorded in last year.

Miscellaneous category represented the second largest category of the general insurance business. Total GWP of miscellaneous insurance business was Rs. 11,943 million and had grown by 11.44% year on year.

GWP of fire insurance business has grown by 16.39% to Rs. 6,311 million in 2013. This positive performance could be attributed to growth in construction industry and general economic performance. Marine insurance experienced a negative growth of 3.98% in 2013, in contrast to the 14.28% growth recorded in 2012.

Table 13

Class-wise Analysis of Gross Written Premium - General Insurance Business

Class	Gross Written Premium (Rs.'000)				
	2009	2010	2011	2012(a)	2013(b)
Fire	7,049,399	5,012,443	5,376,094	5,422,347	6,310,911
Marine	1,442,729	1,498,832	1,678,027	1,917,570	1,841,345
Motor	17,897,763	20,948,782	27,141,119	31,637,508	33,081,602
Miscellaneous	7,158,375	7,641,390	9,133,584	10,717,025	11,943,490
Total	33,548,266	35,101,447	43,328,824	49,694,450	53,177,348

Class	Growth (%)				
	2009	2010	2011	2012	2013
Fire	3.26	(28.90)	7.25	0.86	16.39
Marine	(21.01)	3.89	11.96	14.28	(3.98)
Motor	(4.38)	17.05	29.56	16.57	4.56
Miscellaneous	(0.40)	6.75	19.53	17.34	11.44
Total	(2.92)	4.63	23.44	14.69	7.01

Class	Percentage Share (%)				
	2009	2010	2011	2012	2013
Fire	21.01	14.28	12.41	10.91	11.87
Marine	4.30	4.27	3.87	3.86	3.46
Motor	53.35	59.68	62.64	63.66	62.21
Miscellaneous	21.34	21.77	21.08	21.57	22.46
Total	100	100	100	100	100

(a) Reinstated audited figures

(b) Provisional figures

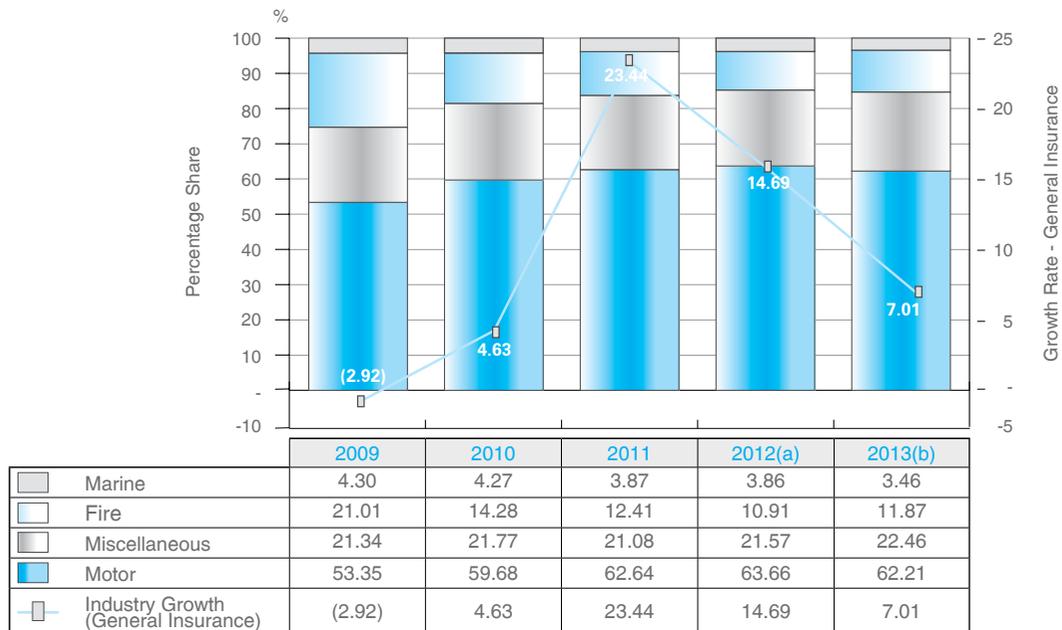
Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010.

Statistical Review

Chart 14

Class-wise Analysis of GWP from 2009 to 2013- General Insurance Business



- (a) Reinstated audited figures
 (b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010.

Statistical Review

Category Wise Analysis of GWP of Miscellaneous Insurance Business

Main categories of miscellaneous insurance business include health & surgical, personal accident, air craft hull, banker's indemnity, workmen compensation insurance, cash in transit etc. Table 14 illustrates the category wise analysis of miscellaneous insurance business for the years 2012 and 2013.

During the year, positive performance was visible in health insurance business where 'health and surgical' segment amounted to Rs. 5,992 million compared to Rs. 5,075 million recorded in 2012. Further health and surgical segment represented 48.95% of total GWP of miscellaneous

insurance business and recorded growth of 18.06% year on year. Increase in medical costs, introduction of new products and different marketing strategies of insurance companies have favourably influenced to the growth in this category.

Personal accident became the second largest category by representing 12.99% of total GWP of miscellaneous insurance business. During the year, personal accident insurance business recorded GWP of Rs. 1,590 million compared to Rs. 1,338 million recorded in 2012. GWP of air craft hull category amounted to Rs. 1,045 million (2012: Rs. 1,218 million) and noticed a reduction in GWP by 14.20% year on year.

Table 14

Category wise analysis of GWP of Miscellaneous Insurance Business - 2012 & 2013

Category	GWP Rs.'000	
	2012(a)	2013(b)
Air Craft Hull	1,217,540	1,044,639
Banker's Indemnity	375,910	332,731
Burglary	306,362	340,075
Cash in transit including cash in safe	346,582	385,460
Contractor's All Risk	10,855	40,848
Fidelity Guarantee	45,992	58,670
Goods in Transits	69,127	73,039
Health & Surgical	5,075,204	5,992,033
Personal Accident	1,337,571	1,590,464
Products Liability	39,961	43,726
Professional Indemnity	327,064	267,295
Public Liability	114,144	112,860
Title	224,578	225,967
Travel Insurance	215,037	231,896
WCI	366,989	432,511
Others	953,346	1,069,835
Total Miscellaneous Insurance GWP	11,026,262	12,242,049
Total of SRCC & TC premium due to NITF	(294,331)	(267,569)
Coinsurers' Premium	(14,906)	(30,990)
Net Premium Income of Insurance Industry (companies)	10,717,025	11,943,490

(a) Reinstated audited figures

(b) Provisional figures

Note:

Above GWP figures of sub categories of miscellaneous insurance business were presented without excluding coinsurance, SRCC and T premium.

Statistical Review

Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business

As showed in Table 15, GWP retained by the insurance companies amounted to Rs. 44,385 million out of the GWP of Rs. 53,177 million in 2013. Retention of insurance premium as a percentage of GWP of general insurance business was fairly high and recorded as 83.47% in 2013. This was mainly due to high retention ratio of motor class of insurance business.

Motor class of insurance business which represented 62.21% of the GWP recorded the highest retention rate of 99.08% which was fairly stable during last five years. Miscellaneous insurance business was also continued to record relatively high retention ratio of 77.61% (2012: 74.32%).

High cession rates were visible for the fire (76%) and marine (55%) classes of insurance business in 2013 to cover the underwriting risks.

Table 15

Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business

Class	Gross Written Premium (Rs.'000)				
	2009	2010	2011	2012(a)	2013(b)
Fire	7,049,399	5,012,443	5,376,094	5,422,347	6,310,911
Marine	1,442,729	1,498,832	1,678,027	1,917,570	1,841,345
Motor	17,897,763	20,948,782	27,141,119	31,637,508	33,081,602
Miscellaneous	7,158,375	7,641,390	9,133,584	10,717,025	11,943,490
Total Gross Written Premium	33,548,266	35,101,447	43,328,824	49,694,450	53,177,348

Class	Reinsurance Premium (Rs.'000)				
	2009	2010	2011	2012(a)	2013(b)
Fire	5,904,806	4,233,236	4,090,136	4,140,877	4,799,516
Marine	892,411	813,665	847,392	1,326,369	1,014,706
Motor	533,720	316,594	387,211	478,478	304,451
Miscellaneous	1,918,389	2,020,031	2,302,942	2,752,627	2,673,807
Total Reinsurance Premium	9,249,326	7,383,526	7,627,681	8,698,351	8,792,480

Class	Retention (Rs.'000)				
	2009	2010	2011	2012	2013
Fire	1,144,593	779,208	1,285,958	1,281,469	1,511,395
Marine	550,318	685,167	830,635	591,202	826,639
Motor	17,364,043	20,632,188	26,753,908	31,159,029	32,777,152
Miscellaneous	5,239,986	5,621,359	6,830,643	7,964,399	9,269,684
Total Net Written Premium	24,298,940	27,717,922	35,701,143	40,996,099	44,384,868

Class	Retention as a Percentage of Gross Written Premiums (%)				
	2009	2010	2011	2012	2013
Fire	16.24	15.55	23.92	23.63	23.95
Marine	38.14	45.71	49.50	30.83	44.89
Motor	97.02	98.49	98.57	98.49	99.08
Miscellaneous	73.20	73.56	74.79	74.32	77.61
Overall Retention Ratio	72.43	78.97	82.40	82.50	83.47

(a) Reinstated audited figures

(b) Provisional figures

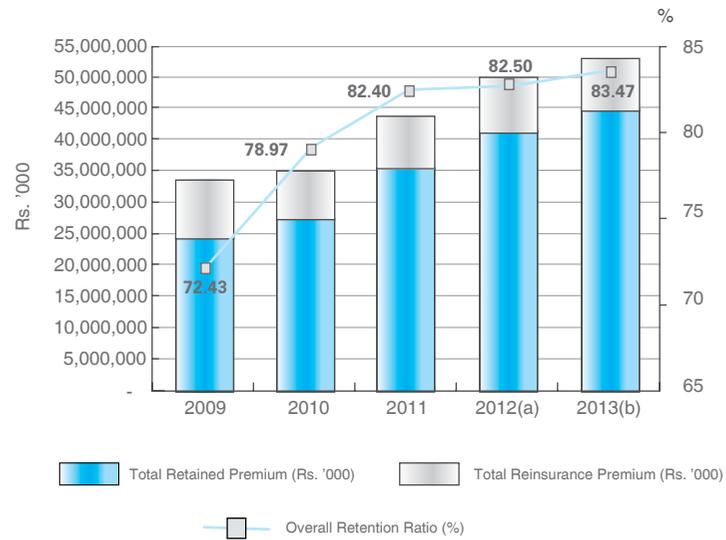
Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010.

Statistical Review

Chart 15

Reinsurance Premium and Retention by Insurers - General Insurance Business



(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expense Ratio and Net Combined Ratio - General Insurance Business

As reflected in Table 16, total net earned premium of all classes of general insurance business was Rs. 42,183 million in 2013 compared to Rs. 38,454 million in 2012. There was a noticeable increase in net earned premium in 2013 as a result of increase in GWP and high retention of GWP.

Net claim ratio has reduced to 58.65% in 2013 compared to 61.81% recorded in 2012. This was due to increase in net earned premium by 9.70% compared to increase in claims incurred by 4.09% during the year.

Motor has recorded the highest claim ratio of 60.50%,

followed by miscellaneous (56.25%) and marine (47.09%). Claim ratios of all classes of general insurance business have dropped except fire insurance business.

Table 16 and Chart 16 reflect net earned premium, net claims incurred, net expenses along with trends in net claims ratio and net combined ratio for last five years.

Insurance companies have experienced an increase in net expenses from Rs. 14,807 million in 2012 to Rs. 18,147 million in 2013. Net expense ratio of general insurance business was 43.02% in 2013 (2012:38.51%). Review on expenses indicates that the companies' underwriting, administration and investment related costs have increased during the year. Net combined ratio was slightly increased to 101.67% in 2013 compared to 100.32% recorded in 2012.

Table 16

Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expense Ratio and Net Combined Ratio - General Insurance Business

Class	Net Earned Premium (Rs.'000)				
	2009	2010	2011	2012(a)	2013(b)
Fire	1,199,158	1,098,186	1,141,591	1,400,808	1,424,130
Marine	580,333	674,476	802,677	537,073	833,192
Motor	17,593,582	18,356,887	23,575,071	29,293,110	31,488,387
Miscellaneous	5,200,212	5,282,148	6,298,058	7,222,611	8,437,462
Total	24,573,285	25,411,697	31,817,397	38,453,602	42,183,171

Class	Net Claims Incurred (Rs.'000)				
	2009	2010	2011	2012(a)	2013(b)
Fire	953,478	529,448	482,646	505,101	550,497
Marine	221,210	216,143	232,189	321,077	392,354
Motor	11,680,229	11,733,879	15,416,753	18,235,622	19,051,748
Miscellaneous	4,166,757	3,091,110	4,160,145	4,705,619	4,745,884
Total	17,021,674	15,570,580	20,291,734	23,767,419	24,740,483

Class	Net Claims Ratio (%)				
	2009	2010	2011	2012	2013
Fire	79.51	48.21	42.28	36.06	38.65
Marine	38.12	32.05	28.93	59.78	47.09
Motor	66.39	63.92	65.39	62.25	60.50
Miscellaneous	80.13	58.52	66.05	65.15	56.25
Total	69.27	61.27	63.78	61.81	58.65

Class	Net Expense Ratio (%)				
	2009	2010	2011	2012(a)	2013(b)
Net Expenses (Rs.'000)	12,907,013	10,058,322	12,105,102	14,807,142	18,146,550
Net Expense Ratio (%)	52.52	39.58	38.04	38.51	43.02

Net Combined Ratio (%)					
	2009	2010	2011	2012	2013
Net Combined Ratio (%)	121.79	100.85	101.82	100.32	101.67

(a) Reinstated audited figures

(b) Provisional figures

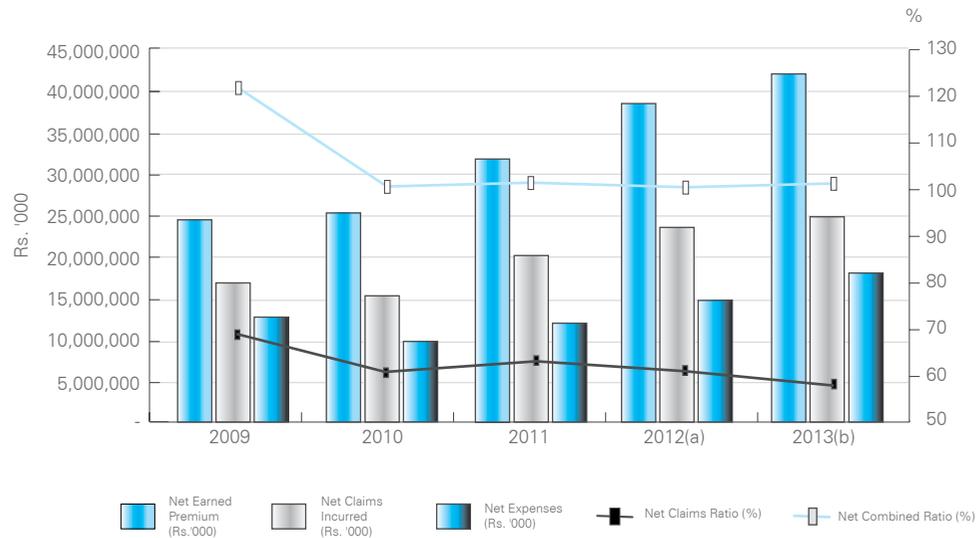
Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.
2. Above analysis does not include information of NITF since required information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company has not submitted financials since 2010.

Statistical Review

Chart 16

Net Earned Premium, Net Claims Incurred, Net Expenses, Net Claims Ratio and Net Combined Ratio - General Insurance Business



(a) Reinstated audited figures

(b) Provisional figures

Statistical Review

Assets of General Insurance Business and Shareholders

Table 17 and Chart 17 demonstrate the concentration of assets of general insurance business and shareholders as at 31st December 2013. Total assets of the general insurance business were Rs. 146,778 million and grew by 11.87% year on year.

Equity has been one of the main investment categories of general insurance business and amounted to Rs. 34,519 million (2012:Rs. 33,796 million). Further equity investments represented 23.52% (2012: 25.76%) of the total assets of general insurance business in 2013.

Government securities amounted to Rs. 27,585 million in 2013 compared to Rs. 29,603 million recorded in 2012.

The contribution of government securities to total assets of general insurance business was 18.79%, reflected a slight decrease compared to 22.56% recorded in 2012. Deposits accounted for Rs. 18,797 million and represented 12.81% share of the total assets. Deposits grew by 47.63% in 2013 compared to previous year amount of Rs. 12,733 million.

During the year investments in corporate debts and unit trusts have increased. In 2013, significant growth of 55.34% and 67.39% was recorded in corporate debts and unit trusts respectively compared to 2012. Premium outstanding amounted to Rs. 12,478 million which represented 8.50% of the total assets of general insurance business. This has grown by 14.43% compared to previous year.

Table 17

Concentration of Assets of General Insurance Business and Shareholders as at 31st December 2012 & 2013

Type of Asset	2012(a)		2013(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	29,602,514	22.56	27,585,481	18.79
Equities	33,795,539	25.76	34,519,471	23.52
Corporate Debt	3,842,230	2.93	5,968,491	4.07
Land & Buildings	11,900,162	9.07	11,068,119	7.54
Deposits	12,732,650	9.70	18,797,380	12.81
Unit Trusts	1,220,424	0.93	2,042,822	1.39
Investments in Gold	7,130	0.01	31,214	0.02
Reinsurance Receivable	6,092,051	4.64	6,658,134	4.54
Premium Receivable from Policyholders and Intermediaries	10,904,496	8.31	12,478,139	8.50
Property Plant and Equipments	3,600,510	2.74	5,167,540	3.52
Cash and Cash Equivalents	1,423,164	1.08	1,420,945	0.97
Other Assets	16,080,650	12.26	21,039,861	14.33
Total	131,201,520	100	146,777,597	100

(a) Reinstated audited figures

(b) Provisional figures

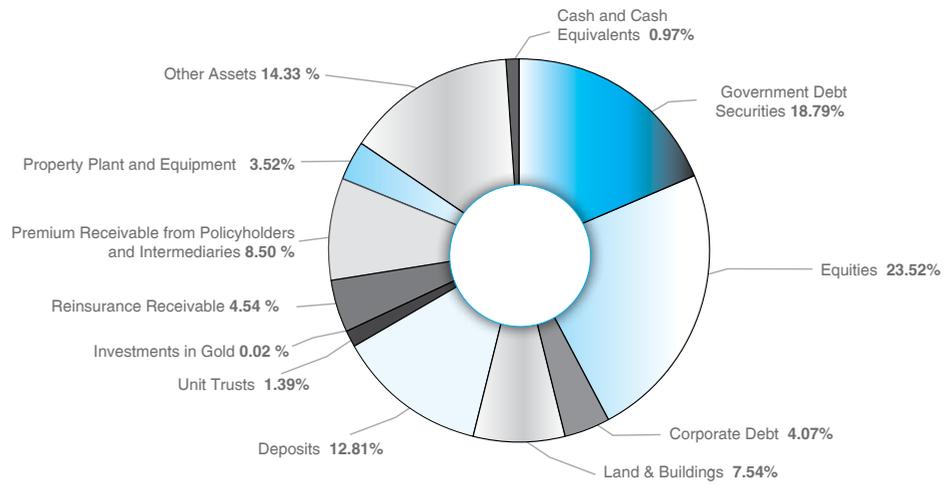
Notes:

1. Above analysis does not include information of NITF since required information was not submitted to the Board.
2. The assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business

Statistical Review

Chart 17

Concentration of Assets of General Insurance Business and Shareholders as at 31st December 2013



Statistical Review

Investment Income of General Insurance Business and Shareholders

As depicted in Table 18, total investment income recorded for the year 2013, amounted to Rs. 7,523 million for the average investments of Rs. 98,080 million. Total investment yield was sustained at 7.67% in 2013.

Although 'equity' has been one of the main investment categories of the general insurance business, yield of the same was relatively low during last two years. The yield of equities was 4.49% in 2013 (2012: 2.49%). Further dividend income has contributed 88.41% of total equity income of Rs. 1,534 million. Notably, equity investments has recorded positive capital gains of Rs. 178 million in 2013 compared to losses of Rs. 552 million recorded in 2012.

Total investment income from government securities amounted to Rs. 2,972 million in 2013. Yield of same has

diminished from 11.41% recorded in 2012 to 10.39% in 2013. Notably income from treasury bond investments has reduced from Rs. 1,537 million in 2012 to Rs. 1,374 million in 2013.

Positive performance was evidenced in the corporate debt market where income from the corporate debts has increased by 72.71% in 2013 compared to previous year. Investment income from debentures and commercial papers has increased averagely by 86.42% year on year. Slight drop was noted in the investment yield of unit trusts from 9.42% recorded in 2012 to 8.88% in 2013.

Average investments in deposits amounted to Rs. 15,765 million in 2013 (2012: Rs. 9,753 million) which generated interest income of Rs. 2,021 million with an investment yield of 12.82% (2012: 12.90%).

Table 18

Breakup of Investment Income and Average Investments - General Insurance Business

Category	2012(a)			2013(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
Government Debt Securities	3,098,265	27,144,244	11.41	2,971,576	28,593,998	10.39
- Treasury Bonds	1,537,331			1,374,429		
- Treasury Bills	487,267			592,990		
- Others (REPO)	1,073,667			1,004,157		
Equity	762,200	30,616,881	2.49	1,533,601	34,157,505	4.49
- Capital Gain/Losses	(552,143)			177,734		
- Dividend	1,314,343			1,355,867		
Corporate Debts	467,003	3,764,956	12.40	806,539	4,905,360	16.44
- Debentures	326,272			607,072		
- Commercial Papers	95,585			179,340		
- Asset backed securities	35,987			11,569		
- Other similar financial instruments	9,159			8,558		
Land and Buildings	4,800	9,883,372	0.05	(27,858)	11,484,141	(0.24)
Deposits	1,257,652	9,752,912	12.90	2,021,330	15,765,015	12.82
- Bank	1,121,093			1,861,977		
- Finance Companies	136,559			159,353		
Unit Trust	105,183	1,116,041	9.42	144,895	1,631,623	8.88
Gold	45,583	175,677	25.95	(27,777)	19,172	(144.88)
Others	611,039	944,575	64.69	101,189	1,523,008	6.64
Total	6,351,725	83,398,658	7.62	7,523,495	98,079,822	7.67

(a) Reinstated audited figures

(b) Provisional figures

Note:

Above analysis does not include information of NITF since required information was not submitted to the Board.

Statistical Review

Details of New, Renewed and Policies in Force – General Insurance Business

As depicted in Table 19, total number of policies in force of general insurance business was 4,255,551 at the end of 2013 compared to 3,896,531 in 2012. Motor insurance policies represented 87.51% of the total policies in force followed by miscellaneous (4.87%) fire (4.57%) and marine (3.05%). Policies in force of miscellaneous category have improved by 22.81% compared to 168,683 policies in force at the end of 2012.

During the year insurance companies have written 1,872,060 new policies which accounted for 43.99% of the total policies in force. New policies of motor and fire insurance businesses have reduced by 13,502 and 2,217 respectively compared to previous year. On the other hand, new marine policies written in 2013 have increased by 7,179. During the year 2,428,197 general insurance policies were renewed compared to 2,180,953 policies in 2012.

Table 19

Number of New, Renewed and Policies in Force—General Insurance Business

Class	2012			2013		
	New Business Underwritten	Renewal of Policies	in Force at year end	New Business Underwritten	Renewal of Policies	In Force at year end
Fire	70,202	115,714	183,487	67,985	129,932	194,676
Marine	148,870	2,095	119,096	156,049	2,602	129,719
Motor	1,526,510	1,978,158	3,425,265	1,513,008	2,220,775	3,723,988
Miscellaneous including WCI	130,478	84,986	168,683	135,018	74,888	207,168
	1,876,060	2,180,953	3,896,531	1,872,060	2,428,197	4,255,551

Note:

Above analysis does not include information of NITF since required information was not submitted to the Board.

Statistical Review

Solvency Position of Insurance Companies - General Insurance Business

Solvency ratios and technical reserves of general insurance companies as at 31st December 2012 and 2013 depict in Table 20. The average solvency ratio of general insurance business was 2.61 at the end of year 2013 compared to

2.43 in 2012. However one insurance company was unable to comply with the solvency margin requirement as at 31st December 2013 and the Board has taken appropriate actions regarding same. Technical reserve liability of the insurance companies amounted to Rs. 35,419 million at the end of year 2013 compared to Rs. 33,188 million recorded in 2012.

Table 20

Company-wise Analysis of Solvency Position and Technical Reserves as at 31st December 2012 & 2013 - General Insurance Business

Insurer	As at 31st December 2012(a)		As at 31st December 2013(b)			
	Solvency Ratio	Technical Reserves (Rs. '000)	Available Solvency Margin (ASM) (Rs.'000)	Required Solvency Margin (Rs. '000)	Solvency Ratio (ASM/RSM)	Technical Reserves (Rs. '000)
AIA	3.78	1,515,737	1,587,812	395,709	4.01	1,702,296
AIG	1.79	304,886	223,992	97,341	2.30	399,942
Allianz Gen.	5.76	486,330	562,065	249,548	2.25	1,010,087
Amana Takaful	1.89	476,582	420,995	227,176	1.85	511,409
Asian Alliance	2.37	592,088	576,562	260,425	2.21	781,103
Ceylinco	1.23	5,190,708	2,442,288	1,841,647	1.33	5,686,878
Continental	1.58	628,214	341,303	194,932	1.75	611,398
Cooperative	2.10	650,851	508,019	244,683	2.08	717,559
HNBA	3.48	855,641	1,119,244	287,795	3.89	924,712
Janashakthi	2.24	3,510,174	1,860,757	1,115,908	1.67	4,103,078
LOLC	1.23	883,883	285,865	273,294	1.05	1,074,318
MBSL	1.06	518,511	113,752	197,278	0.58	567,695
Orient	11.67	165,938	436,971	55,626	7.86	150,739
People's	1.50	1,878,856	883,822	585,831	1.51	2,238,159
Sanasa	1.65	136,278	55,570	50,000	1.11	131,198
SLIC	3.25	12,570,017	12,216,661	2,814,390	4.34	11,767,131
UAL	2.33	2,823,314	1,714,780	827,106	2.07	3,040,948
Total	2.43	33,188,008	25,350,459	9,718,689	2.61	35,418,650

(a) Reinstated audited figures

(b) Provisional figures

Note:

Above analysis does not include information of NITF since required information was not submitted to the Board.

Insurance Brokering Companies

Performance of Insurance Brokering Companies

During the 2013, fifty nine insurance brokering companies operated in the market compared to fifty five in 2012. As depicted in Table 21, total commission income earned by the insurance brokering companies from long term and general insurance businesses amounted to Rs. 1,522 million in 2013. Accordingly, commission income has increased by 13.75% when compared to Rs. 1,338 million earned in 2012.

Commission income earned from general insurance business amounted to Rs. 1,502 million and represented 98.71% of total commission income.

In 2013, twenty four insurance brokering companies earned commission exceeding Rs.10 million each and these insurance brokers collectively earned commission amounted to Rs. 1,415 million which represented 93.03% of the total commission earned. The remaining thirty five insurance brokers earned Rs. 106 million which represented 6.97% of the total commission earned as depicted in Table 21.

Statistical Review

Table 21

Commission Income Generated by the Insurance Brokering Companies - 2013

	Name of the Brokering Company	Commission Income (Rs.'000)					
		Long Term		General		Total	
		Rs.'000	%	Rs.'000	%	Rs.'000	%
1	ADZ Insurance Brokers (Pvt) Limited	838	4.25	24,067	1.60	24,905	1.64
2	Aitken Spence Insurance Brokers (Pvt) Limited	113	0.57	69,126	4.60	69,239	4.55
3	Alfinco Insurance Brokers (Pvt) Limited	0	-	74,040	4.93	74,040	4.86
4	Assetline Insurance Brokers Limited	0	-	117,012	7.79	117,012	7.68
5	CF Insurance Brokers (Pvt) Limited	2	0.01	210,411	14.00	210,413	13.82
6	Commercial Insurance Brokers (Pvt) Limited	2,884	14.64	185,751	12.36	188,635	12.39
7	Delmege Insurance Brokers (Pvt) Limited	1,195	6.07	65,356	4.43	66,551	4.45
8	Equity Insurance Brokers (Pvt) Limited	0	-	17,029	1.13	17,029	1.12
9	Essajee Carimjee Insurance Brokers (Pvt) Limited	1,532	7.78	41,532	2.76	43,064	2.83
10	Finlay Insurance Brokers (Pvt) Limited	3,470	17.61	136,290	9.07	139,760	9.18
11	Global Insurance Brokers and Services (Pvt) Limited	95	0.48	36,863	2.45	36,958	2.43
12	Industrial & Commercial Insurance Brokers (Pte) Limited	243	1.24	32,914	2.19	33,157	2.18
13	L M & A Insurance Brokers & Consultants (Pvt) Limited	134	0.68	16,423	1.09	16,557	1.09
14	Life & General Insurance Brokers Ceylon (Pvt) Limited	29	0.15	17,256	1.15	17,285	1.14
15	Nations Insurance Brokers Limited	749	3.80	107,854	7.18	108,603	7.13
16	Pioneer Insurance Brokers (Pvt) Limited	0	-	20,541	1.37	20,541	1.35
17	Procure Insurance Brokers (Pvt) Limited	63	0.32	23,399	1.56	23,462	1.54
18	Protection & Assurance Insurance Brokers (Pvt) Limited	12	0.06	51,362	3.42	51,374	3.37
19	Reliance AAG Insurance Brokers Lanka (Pvt) Limited	3,375	17.13	15,258	1.02	18,633	1.22
20	Reliance Insurance Brokers (Pvt) Limited	329	1.67	28,170	1.87	28,499	1.87
21	Senaratne Insurance Brokers (Pvt) Limited	228	1.16	31,572	2.10	31,800	2.09
22	Senkadagala Insurance Brokers (Pvt) Limited	0	-	43,789	2.91	43,789	2.88
23	Strategic Insurance Brokers (Pvt) Limited	13	0.07	20,315	1.35	20,328	1.34
24	Zenith Insurance Brokers (Pvt) Limited	0	-	13,827	0.92	13,827	0.91
	Sub-total	15,304	77.69	1,400,157	93.23	1,415,461	93.03
	Other Insurance Brokering Companies (35)	4,395	22.31	101,654	6.77	106,049	6.97
	Grand Total	19,699	100	1,501,811	100	1,521,510	100

Abbreviations for Insurance Companies

AIA	: AIA Insurance Lanka PLC (Formerly AVIVA NDB Insurance PLC)	Janashakthi	: Janashakthi Insurance PLC
AIG	: AIG Insurance Ltd. (Formerly CHARTIS Insurance Ltd)	LIC	: Life Insurance Corporation (Lanka) Ltd.
Allianz Gen.	: Allianz Insurance Lanka Ltd.	LOLC	: LOLC Insurance Company Ltd.
Allianz Life	: Allianz Life Insurance Lanka Ltd.	MBSL	: MBSL Insurance Company Ltd.
Amana Takaful	: Amana Takaful PLC	NICL	: National Insurance Corporation Ltd.
Arpico	: Arpico Insurance Ltd.	NITF	: National Insurance Trust Fund
Asian Alliance	: Asian Alliance Insurance PLC	Orient	: Orient Insurance Ltd.
Ceylinco Takaful	: Ceylinco Takaful Ltd.	People's	: People's Insurance Ltd.
Ceylinco	: Ceylinco Insurance PLC	Sanasa	: Seemasahitha Sanasa Rakshana Samagama
Continental	: Continental Insurance Lanka Ltd.	SLIC	: Sri Lanka Insurance Corporation Ltd.
Cooperative	: Cooperative Insurance Company Ltd.	UAL	: Union Assurance PLC
HNBA	: HNB Assurance PLC		

Review of Operations

Supervisory Review

Insurance Companies

1. Review of Returns submitted to the Board

a) Annual Statutory Returns, Audited Financial Statements and Actuarial Reports

All insurers are required to submit their Annual Statutory Returns and Audited Financial Statements to the Board within six months following the end of the financial year as per the provisions of the Act. In addition, insurers engaged in long term insurance business are required to submit an Actuarial Report and an Abstract along with their Annual Statutory Returns in terms of the Act.

Whilst monitoring the timely submission of returns, the Board scrutinizes them to ensure their accuracy and compliance with the Act and other Rules and Regulations of the Board. The assistance of a Consultant Actuary is obtained to review Actuarial Reports and Abstracts.

Deviations from statutory requirements, other discrepancies and errors that were observed during the review of returns and reports are communicated to the respective insurers for rectification. The Board advises the insurers concerned to take corrective action within stipulated timelines. Follow up action is taken by the Board to ensure that insurers comply with the provisions of the Act and Rules and Regulations of the Board. Further, certain matters that are observed during the review of returns and reports are also addressed during the onsite inspections conducted by the Board.

b) Quarterly Returns

According to the provisions of the Act all insurers are required to submit their Quarterly Returns to the Board within forty five days of the end of each quarter. The Board reviews all the Quarterly Returns submitted by the insurers and ensures that they comply with the provisions of Act, other Rules and Regulations. Further quarterly performance and financial position of insurers are also evaluated through the review of Quarterly Returns. Insurers are also required to submit two Compliance Certifications along with the Quarterly Returns to confirm that they comply with the provisions

of Act, Rules and Regulations of the Board and the provisions of the Financial Transactions Reporting Act, No. 6 of 2006. Further all insurers are required to submit details regarding their facultative reinsurance arrangements along with the Quarterly Returns.

The Board analyzes the returns in order to evaluate the quarterly performance of each insurer based on premium income, underwriting profit and net profit for both long term and general insurance businesses. Further, a comprehensive ratio analysis on profitability, expenses and claims are carried out to assess the insurers' quarterly performance.

The financial position of all insurers at the end of each quarter is continuously monitored throughout the year by analyzing their assets and liability positions and ratios such as solvency, liquidity and capital adequacy. Overall performance of the insurance industry is also ascertained whilst individual performance of insurers is benchmarked against other industry participants.

Insurers are informed of non-compliances with the Act, Rules and Regulations and instructions are provided to rectify them within stipulated timelines. The Board has taken necessary follow up action to monitor insurers' compliance with regulatory requirements.

c) Monthly Returns

During the year 2013, four insurers submitted their Monthly Returns in accordance with the Directions issued by the Board. Such insurers are required to submit Monthly Returns within fifteen days from the end of the month. The Board reviewed their Monthly Returns to scrutinize compliance with the Act, other Rules and Regulations of the Board. Further, performance and financial position of relevant insurers are continuously monitored on a monthly basis. Where non-compliance with regulations and discrepancies are observed in the returns, the Board has taken appropriate action within stipulated timelines.

d) Risk Assessment Summary (RAS)

Insurers are required to file their Risk Assessment Summary (RAS) with the Board on or before 31st March of each year. The Board reviews the information enclosed in the RAS regarding organizational and ownership structure, business profile, senior management, functions such as marketing and

Review of Operations

distribution, claims administration, risk management, etc. to obtain an overview of insurers' operations.

2. Monitoring Compliance with Solvency Margin Rules

All insurers are required to maintain the minimum required solvency margins for both general and long term insurance businesses in accordance with the Solvency Margin (General and Long Term Insurance Business) Rules. Insurers need to submit their solvency margin computations as a part of the Monthly/Quarterly/Annual Returns and such computations are reviewed by the Board to ensure compliance with the Solvency Margin Rules. If the solvency computations are observed to be inaccurate, the insurers concerned are instructed to resubmit the rectified computations. Further, the Board instructs insurers to take immediate action to comply with the Solvency Margin Rules if they do not satisfy the minimum required solvency ratios within stipulated timelines. The Board continuously monitors their solvency position to ensure compliance with the Solvency Margin Rules.

3. Monitoring Compliance with Investment Specifications

a) Investments in Government Securities

Insurers are required to invest not less than 20% of the assets of the Technical Reserves and not less than 30% of the assets of the Long Term Insurance Fund in government securities as per section 25 of the Act. The Board closely monitors the investments in government securities of all insurers in order to ensure compliance with section 25 of the Act on monthly/quarterly/annual basis. To this end, the Board reviews the Statements of Holdings issued by the Central Bank of Sri Lanka for the investments in government securities to ensure the accuracy of the figures reported and to verify the ownership of investments in government securities. Any deviations from regulatory requirements observed during the reviews are communicated to respective insurers for corrective action within stipulated timelines.

b) Other Investments as per Determinations

Every insurer needs to invest the balance assets of the Technical Reserves and the Long Term Insurance

Fund in accordance with the Determination 1 of 1st March 2011 and its subsequent amendments. The Board reviews the investment details of Technical Reserves and the Long Term Insurance Fund to ensure compliance with Determination 1. Any non-compliance is communicated to respective insurers for rectification within the timelines specified by the Board.

4. Other Financial Analysis

The Board carries out further financial evaluation of certain insurers as part of the investigations/complaints handled during the year. Additional financial information is gathered and analyzed relating to specific areas of concern to support decisions made by the Board.

5. Risk Based Capital (RBC) Model for Insurance Industry Supervision

During 2013, the Board continued to implement the Risk Based Capital (RBC) Model for the insurance industry. After careful analysis of the insurance industry and the prevailing global insurance supervisory practices, the Board initiated the RBC project in 2009 with the objective of developing a risk sensitive minimum capital regime instead of the current rules based regime. The Board received assistance from the World Bank and the First Initiative for the development of the RBC framework. The initial technical support was provided by Deloitte Touche Tohmatsu India (Pvt.) Limited as the consultants to the World Bank.

The RBC project comprises of many phases, namely, Market Assessment Report, Qualitative Report, Quantitative Report, Final Draft Rules and Training. The Market Assessment Report and the Qualitative Report were completed in 2010 while the Quantitative Report was completed in the year 2011. A seminar was organized by the Board in October 2011 with the collaboration of the World Bank to introduce the Quantitative Report to the insurance industry. The industry participants were given the opportunity to express their views and feedback during all the phases of the RBC project.

The RBC Framework together with generic templates were submitted to the insurance industry in August 2012 to commence the RBC Road Test from the third quarter of 2012. The objective of conducting the RBC Road Test was to evaluate whether the

Review of Operations

RBC formula and the parameters were appropriately developed and to identify its impact on individual insurers and the insurance industry as a whole. The Road Test commenced from the third quarter of 2012 till the second quarter of 2013. Further a “Joint Working Committee for Implementation of RBC” was established with the participation of the officials of the Board and the representatives of the insurance industry with the objective of facilitating discussions to resolve issues pertaining to RBC. Based on these discussions further refinements to generic templates were effected in 2013. Final RBC Framework was issued to the insurance industry in October 2013 based on the analysis of the Road Test results, feedback received from the insurance industry with the input of the Board. Further the Board organized a seminar in October 2013 with the collaboration of the World Bank to issue the Final RBC Framework to the industry and to train the participants on same. Currently RBC Rules are being drafted based on the Final RBC Framework for implementation.

6. Onsite Inspections

The Board conducted seven onsite inspections at insurance companies during the year 2013. During these inspections the Board reviewed the operations, systems, policies and procedures of insurers to assess their compliance with the provisions of the Act and other Rules and Regulations of the Board. Interviews are also conducted with the the Senior Officials of the insurers, Internal/External Auditors and the Actuaries in order to gather more information of companies’ operations, systems and procedures. Observations made during the onsite inspections are communicated to respective insurers together with Board’s recommendations for improvement in order to obtain their responses.

7. Submission of Information to the Central Bank of Sri Lanka

The Board submitted financial information regarding the performance of the insurance industry on quarterly basis to the Financial System Stability Department of the Central Bank of Sri Lanka. The performance of the insurance industry is assessed based on the information gathered from the Quarterly Returns, such as premium income, profitability, liquidity, etc.

8. Review of Reinsurance Arrangements

Insurers are required to furnish certified copies of their Reinsurance Cover Notes and Treaties to the Board on or before 15th March and 31st March each year respectively as per the terms and conditions issued by the Board under Sections 31(1) and 50(1) of the Act. The Board reviews the said documents to ensure reinsurance covers are obtained from reinsurers who satisfy the rating requirements prescribed by the Board. Where deviations from regulatory requirements are observed, relevant insurers are informed to take corrective action within stipulated timelines.

9. Segregation of Composite Insurers

In terms of section 53 of the Amendment Act, insurers who are engaged in both long term and general insurance businesses are required to segregate their composite insurance business into two separate companies by February 2015. In 2013, the Board perused the segregation proposals and the information submitted by composite insurers regarding the models that they have proposed to segregate their composite insurance business and communicated the observations to the insurers concerned.

10. Risk Based Supervision (RBS) Project

The World Bank and the FIRST Initiative project on implementation of Risk Based Supervision (RBS) was initiated during the year with the objective of strengthening the supervisory function of the Board. The RBS project will enhance Board’s supervisory capacity in the areas of Risk Based Supervision, reinsurance, reinsurers, loss adjustors, investments, investment linked products, etc. During 2013, discussions were held with the World Bank consultants regarding the overall project plan, timelines, deliverables, etc. in order to proceed with the RBS project.

11. Illustrative Financial Statements for Insurers

The Board together with the Institute of Chartered Accountants of Sri Lanka (ICASL) engaged in replacing the current Statement of Recommended Practice (SORP) with the Illustrative Financial Statements which prescribes the presentation of Financial Statements of insurers to be in line with the

Review of Operations

Sri Lanka Financial Reporting Standards (SLFRS). Illustrative Financial Statements will create a uniform financial reporting system in the insurance industry and will facilitate presenting financial information in accordance with the SLFRS. During the year 2013, the Board liaised with the ICASL to finalize the Illustrative Financial Statements together with guidance notes with the aim of issuing same to the insurance industry as a Determination.

Insurance Brokers

1. Review of Quarterly Returns, Interim Financial Statements and Audited Financial Statements

Insurance Brokers are required to submit their Quarterly Returns and Interim Financial Statements to the Board within 45 days from the end of each quarter as per Gazette Notification No.1642/16 (First Schedule) of 25th February 2010. The Board reviews the Quarterly Returns submitted by Insurance Brokers. If any deviations from regulatory requirements and discrepancies are observed during the review of returns, the relevant brokers are informed to take corrective action within the timelines stipulated by the Board.

Audited Financial Statements of insurance brokers are required to be submitted to the Board within six months from the end of the financial year. The Board reviews the Audited Financial Statements in order to evaluate the financial position and the performance of insurance brokers. Deviations from regulatory requirements are communicated to the respective insurance brokers for rectification.

2. Monitoring Premium Collections

Insurance brokers are required to remit the premiums collected by them to respective insurers within two weeks of collection as per section 89 of the Act. During the year, the Board closely monitored the compliance of insurance brokers with section 89 of the Act through the review of Quarterly Returns and during the onsite inspections. Necessary actions are taken by the Board against such insurance brokers who did not comply with the said provision.

3. Onsite Inspections

The Board conducted eight onsite inspections at insurance brokering companies during the year 2013 to monitor whether insurance brokering business is carried out in accordance with the Act and Rules and Regulations of the Board. Observations made during the onsite inspections are brought to the notice of the relevant insurance brokers with recommendations for corrective action and where necessary regulatory actions have been taken by the Board.

4. Renewal of Registration

The Board reviewed the applications received from insurance brokers to renew their registration for the year 2014. The financial position of insurance brokers is assessed by analyzing their Audited Financial Statements and Quarterly Returns prior to the renewal of registration.

Review of Operations

Regulatory Review

Registration of Insurance Companies

Applications seeking registration as insurers were not received by the Board during the year and the number of registered insurers remained at 22.

Appendix I: Provides names of all insurance companies registered with the Board and the class/classes of insurance business they are authorized to carry on.

Registration of New Insurance Brokering Companies and Renewal of Registration of Insurance Brokering Companies

Registration to 02 companies to operate as insurance brokers was granted by the Board during the year. These two companies have obtained registration to carry on both long-term and general insurance brokering business.

Applications from 57 insurance brokering companies seeking renewal of registration for year 2014 were received by the Board during the year, and out of which renewal of registration was granted to 56 companies for the year 2014 in view of them fulfilling necessary requirements under the Act.

Appendix II: Provides names of all insurance brokering companies registered with the Board and the class/ classes of insurance brokering business they are permitted to carry on.

Enforcement Action

Insurance Companies

Suspensions

No suspensions were imposed by the Board during the year. However, the suspension imposed on Ceylinco Takaful Limited in year 2009 continues.

Following the Supreme Court Order given on the Fundamental Rights Case No. SC (FR) 191/09, the Board entered into a Memorandum of Understanding (MOU) with Ceylinco Takaful Limited, to initiate a procedure to dispose the assets owned by Ceylinco Takaful Limited for the purpose of settling genuine insurance claims of the company. Accordingly, paper notices have been published requesting the claimants of Ceylinco Takaful Limited to forward their claims to the Board in writing. Presently, the Board is reviewing and verifying the responses.

Directions

A direction was issued by the Board to an insurance company in terms of Section 37 (2) of the Act, requiring them to amend an Investment Bond Policy, issued by them, as some of its terms and conditions stated in the policy were not fair and equitable.

According to Section 37(2) of the Act, the Board may having regard to the need to ensure that the terms of the contract of insurance covered by such policy document are fair and equitable, direct amendments to any policy document furnished to the Board under subsection 37 (1) of the Act, and it shall be the duty of the insurer furnishing such document to give effect to such amendments.

Having observed several irregularities in connection with an insurance scheme entered into by an insurer, Directions were issued by the Board to the insurer under Section 57 of the Act with a view to ensuring the stability and sustainability of such insurer.

Section 57 of the Act empowers the Board to issue Directions to insurers when the affairs of any insurer are conducted in a manner likely to be detrimental to the public or national interest or the interest of policyholders or prejudicial to the interest of the insurer.

A close and continuous monitoring is being carried out by the Board in respect of previously issued directions to insurance companies, in order to determine whether the respective insurers have adhered to same.

Warnings

No warning letters were issued by the Board to insurers during the year.

Insurance Brokering Companies

Warnings

Letters of warning were issued to 05 insurance brokering companies by the Board, since the companies failed to comply with Section 86 (1) of the Act.

Section 86 (1) of the Act read with Rule 7 published in Gazette Notification No. 1642/16 of 25th February 2010, *inter alia*, requires every insurance broker to submit its quarterly returns to the Board within forty five days from the end of each quarter, certified by the Principal Officer and a Director of the brokering company.

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Further, letters of warning were issued by the Board to 02 insurance brokering companies for violating Section 89 of the Act.

Section 89 of the Act, *inter alia*, requires insurance brokering companies to remit insurance premia collected by them on behalf of insurance companies within two weeks of collection.

Another insurance brokering company was issued with a letter of warning for furnishing the Board with false, misleading and inaccurate information and for having concealing and failing to disclose material facts in the application for renewal of registration for year 2013.

Section 84 (1) (e) of the Act empowers the Board to suspend or cancel a registration or refuse to renew a certificate issued to a broker for furnishing the Board with false, misleading or inaccurate information or for having concealing or failing to disclose material facts in the application for registration or renewal.

Section 84 (1) (d) of the Act empowers the Board to suspend, cancel or refuse to renew the registration granted to an insurance broker if, the Board has issued warnings on at least 03 separate occasions.

Directions

A Direction was issued by the Board to an insurance brokering company in terms of Section 84A of the Act, directing the company to infuse capital to maintain the minimum net capital requirement of Rupees one million. A reasonable time period was given for compliance.

Section 84A of the Act, empowers the Board to take action in lieu of taking action under Section 84 of the Act to suspend or cancel a registration or to refuse to renew the registration, where the nature of the act or omission is not of such gravity as to warrant taking action under Section 84. Accordingly, the Board shall direct an insurance broker to take such measures to -

- (a) rectify and set right any consequence resulting from such act or omission; and
- (b) comply with the provisions of the Act or any Regulation or Rule made thereunder or any conditions imposed or any directions given by the Board, under the Act.

Regulatory/Advisory Measures:

1. A reinsurance entity requested the Board to review its temporary downgrading and to grant them a reasonable time period to improve its rating, enabling the continuation of its business in the Sri Lankan Market. This request was pursuant to the revised reinsurance terms and conditions issued by the Board applicable to insurers from year 2013 onwards. However, their request was not acceded to by the Board. Further, the Board informed all insurers to strictly comply with the terms and conditions issued by the Board when placing reinsurance from year 2014 onwards.
2. Approval of the Board was sought by an insurance company to invest in equity of an insurance company in Maldives. The said investment amounted to 3.3% of the total assets of the company which made the request.

As per Rule 4 (ii) of Gazette Extraordinary No. 1414/19 of October 2005, the value of assets permitted to be kept outside Sri Lanka with any single person or with a person and its related parties, shall not exceed five per centum (5%) of the value of assets permitted to be kept outside Sri Lanka at any given time (i.e. 20%). Therefore, the effective single party exposure of such is 1% of the Total Assets.

Therefore, the request of the company was not approved by the Board as it exceeded the limits stipulated in the said Rules and also on the basis that it was doubtful whether the proposed investment would generate a reasonable investment return.

3. A request was made by the Maldives Monetary Authority (MMA) to enter into an MOU with the Board for the purposes of cooperation in the field of supervision and regulation, for cooperation in training and technical assistance and for cooperation in exchange of supervisory and regulatory information. Section 5 (dd) of the Act, empowers the Board to enter into any bilateral or multi lateral MOUs pertaining to the sharing of information with any local or foreign authority. Therefore, the Board acceded to their request and entered into the MOU with MMA.
4. An insurance brokering company inquired from the Board whether there was any legal provision in the Act which precludes them from dealing in reinsurance

Review of Operations

business as a broker and whether the authorization issued by the Board (registration certificate) allows them to transact reinsurance business and engage in foreign reinsurance placements. The Board informed them that they may function as an intermediary to insurers registered in Sri Lanka in respect of their reinsurance business in or outside Sri Lanka according to the terms and conditions issued by the Board for reinsurance placements. Further, the same was informed by the Board to Sri Lanka Insurance Brokers Association and Insurance Association of Sri Lanka.

5. Approval of the Board was sought by an insurance company to permit them to consider the alternate leasehold property as an admissible asset for their solvency margin computation, for two years from the date they enter into the new lease agreement relating to the said property. The Board informed them that as per the Solvency Margin (General & Long Term Insurance Business) Amendment Rules, leasehold land and building acquired as at 31st December 2010 will be admissible only upto 01st April 2013.
6. The Board issued a Direction to an insurance company in the year 2009, preventing them from making any payments to its related companies. The said insurance company sought approval of the Board to settle the outstanding payments to a related company in the year 2011 and it was not acceded by the Board since the Supreme Court had made an order prohibiting all companies of the group in which such insurance company is also a member, from transferring any capital assets or other assets except few motor vehicles unless with special permission of Supreme Court. The said insurance company once again sought approval of the Board stating that the Supreme Court has granted approval to same and therefore, the said request was approved by the Board, subject to certain conditions.
7. The Board issued a Direction to an insurance company in year 2012, preventing them from issuing insurance policies to related parties without having received the full insurance premium at the commencement date of the cover. The said insurance company requested the Board to reconsider the said Direction and the Board having examining the information received from the company decided to cancel the said Direction subject to certain conditions.

8. Approval of the Board was granted to a number of applications by insurance companies for appointment of Directors in terms of the new provisions introduced in the Amendment Act.

9. Approval of the Board was granted to a number of applications by insurance companies and insurance brokering companies seeking approval to appoint Principal Officers in terms of the provisions in the Act.

10. Approval of the Board was granted to two insurance companies to appoint Valuers under the Solvency Margin Rules.

Regulatory Reforms

Rules

Rules to increase the paid up share capital of insurance companies and insurance brokering companies:

The Board issued new Rules requiring insurance companies registered prior to 30th June 2011 to increase the paid up share capital up to not less than Rs 500 million for each class of insurance business on or before February 2015. Companies registered as insurers subsequent to 30th June 2011 have a paid up share capital not less than Rs 500 million.

Rules have also been issued requiring insurance brokering companies to increase the paid up share capital up to not less than Rs 2.5 million on or before 31st December 2014.

The above Rules are made under section 95A of the Act and are published in Gazette Extraordinary No. 1809/7 of 7th May 2013.

Rules on paid up share capital of insurance companies formed pursuant to complying with the segregation requirement of composite insurance companies:

Rules have been formulated to permit insurance companies formed pursuant to the segregation requirement to have a paid up share capital of Rs 100 million at the time of its registration as an insurer and thereafter to increase the capital to Rs 500 million on or before February 2015.

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Rules specifying registration requirements of Institutional Agents:

Rules have been formulated specifying registration requirements for persons (other than for individuals) to be registered as insurance agents of insurance companies and insurance brokering companies.

Determinations

Determination pertaining to the maximum sum assured for General Insurance Business for purposes of Section 98 of the Act - Determination #11 of 30th October 2002 as amended on 25th May 2009 and further amended on 30th April 2013

Section 98 of the Act as amended by Act, No. 03 of 2011, authorizes the Board to inquire into disputes relating to the settlement of claims referred to the Board by claimants arising under long term and general insurance business, where the sum assured does not exceed a certain sum as determined by the Board.

The maximum sum assured for long-term insurance business has been determined as Rs 100 million in May 2009. The maximum sum assured for general insurance business has been determined as Rs 200,000 million.

Determination pertaining to the Compliance Certification of insurance companies - Determination #12 of 31st May 2011 as amended on 30th April 2013

Insurance companies are by the said Determination required to provide Compliance Certifications to the Board on a quarterly basis along with the quarterly returns.

These Compliance Certifications require the insurance companies to certify whether they have complied with the provisions of the Act and the Financial Transactions Reporting Act, No. 6 of 2006.

Directions issued under Section 96A of the Act

Direction to all insurance companies on supply of policy documents to policyholders - Direction #2 of 29th November 2013

The Board having observed that some insurers delay to supply policy documents to policyholders has issued the following Direction to all insurance companies:

- Insurers to obtain an acknowledgement in writing from the policyholder within one week time from the date of issue of the policy, that the policyholder has received the policy documents and indicating in the acknowledgement the date of receipt of policy document. In case where the insured is a company, the acknowledgement shall be obtained from a director, the company secretary of such company or a person authorized by the company to accept policy documents on behalf of the company.

Direction to all insurance companies to have a separate Principal Officer and a separate Specified Officer - Direction #3 of 31st December 2013 as amended on 24th September 2014

The Board issued Direction #3, directing all insurance companies to have a Principal Officer and a Specified Officer and such Principal Officer or the Specified Officer shall not be employed by another insurance company in any capacity.

The aforementioned Direction specifies that the Specified Officer of an insurer may function as the Principal Officer of the same insurer only in accordance with Section 32(2) of the Act, and insurance companies already having a common Principal Officer and a common Specified Officer are required to comply with the aforesaid Direction on or before 31st December 2014.

Circulars

Qualification of a Valuer to value leasehold and freehold land and building of an insurance company - Circular # 30 of 14th March 2013:

The Board specified the criteria that a Valuer of an insurance company should possess to value land and building in Sri Lanka for the purposes of the Solvency Margin Rules of the Board.

Cancellation of Semi Annual Certification required by Insurance Companies in terms of Circular # 18 - Circular # 31 of 30th April 2013:

The Board requested all Insurance Companies to disregard Circular # 18 dated 18th January 2005 and amendment to Circular # 18 dated 22nd December 2006, in view of the amendment to Determination # 12 dated 30th April 2013 pertaining to compliance certification of insurance companies.

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Overseas Health and Travel Insurance - Circular # 32 of 30th October 2013

The Board cancelled the approval granted in item No. 1 of Circular # 4 dated 5th June 2002 in relation to overseas health and travel insurance with effect from 30th October 2013.

However, notwithstanding the cancellation of item No. 1 of Circular # 4 dated 5th June 2002, the Board granted approval to any person in Sri Lanka to directly or indirectly place health and travel insurance covers with an insurer licensed or registered overseas even if such insurer is not registered in Sri Lanka, in terms of Section 101 of the Act only -

- i. for the purpose of travel abroad;
- ii. for the period of stay abroad; and
- iii. through insurance brokering companies registered under the Act.

The aforesaid approval came into effect from 31st October 2013.

However, health and travel insurance policies which are not available with insurance companies registered under the Act may be placed with foreign insurers, only after having obtained the written approval from the Board under section 101 of the Act.

Insurance companies to attach a certified copy of the proposal form and a certified copy of the personal statement made to a medical officer by the proposer, if any, to the policy documents - Circular # 33 of 9th December 2013

The Board having reflected the requirements of section 42(3) of the Act advised insurance companies to attach a certified copy of the proposal form and a certified copy of the personal statement made to a medical officer by the proposer (if any) to the policy documents as a good practice.

According to section 42(3) of the Act, upon application made to an insurance company in that behalf, the insurance company shall supply to the policyholder or to his legal representative or to an assignee of the policy, a certified copy of the proposal for the policy and of the personal statement made to the medical officer by the proposer, unless copies thereof are attached to the policy.

Guidelines on segregation for Composite Insurance Companies

The Board issued Guidelines on segregation of insurers engaged in carrying on both long term and general insurance businesses, i.e. composite insurers. Composite insurance companies are required to comply with Section 53 of the Amendment Act on or before February 2015.

Review of Operations

Investigatory Review

The Board has an overall objective of safeguarding the interests of policyholders and potential policyholders in terms of the statutory obligations stated in Section 3 of the Act. Accordingly, protecting the interests of policyholders is an integral part of Board's regulatory process. To fulfill that, the Board inquires into disputes when a complaint is lodged with the Board.

The investigatory process includes detail analysis of information submitted by the complainant and the evidence

collected from insurance companies, insurance brokers, agents and other external parties.

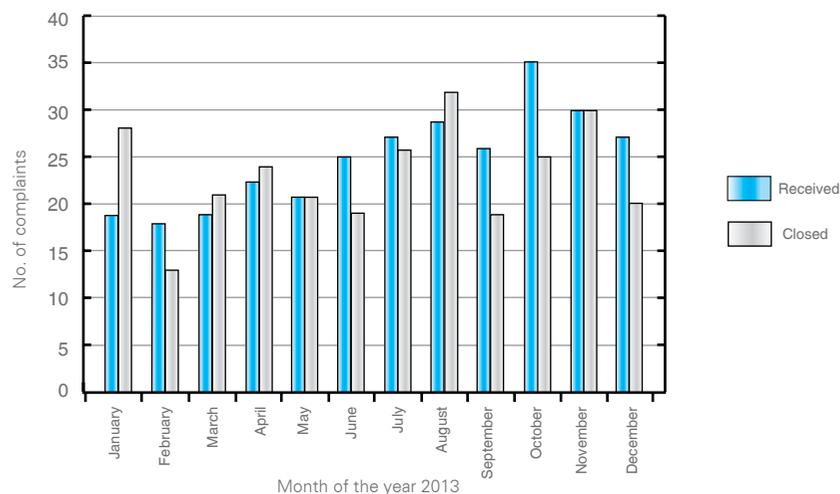
During the year 2013, the Board received a total of 298 complaints. From the entire complaints inquired into, 278 complaints were closed in the year 2013. Table 01 depicts the complaints received in category wise during the year under review.

Table 01
Complaints Received in Category Wise

General	No.	Long Term	No.	Agent Related	No.
Motor	135	Hospitalization	06	Employment Matters	09
Marine	02	Death Benefit	18	Qualifications	13
Fire	10	Disability	02	Misappropriation	08
SRCC/TC	02	Cover Removed/ Policy Not Revived	06	Others	07
Burglary	07	Maturity Benefits/ Surrender Value	21		
Performance/Advance Payment	07	Other – Loans	02		
Workmen's Compensation	01	Refund of Premia	12		
Flood	03	Investment Policies	10		
Agrahara/ Guru Abhimani	03	Critical Illness	07		
Contractor's All Risk	01				
Loan Protection	02				
Group Insurance	01				
Plant All Risk	03				

Chart 01 depicts the complaints received and closed during the year 2013

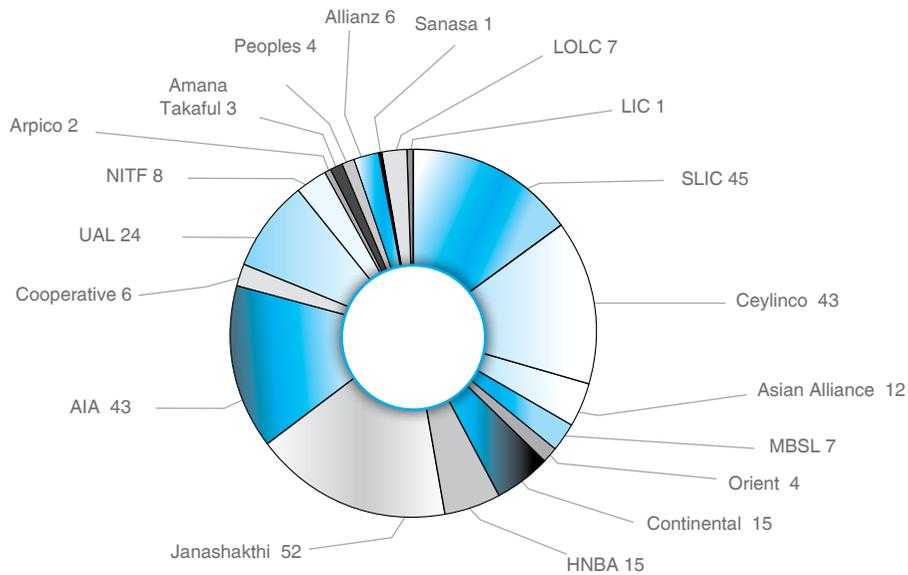
Chart 01
Complaints Received and Closed During the Year 2013



Review of Operations

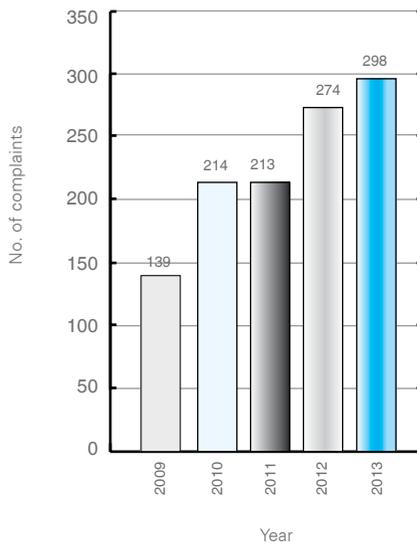
Chart 02 depicts the company wise break down of complaints received during the year 2013.

Chart 02
Company Wise Break Down of Complaints Received During the Year 2013



The Investigation Division of the Board was created in year 2009 and was setup as a fully fledged Division in year 2010. The complaints received yearly since 2009 are as follows :

Chart 03
Complaints Received Yearly since 2009



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A total of 43 complaints were settled during the year under review after having inquired into and the aggregated value of these claims amounted to Rs. 18,276,694.

Other Engagements

Several matters were referred to the Board in connection with bonus payment of National Insurance Corporation Ltd. policies. Having inquired into the matter, policyholders were advised appropriately.

- Third party motor insurance and claims payment procedure was discussed with the Department of Motor Traffic and other relevant stakeholders with a view to simplifying the process. Having studied the current practices and the procedures prevalent in other jurisdictions, the Board forwarded its proposal to the Department of Motor Traffic to be incorporated into the Motor Traffic Act.
- During the course of complaints handling, the Board noted several areas for improvement regarding Agents and their recruitment, termination procedure etc. Having discussed with the Insurance Association of Sri Lanka, several steps are being taken to streamline the process.
- The Board formulated its written internal procedure for Claims Handling, to ensure that the procedures and processes adopted would be consistent and transparent.
- After observing various types of complaints the Board receives, important areas to be conveyed to the public are considered when preparing public awareness materials issued by the Board.

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Market Development and External Relations Review

The Board strives to improve the knowledge on insurance in general public through public awareness, to have an informed public with a view to protect policyholders.

In keeping this objective, the Board utilised various communication channels in the year 2013 in order to reach the target audience. They are given as follows:

Awareness Programmes at Divisional Secretariats

This programme was initiated in year 2012. During the period under review, the Board covered Divisional Secretariats in Western, North Western, Sabaragamuwa, Southern, Central and North Central provinces. The aim of this programme is to enhance the knowledge of public representatives who interact directly with the public on a daily basis on insurance. These programmes are attended by the Grama Niladhari's, Field Officers, Samurdhi Officials, Development Officers and the staff of the respective Divisional Secretariats.

Ten (10) awareness programmes were conducted in Padukka, Minuwangoda, Anamaduwa, Kurunegala, Balangoda, Beruwala, Mihintale, Hikkaduwa, Kalutara and Kundasale Divisional Secretariats covering approximately 690 Gramaseva Niladhari Divisions.



Participation in Exhibitions

The Board participated at the 7th "Dayata Kirula" Exhibition held in conjunction with the 65th Independence Day celebration in Hardy Advanced Technological Institute, Ampara from 23rd March to 29th March 2013. The Board contributed Rs. one million for the construction of a reading room at the Hardy Advanced Technological Institute.



This annual national exhibition created an ideal link with the rural masses to the insurance industry and gave an opportunity to those who visited the stall to interact with the officials of the Board. Approximately 4000 interested public visited the stall.

The Board uses the electronic and the print media as a vital tool in its communication strategy.

Media Interviews

A live discussion was held in "Nuga Sevana" programme of Sri Lanka Rupavahini Corporation on 9th April 2013. "Regulatory aspects on insurance and the need for insurance" was discussed by Director Legal of the Board

Review of Operations

and a representative of the Insurance Association of Sri Lanka (IASL). This program has been well received by many as we continue to receive queries from the general public.

Publications

The Board published and distributed several publications in the year under review. These communication materials help the public to understand the concepts and other important aspects of insurance that may assist them in purchasing insurance products.

The Board published the following paper advertisements, supplements, articles, press notices, press releases and press interviews.

a) Press Releases

- Press Release on the “Performance of the insurance industry during the year 2012” was published in June 2013.
- Press Release on the “Performance of the Insurance Industry for the 1st half of 2013” in November 2013.

b) Press Notices

- Press Notice in three languages on “List of Registered Insurance Companies” in June 2013.
- Press Notice in three languages on “List of Registered Insurance Brokering Companies” in June 2013.
- Press Notice in three languages on “Better be safe than sorry” in December 2013.

c) Press articles

- Press Article was published in the insurance supplement of Daily Mirror on “When obtaining an insurance policy” in February 2013.
- Press Article was published on “Risk Based Capital (RBC) Seminar” in July 2013.

d) Press Interview

- A press interview of the Director General of the Board was organised with Ceylon Today newspaper in November 2013, pursuant to a request made by the business editor of “Ceylon Today”.

e) Posters

Posters on information for use in the awareness programmes of Board for dissemination to the general public were printed in three languages.

f) Brochures & Handouts (in Sinhala Tamil and English)

Brochures on the following topics were printed:

- “Insurance - Are you aware?” in Sinhala & Tamil
- “Facts to be considered” in Sinhala & Tamil
- “Insurance Proposal Forms” in Sinhala & Tamil
- “List of Insurers” in Sinhala & Tamil
- “Importance of Insurance” in Sinhala & Tamil
- “Insurance Board of Sri Lanka” in Sinhala, Tamil & English



Review of Operations

Other activities

a) Documentary Film on the Board

The Video Documentary regarding the Board was edited to include English subtitles and was further updated with market statistics.

b) Product Gap Analysis

The Board reviews products of insurance companies with a view to facilitating the growth of the insurance industry. As a preliminary step, Motor Insurance Policies were reviewed during the year and areas for improvement were identified.

c) Public Consultation

During the year under review, the Board attended to numerous inquiries and grievances from the general public, policyholders as well as from other stakeholders requesting information relating to the industry and making inquiries on insurance related matters.

Review of Operations

Administrative Review

Staff

The success of any organization largely depends on the expertise of people involved in its functions. As such, we believe that the human resource is the very backbone of the success strategy of the Board.

The Board establishes the organizational structure, identifies necessary functions to discharge its duty towards achieving the overall objective of ensuring that the insurance industry in Sri Lanka is carried on with integrity with a view to

safeguarding the interests of all policyholders and potential policyholders.

The Board took several key initiatives during the year under review to strengthen the human resource through timely recruitment of required professionals. To meet such initiatives, a Director, five Executives and a Secretary were recruited to the permanent cadre during the year under review. Total staff strength of the Board was 42 positions as at 31st December 2013.

The educational and professional qualifications of the staff as at 31st December 2013 are depicted in the Table below:

Educational / Professional Qualifications	Post Graduate, First Degree & Professional Qualifications	Post Graduate & Professional Qualifications	Post Graduate & First Degree	First Degree & Professional Qualifications	First Degree	Professional Qualifications
Number of staff Members	03	03	01	09	11	04

Training

Focus on training and development covers the broad policy of helping the staff to obtain knowledge and learn job related skills so as to improve their performance and organizational goals. During the year local as well as overseas training

opportunities were provided to staff to strengthen their capabilities and to improve their knowledge in par with the new pronouncements.

Category	2012 (Rs.)	2013 (Rs.)
Local Training	811,321	1,535,494
Foreign Training	6,290,479	6,287,452

Staff Welfare

Caring for the well-being of its employees has been an important factor in motivating and increasing their morale. Hence, the Board provides an attractive welfare package inclusive of indoor and outdoor medical schemes, personal accident insurance cover, vehicle and distress loan schemes and festival advances. Further, the Board provides opportunities to enhance the relationships with staff and their families by organizing a residential training programme and an annual get-together.

Information Technology

In order to deliver information clearly to the needed stakeholders the Board re-launched its website.

For the purpose of improving the security standards of the Board, a CCTV system was installed. Several PCs of the Board were replaced with new PCs according to present IT plan and procurement plan.

Review of Operations

Financial Review

Policyholders' Protection Fund (PPF)

According to the Act, money collected (Cess) to the Policyholders' Protection Fund (PPF) which is not immediately required for any of the purpose referred to in the Act is invested by the Board in a prudent manner to yield

good returns. During the year, the Board invested such funds accordingly and Chart 01 depicts the Cess collection and investment income earned from 2009 to 2013.

Chart 01

Cess Income and Investment Income for the period 2009-2013

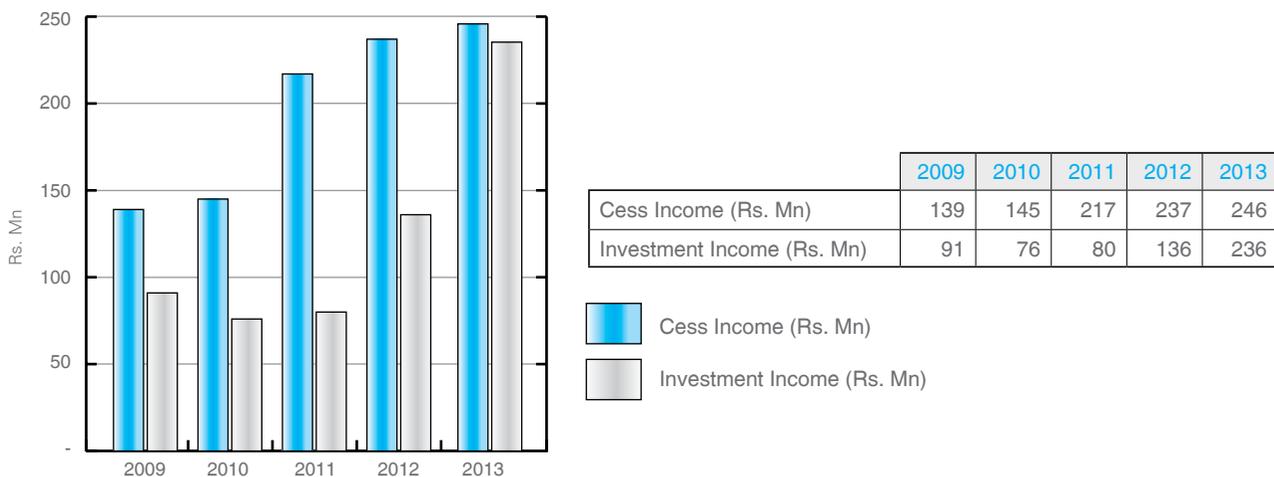
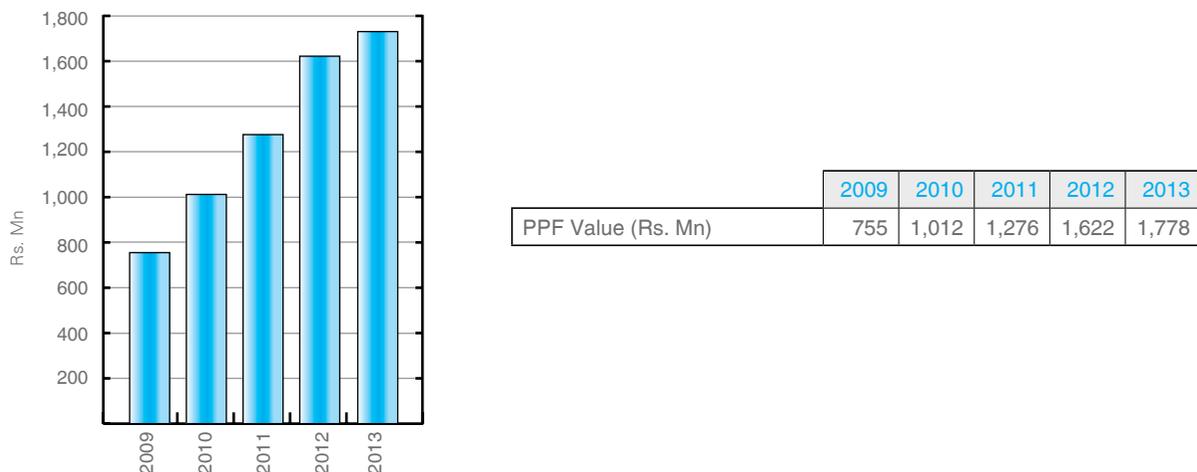


Chart 01 illustrates the growth of the Cess income over the last five years. The investment income has shown a significant increase from 2012 to 2013 due to diversifying the

investment portfolio. Value of the PPF has increased over the last five years and Chart 02 depicts the same.

Chart 02

Policyholders' Protection Fund Values for the period 2009-2013

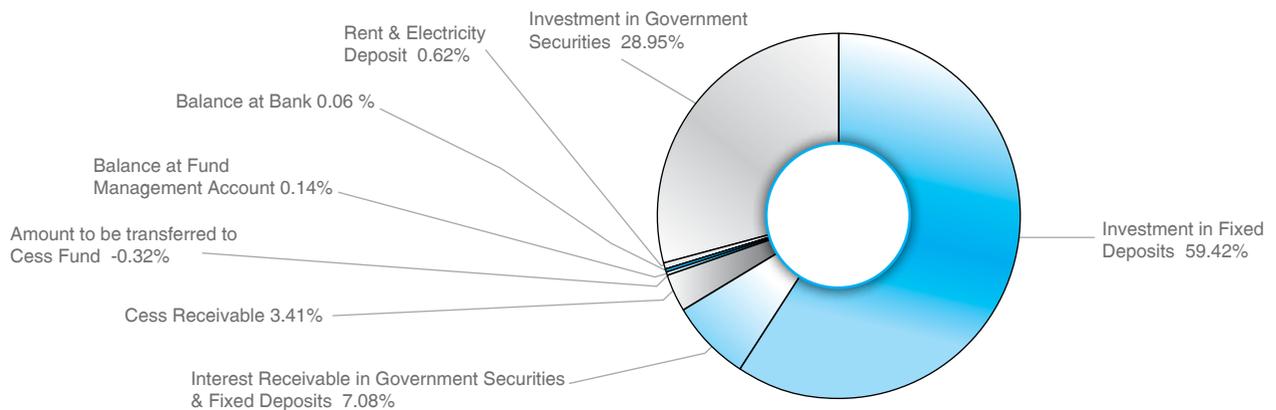


Review of Operations

The composition of assets of the PPF as at 31st December 2013 is depicted below.

Chart 03

Assets Composition of Policyholders' Protection Fund as at 31 December 2013



Income of the Board

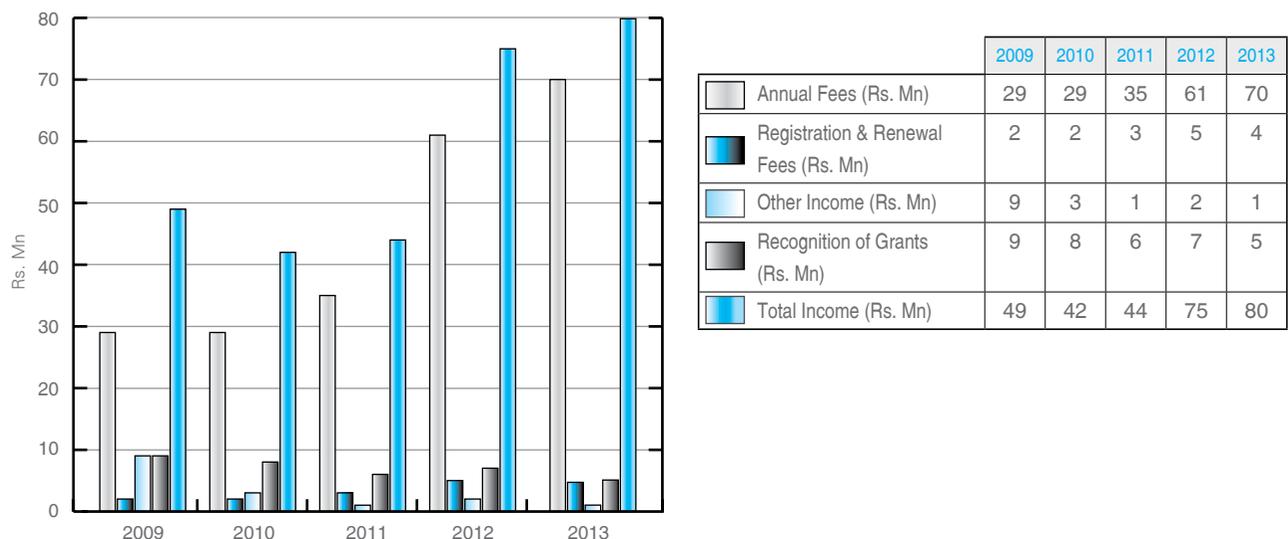
The overall income of the Board is derived from the following sources :

- Registration fees from insurers and insurance brokering companies
- Annual Fee levied from insurance companies
- Annual renewal fee for renewal of registration of insurance brokering companies
- Interest income by investing surplus funds

Chart 04 depicts the breakup of overall income received for the period 2009 to 2013.

Chart 04

Income of the Board for the period 2009-2013



Review of Operations

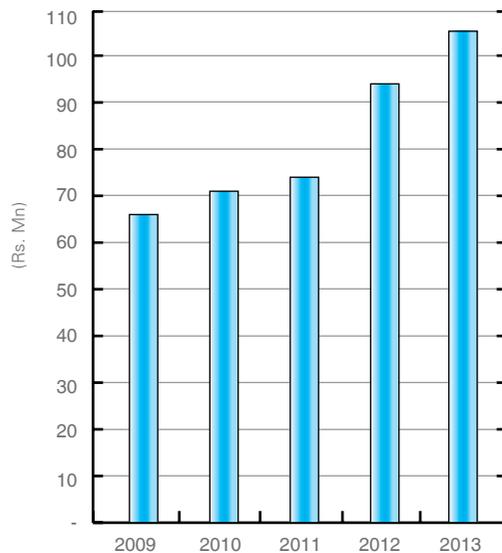
Expenses of the Board

Total expenses of the Board have increased from 2009 to 2013. The deficit between income and the expenses has been financed from the PPF in accordance with the provisions of the Act.

Chart 05 below depicts the total expenses of the Board for the period 2009 to 2013.

Chart 05

Total Expenses of the Board for the period 2009-2013



	2009	2010	2011	2012	2013
Total Expenses (Rs. Mn)	66	71	74	94	105

Financial Information

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Statement of Financial Position

	Notes	As at 31.12.13 Rs.	As at 31.12.12 Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	1	9,941,815	13,165,749
Policyholders' Protection Fund-Rent and Electricity Deposits	2	11,088,660	11,088,660
Current Assets			
Inventories	3	413,051	391,138
Policyholders' Protection Fund-Investments and Others	2	1,766,611,670	1,610,930,804
Other Current Assets	4	15,135,397	13,513,443
Cash and Cash Equivalents	5	658,301	1,530,608
Total Assets		1,803,848,894	1,650,620,402
Reserves And Liabilities			
Reserves			
Policyholders' Protection Fund	6	1,777,700,330	1,622,019,464
Liabilities			
Non Current Liabilities			
Grant	7	9,941,815	13,165,749
Retirement Benefit Obligation	8	3,345,318	1,889,445
		13,287,133	15,055,194
Current Liabilities			
Receipt in Advance		4,862,417	4,727,599
Other Current Liabilities	9	7,999,014	8,818,145
		12,861,431	13,545,744
Total Reserves & Liabilities		1,803,848,894	1,650,620,402

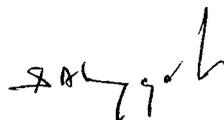
The Members of the Insurance Board of Sri Lanka are responsible for the preparation and presentation of these Financial Statements.

The above Balance Sheet is to be read in conjunction with the accounting policies and notes appearing on pages 74 to 82.

For and on behalf of the Insurance Board of Sri Lanka



Indrani Sugathadasa
Chairperson



S.R. Attygalle
Member

Statement of Comprehensive Income

	Notes	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
INCOME			
Revenue	10	74,278,594	65,774,167
Recognition of Grant	7	4,526,970	6,662,626
Interest Income		1,235,056	1,932,676
Transfer from Policyholders' Protection Fund	6	25,090,847	19,295,177
Other Income	11	167,242	172,686
TOTAL INCOME		105,298,709	93,837,332
EXPENDITURE			
Staff Costs	12	(58,324,541)	(48,661,790)
Professional Charges	13	(2,178,627)	(994,405)
Operational Expenses	14	(44,480,612)	(43,817,296)
Finance and Others	15	(166,722)	(125,629)
TOTAL EXPENDITURE		(105,150,502)	(93,599,120)
Net Surplus/(Deficit) Before Tax		148,207	238,212
Taxation		(148,207)	(238,212)
Net Surplus/(Deficit) After Tax		-	-
Net Surplus for the Year		-	-

The accounting policies and notes appearing on pages from 74 to 82 form an integral part of the Financial Statements.

Statement of Cash Flows

	Notes	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) for the Period		-	-
Provision for Depreciation		4,526,970	6,582,865
Provision for Retirement Benefit		1,698,014	55,536
Payment made- Retirement Benefit		(242,141)	-
Profit/Loss on Disposal		-	79,761
Recognition of Grant		(4,526,970)	(6,662,626)
Income Tax		148,207	238,212
Interest Income		(1,235,056)	(1,932,676)
Net Increase before Working Capital Changes		369,024	(1,638,928)
Change of Working Capital			
(Increase)/Decrease in Inventories		(21,914)	(208,007)
(Increase)/Decrease of Receivables		(1,643,609)	(2,656,106)
Increase/(Decrease) of Receipt in Advance		134,817	457,580
Increase/(Decrease) of Creditors and Accruals		(819,130)	3,655,659
Cash Flow used in Operating Activities		(2,349,836)	1,249,126
Net Cash Flows from Operating Activities		(1,980,812)	(389,802)
Cash Flows from/(used in) Investing Activities			
Interest Income		1,108,505	1,735,251
Purchase of Property Plant and Equipments		(1,303,036)	(7,459,488)
Net Cash used in Investing Activities		(194,531)	(5,724,237)
Cash Flow from Financing Activities			
Capital transfer from Policyholders' Protection Fund		1,303,036	7,459,488
Net Cash Flows from Financing Activities		1,303,036	7,459,488
Net Increase/(Decrease) in Cash and Cash Equivalents		(872,307)	1,345,449
Cash and Cash Equivalents at the Beginning of the Year		1,530,608	185,159
Cash and Cash Equivalents at the End of the Year		658,301	1,530,608
Cash at Bank and in Hand	5	658,301	1,530,608

The accounting policies and notes appearing on pages 74 to 82 form an integral part of the Financial Statements.

Policyholders' Protection Fund

Statement of Cash Flows

	Notes	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		* 155,680,866	345,634,597
Net Increase before Working Capital Changes		155,680,866	345,634,597
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities & Fixed Deposits		(82,171,165)	(12,560,479)
(Increase)/Decrease of Cess Receivable		(1,000,000)	(10,000,000)
(Increase)/Decrease of Rent Deposit		-	(2,360,070)
Increase/(Decrease) of Balance at Fund Management Account		(2,476,670)	-
Increase/(Decrease) of Amount to be Transferred from PPF		1,193,883	702,733
		(84,453,952)	(24,217,816)
Net Cash from Operating Activities		71,226,914	321,416,781
Cash Flow from/(used in) Investing Activities			
Investments in Government Securities		458,601,187	212,926,661
Investments in Fixed Deposits		(529,200,000)	(534,000,000)
Net Cash from Investing Activities		(70,598,813)	(321,073,339)
Net Increase/(Decrease) in Cash and Cash Equivalents		628,101	343,442
Cash and Cash Equivalents at the Beginning of the Year		371,899	28,457
Cash and Cash Equivalents at the End of the Year		1,000,000	371,899
Cash at Bank	2	1,000,000	371,899

* Rs. 155,680,866 /- arrives after contributing Rs.300,000,000/- to the Consolidated Fund based on the Treasury request.
The accounting policies and notes appearing on pages 74 to 82 form an integral part of the Financial Statements.

Accounting Policies

1. Significant Accounting Policies

1.1 Basis of Preparation

The Financial Statements of the Board are presented in Sri Lanka Rupees rounded to the nearest Rupee and prepared on the historical basis.

Where appropriate accounting policies are disclosed in succeeding notes.

1.2 Statement of Compliance

The Financial Statements of the Board have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS and SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said Standards.

1.3 Events after the Reporting Period

All material events after the reporting date are considered and appropriate adjustments or disclosures are made in the Financial Statements where necessary.

1.4 Comparative Figures

Comparative figures have been adjusted to conform to the changes in presentation in the current financial year.

1.5 Taxation

The provision for income tax has been computed in accordance with the provision of the Inland Revenue Act No. 10 of 2006.

The Board has been exempted from income tax other than profits & income from dividend or interest.

1.6 Conversion of Foreign Currency

Foreign exchange transactions if any are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time of the transaction.

2. Assets & Bases of Valuation

2.1 Property, Plant & Equipment

Owned Property, Plant & Equipment

Property, Plant & Equipment are stated at cost less accumulated depreciation. The cost of Property, Plant & Equipment is the cost of acquisition with any expenses incurred in bringing the assets to their working condition for the intended use.

Depreciation

Depreciation is charged on the straight-line basis over the estimated useful life of the asset at following rates.

	% per annum
Motor Vehicles	25
Furniture, Fixtures and Fittings	12.5
Office and EDP Equipment	25
Training Equipment	25

Depreciation is provided from the date of purchase of the asset. Depreciation is also provided up to the date of disposal.

2.2 Investments

Investments in Government Securities and Fixed Deposits are stated at cost and interest is accrued up to the year-end.

2.3 Inventories

Inventories are stated at lower of cost or net realizable value. The cost of inventories is valued on first-in-first-out (FIFO) basis.

2.4 Receivables

Receivables are stated at estimated realizable value.

2.5 Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash at banks and cash in hand.

3. Liabilities and Provisions

3.1 Retirement Benefits

3.1.1 Defined Benefit Plans - Gratuity

Provision has been made on account of gratuity by using the "Projected Unit Credit Method" in conformity with Sri Lanka Accounting Standard No 19 "Employee Benefit".

The Board provides gratuity on the completion of the 1st year of employment. However, the provision is adjusted according to the liability.

According to the payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Accounting Policies Contd...

3.1.2 Defined Contribution Plans - EPF and ETF

All permanent employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Board contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

3.2 Liabilities

Liabilities classified as current liabilities in the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date. The non-current liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted at cost in preparing the financial statements.

3.3 Grant

Capital expenditure transferred from Policyholders' Protection Fund and assets received from Micro Insurance Project are treated as grant and recognized on the estimated useful life of the asset.

4. Income and Expenditure

4.1 Revenue Recognition

Revenue is recognized on accrual basis.

4.2 Expenditure Recognition

All expenditure incurred in maintaining the Board has been charged to revenue in ascertaining the income over expenditure.

4.3 Cash Flow Statement

The Cash Flow Statement has been prepared using the indirect method.

Notes to the Financial Statements

1 Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
Cost					
Balance as at 1 st January 2013	16,317,321	12,604,715	20,660,336	141,450	49,723,822
Additions	-	398,491	904,545	-	1,303,036
Disposals	-	-	(1,054,290)	-	(1,054,290)
Balance as at 31 st December 2013	16,317,321	13,003,206	20,510,591	141,450	49,972,568
Accumulated Depreciation					
Balance as at 1 st January 2013	10,886,344	7,414,655	18,115,624	141,450	36,558,073
Charge for the year	1,711,019	1,502,093	1,313,858	-	4,526,970
Disposals	-	-	(1,054,290)	-	(1,054,290)
Balance as at 31 st December 2013	12,597,363	8,916,748	18,375,192	141,450	40,030,753
Written Down Value					
As At 31st December 2013	3,719,958	4,086,458	2,135,399	-	9,941,815
Written Down Value					
As At 31st December 2012	5,430,977	5,190,060	2,544,712	-	13,165,749

	As at 31.12.13 Rs.	As at 31.12.12 Rs.
2 Policyholders' Protection Fund Investments and Others		
Non Current Assets		
Rent and Electricity Deposits	11,088,660	11,088,660
Current Assets		
Investment in Government Securities	518,050,000	976,651,187
Investment in Fixed Deposits	1,063,200,000	534,000,000
Interest Receivable on Government Securities & Fixed Deposits	126,616,550	44,445,385
CESS Receivable	61,000,000	60,000,000
Balance at Fund Management Account	2,476,670	-
Balance at Bank	1,000,000	371,899
Less		
Amount to be transferred from PPF	5,731,550	4,537,667
	1,766,611,670	1,610,930,804
Total Assets	1,777,700,330	1,622,019,464

Notes to the Financial Statements Contd...

	As at 31.12.13 Rs.	As at 31.12.12 Rs.
3 Inventories		
Printing, Stationery and Computer Accessories	367,631	303,083
Stamps	45,420	88,055
	413,051	391,138
4 Other Current Assets		
Deposits	178,594	172,122
Other Receivables	167,233	114,597
WHT Recoverable	1,111,985	1,049,296
VAT Control	668,820	502,748
Staff Loans *	3,682,040	3,923,116
Advance and Pre-payments	1,988,800	3,038,082
Economic Service Charge	-	90,815
Advance to Purchase Fixed Assets	445,000	85,000
Balance at Fund Management Account	1,161,375	-
Amount to be transferred from PPF	5,731,550	4,537,667
	15,135,397	13,513,443
*Loans Granted to Staff		
Balance as at 1 st January	3,923,116	3,668,481
Loans Granted during the year	2,157,000	2,942,391
	6,080,116	6,610,872
Repayments during the year	(2,398,076)	(2,687,756)
Balance as at 31 st December	3,682,040	3,923,116
5 Cash & Cash Equivalents		
Cash at Bank		
Bank of Ceylon	658,301	1,530,608
	658,301	1,530,608

Notes to the Financial Statements Contd...

	As at 31.12.13 Rs.	As at 31.12.12 Rs.
6 Policyholders' Protection Fund		
Opening Balance	1,622,019,464	1,276,384,867
Cess Received During the Year	245,743,034	236,534,917
Interest on Treasury Bill Investment	665,374	47,865,987
Interest on Repo and Call Account	58,473,214	87,316,447
Interest on Fixed Deposits	177,119,438	696,541
Interest on Fund Management Account	92,109	-
	2,104,112,633	1,648,798,759
Less:		
Transfers for Operational Expenses	25,090,847	19,295,177
Transfers for Capital Expenses	1,303,036	7,459,488
Total transfers- Policyholders' Protection Fund	26,393,883	26,754,665
Contribution to the Consolidated Fund *	300,000,000	-
Bank Charges	18,420	24,630
	326,412,303	26,779,295
Closing Balance	1,777,700,330	1,622,019,464
* Rs. 300 Mn represents contribution made to the Consolidated Fund as per the request made by the Treasury in terms of the Finance Act No. 38 of 1971.		
7 Grant		
Balance at the Beginning of the Year	13,165,749	12,368,887
Capital Expenditure from Policyholders' Protection Fund	1,303,036	7,459,488
Less: Amortized During the Year	(4,526,970)	(6,662,626)
Balance at the End of the Year	9,941,815	13,165,749
Note - Recognition of Grant		
The grant has been accounted for in accordance with the LKAS 20.		
The grant is recognized in the income statement at the following rates.		
Motor Vehicle	25%	
Office Equipment - Others & EDP	25%	
Furniture Fixtures & Fittings	12.5%	
Training Equipments	25%	
8 Retirement Benefit Obligation		
Balance at the Beginning of the Year	1,889,445	1,833,909
Provision Made During the Year	1,698,014	55,536
(-)Payment Made During the Year	(242,141)	-
Balance at the End of the Year	3,345,318	1,889,445
9 Other Current Liabilities		
Accrued Expenses	6,992,531	8,077,508
EPF Payable	571,676	489,052
ETF Payable	85,752	73,359
PAYE and WHT Payable	246,239	84,130
Others	102,816	94,096
	7,999,014	8,818,145

Notes to the Financial Statements Contd...

	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
10 Revenue		
Annual Fees from Insurance Companies	70,079,988	61,044,774
Registration and Renewal Fees	4,198,606	4,729,393
	74,278,594	65,774,167
11 Other Income		
Interest on Vehicle Loan	29,751	31,086
Interest on Distress Loan	94,025	94,812
Sundry Income	43,466	46,788
	167,242	172,686
12 Staff Costs		
Staff Salaries	31,019,437	24,881,974
EPF 12%	3,830,332	3,095,562
ETF 3%	957,584	773,891
Chairpersons' Expenses - Allowance	900,000	900,000
Chairpersons' Expenses - Fuel	348,840	317,520
Honorarium - Contract Staff	32,500	-
Overtime	127,215	115,156
Staff Medical Expenses	1,363,224	1,241,257
Staff Medical Insurance	560,059	639,338
Insurance Personal	421,334	407,469
Staff Welfare	1,369,462	1,264,829
Staff Training & Subscription	1,535,494	811,321
Travelling Overseas-Board Members	1,184,546	1,490,524
Training & Traveling Overseas - Staff	5,102,907	4,799,951
Annual Bonus	1,951,246	1,662,580
Advertising	70,495	393,405
Directors Telephone Residence	164,635	183,496
Leave Encashment	599,941	616,660
Directors Vehicle Allowance	3,876,986	3,850,000
Directors Fuel Allowance	1,210,291	1,161,320
Staff Gratuity	1,698,014	55,536
	58,324,541	48,661,790
13 Professional Charges		
Consultancy Fee	2,178,627	766,444
Others	-	227,961
	2,178,627	994,405

Notes to the Financial Statements Contd...

	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
14 Operational Expenses		
Rent	22,167,658	19,580,929
Parking Fees	365,825	319,446
Telephone Expenses & Internet	1,603,557	1,776,117
Electricity	1,226,881	1,143,907
Office Upkeep	442,421	357,278
Printing & Stationary	2,482,807	2,564,226
Public Awareness	4,399,327	4,281,143
Entertainment	213,539	128,266
Traveling - Local	56,158	63,440
Office Equipment Maintenance EDP & Others	1,413,830	737,679
International Membership of IAIS	2,091,794	1,961,689
International Membership of IIAP	(30,000)	30,000
Advertising - Others	96,419	30,157
Board Members' Meeting Fees	480,000	494,547
Meeting Expenses	309,846	263,807
Subscription Newspapers & Library Books	214,007	126,976
Postage & Courier Charges	226,448	606,641
Audit Fees-Auditor General	370,055	375,000
Audit Fees - Internal	-	375,000
Depreciation	4,526,970	6,582,865
General Expenses	104,959	132,434
Legal Expenses	248,672	23,559
Investigation Expenses	10,560	12,170
Expenses Related to Administration of Ceylinco Takaful	31,859	717,820
Supervision Expenses	129,350	19,896
Vehicle Maintenance	159,587	107,609
Vehicle Insurance	261,217	202,902
Vehicle Running Charges	308,155	268,077
Nation Building Tax	568,712	453,957
Loss on Disposal	-	79,761
	44,480,612	43,817,296
15 Finance & Other Expenses		
Bank Charges	166,422	125,629
Surcharge & Penalty	300	-
	166,722	125,629

Notes to the Financial Statements Contd...

16. Taxation

The Provision for Income Tax has been computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 as at 31st December 2013.

16.1 Notional Credit for Withholding Tax on Government Securities on Secondary Market Transactions

In terms of the provisions of Section 137 of the Inland Revenue Act No 10 of 2006, the Board is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities provided such interest income, which form part of the statutory income of the Board for that year of assessment.

Accordingly, the net income earned by the Board from the secondary market transactions in Government Securities had been grossed up in the Financial Statements and the resulting notional tax credit amounting to Rs. 106,379/47 for the year 2013 has been recognized in the Financial Statement for the year ended 31st December 2013.

Interest income from the secondary market transactions in Government Securities of the Policyholders' Protection Fund has been accounted at the net value.

17. Capital Commitments

There were no capital commitments as at 31st December 2013.

18. Contingent Liabilities

There were no contingent liabilities as at 31st December 2013.

19. Events After The Reporting Period

No circumstances have arisen since reporting date, which would require adjustments to or disclosure in the Financial Statements.

20. Related Party Disclosures

Mrs. Indrani Sugathadasa (Chairperson), Mr. B.D.W.A. Silva, Mr. S.R. Attygalle (Ex-officio Members) held office of the Board during the whole year of 2013.

Mr. D.N.R. Siriwardena was appointed as an Ex-officio Member in June 2013. Mr. Samantha Kumarasinghe and Mr. Nalin Attygalle were appointed as members on 05th June and 30th July 2013 respectively.

Mr. G. Gunawardhana, Mr. Nawaz Rajabdeen and Mr. Gamini Kohona ceased to be members of the Board from April 2013, July 2013 and July 2013 respectively upon completion of their term.

Notes to the Financial Statements Contd...

The following Table depicts the relationship held by the Members of the Board during the year.

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd NDB Bank PLC	Director Director (Independent Non- executive) since 04th October 2013
Mr. B.D.W.A. Silva	Institute of Bankers of Sri Lanka Credit Information Bureau of Sri Lanka Board of the Management of Api Wenuwen Api Securities and Exchange Commission of Sri Lanka Ministry of Petroleum Industries – Special Standing Cabinet -Appointed Procurement Committee West Coast Power (Pvt) Ltd.	Chairman Chairman Board Member Board Member Member Board Member
Mr. S.R. Attygalle	Sri Lanka Ports Authority Bank of Ceylon Superior Courts Complex Management Board National Savings Bank Board of Investment	Director (till September 2013) Director (till April 2013) Member Director (from 23rd April 2013) Observer (till April 2013)
Mr. D.N.R. Siriwardena	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting & Auditing Standards Monitoring Board The Institute of Chartered Accountants of Sri Lanka	Ex-officio Member Ex-officio Member Ex-officio Member
Mr. Nalin Attygalle	Tertiary & Vocational Education Commission Sri Lanka Accounting & Auditing Standards Monitoring Board Family Planning Association of Sri Lanka Federation of Chamber of Commerce and Industries of Sri Lanka	Commission Member Board Member Council Member Secretary General / CEO
Mr. Samantha Kumarasinghe	Nature's Beauty Creations Ltd. Multichemi International Ltd. Multichemi Exports (Pvt) Ltd. Eco Protect Engineering (Pvt) Ltd. T.D. Madanayake & Co. (Pvt) Ltd.	Chairman / Managing Director Chairman / Managing Director Chairman / Managing Director Chairman / Managing Director Director
Mr. Graetian Gunawardhana (till April 2013)	Hands International (Pvt) Ltd. Hands Dipping (Pvt) Ltd. 21st Century Homes (Pvt) Ltd. Lanka Leisure Resort Holdings (Pvt) Ltd. Kid Care Home & Resident School Trust	Chairman Chairman Chairman Chairman Chairman
Mr. Nawaz Rajabdeen (till July 2013)	Rajabdeen & Sons Ltd. Export Development Board	Chairman (till June 2013) Board Member
Mr. Gamini Kohona (till July 2013)	Pulatisi Exports (Pvt) Ltd.	Director

Other than the transactions in the ordinary course of business at market rates no other transactions were recorded with the said institutions during the year.

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } FR(2)/IBSL/1/13/18
எனது இல. }
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය } 29 December 2014
திகதி }
Date }

The Chairperson,
Insurance Board of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka for the year ended 31 December 2013 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2013 comprising the statement of the financial position as at 31 December 2013 and the comprehensive income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 8(3) of the Sri Lanka Insurance Industry Regularization of Act, No. 43 of 2000. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairperson of the Board on 15 September 2014.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Auditor General's Report Contd...

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

- (a) The Board had not taken action to present the financial statements in accordance with Sri Lanka Accounting Standards that should be adopted for the first time with effect from the year by the specific business enterprises.
- (b) The sum of Rs.1,581,250,000 invested in financial instruments such as Government Securities and Fixed Deposits had not been recognized as financial assets and the information relating thereto had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standard No.7.
- (c) The property, plant and equipment of the Board valued at Rs.23,762,964 had not been revalued and such revalued amounts had not been disclosed in the financial statements in accordance with the Sri Lanka Accounting Standard No. 16.

2.2.2 Accounting Deficiencies

Books and Publications valued at Rs.214,007 including one book valued at Rs.113,100 had been purchased in the year under review and the Board had spent a sum of Rs.953,470 for such purchases of books and publications from the year 2005 to the year 2013. Such expenditure had been written off as recurrent expenditure without taking into consideration the value and the nature of the books, while action had not been taken to capitalize them. Nevertheless, the Chairperson of the Board informed the audit that only books valued over the Rs.100,000 could be capitalized in the future.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations etc.

Non Compliance

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulation 454 and 757(1)
- (ii) Financial Regulation 396(d)

An Inventory Register had not been maintained.

Action in terms of the regulation had not been taken on sums totaling Rs.89,780 payable on 13 cheques cancelled in the year 2008

- (b) Public Enterprises Circular No.PED/12 of 02 June 2003

Even though the Manual of Procedure had been prepared the approval of the secretary to the Treasury for that had not been obtained through the Department of Public Enterprises

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) According to the Management Services Circular, even though the relevant Acts relating to the establishment of Public Corporation and Statutory Boards contain different provisions for prescribing salaries and allowances, such Statutory provision should not be implemented without the recommendations of the Salaries and Cadre Commission and the approval of the Department of Management Services. Nevertheless, without such approval, the Board had increased the salaries of the Board employees by 25 per cent with effect from the year 2012. Accordingly, sums of Rs.2,600,438 and Rs.5,221,448 had been paid without formal approval in the years 2012 and 2013 respectively.
- (b) Even though the Board had prepared an Incentive Scheme and forwarded to the Ministry of Finance, the Board employees had been paid incentives amounting to Rs.1,951,246 based on one month's salary to the 42 employees of the Board despite the non-receipt of the approval for the scheme.
- (c) The Board employees had been paid holiday pay amounting to Rs.599,941 in the year under review in accordance with the provisions in the Manual of Procedure forwarded to the Treasury for approval. But the approval for the Manual had not been received even by 30 October 2014.

Auditor General's Report Contd...

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the pre-tax financial results of the Board for the year under review had been a surplus of Rs.148,207 as compared with the surplus of Rs.238,211 for the preceding year and as compared with the preceding year, a decrease of Rs.90,004 or 38 per cent in the financial results was indicated. Even though the overall income of the Board had increased by Rs.11,461,378 the increase of personnel cost and professional fees by Rs.9,662,751 and Rs.1,184,222 respectively had been the main reason for the decrease in the surplus.

3.2 Analytical Financial Review

According to the financial statements presented, the working capital ratios as at 31 December 2013 and as at 31 December 2012 are given below.

Ratios	2013	2012
Current / Quick	139:1	120:1

Even though current assets amounting to Rs.1,782,818,419 had been disclosed in the financial statements as at the end of the year under review, 99 per cent of that value or Rs.1,766,711,670 represented the investments in the Insurance Policy-Holders Security Fund" established in terms of Section 103 of the Sri Lanka Insurance Regularization Act, No. 43 of 2000.

4. Operating Review

4.1 Performance

The Board had failed to complete the following activities expected for implementation during the year under review by each Division in accordance with the Action Plan of the Board for the year 2013.

(a) Legal Division

Even though the completion of the following activities had been planned with the objective of the creation of the strong Insurance Statutory Framework under this Division, that had not been completed even by 30 April 2012.

- (i) Revision of the Regulations issued by the Controller of Insurance in the year 1987.
- (ii) Amendment of the Laws relating to the powers of the Board for supervision and investigation.
- (iii) Formulation of a formal regulating methodology for the registration of Damage and Loss Adjustors.
- (iv) Formulation of a formal methodology for the regulation of the registration of Insurance Agents engaged in matters relating thereto.
- (v) Formulation of a formal methodology for the establishment of risk based capital.

(b) Investigation Division

Even though the following had been planned under this Division with a view to improve the confidence of the insurance policy-holders and the future policy-holders and advancement of the industry it had been limited to the identification of only one external institution.

- (i) Preparation of a report in the year under review by studying the foreign judicial limitations and the ideas of the industry.
- (ii) Identification of the external institutions for which the Board should provide investigation facilities and enter into agreements with them.

(c) Supervision Division

Even though the following had been planned under this Division with a view to directing the stability of the Sri Lanka Insurance Industry through an efficient Supervision System, only the conduct of 04 spot inspections and the analysis of the monthly reports of 04 insurance companies had been done.

- (i) Carry out 07 spot checks of selected divisions of Insurance Companies.
- (ii) Preparation of an Information system.

Auditor General's Report Contd...

(iii) Supervision, review and analysis of monthly reports of the respective company to assess the financial risk and performance of insurance company.

(d) Finance and Administrative Division

Even though the following had been planned for completion under this Division the Board had failed to complete those activities authorities during the year 2013.

(i) Formulation of a formal procedure for the payment of medical allowance under the staff welfare.

(ii) Taking action for the participation of the officers only in the training programme related to the field with a view for making the training expenditure of the Board more effective.

(iii) Nevertheless, out of the provision of Rs.2,250,000 made for local training in the year under review a sum of Rs.1,535,495 had been spent and the expenditure included Rs.636,000 and Rs.694,550 incurred on higher education courses without a direct contribution to the insurance field and the staff welfare respectively.

4.2 Management Inefficiencies

The sum of Rs.112,420 recoverable from a female officer who had resigned from service, including an unbanked income of Rs. 107,800 relating to the period 15 March 2007 to 05 August 2009 identified as misappropriated, had been shown as money receivable even as at the end of the year under review without taking action for settlement.

4.3 Operating Inefficiencies

A Computer monitor costing Rs.65,000 and a computer printer costing Rs.4,500 purchased on 09 May 2007 had been shown in the Register of Fixed Assets as missing assets.

4.4 Uneconomic Transactions

A sum of Rs.53,400 representing the service charges on 05 telephones not used by the Board, 20 per cent telephone tax and the cess thereon had been paid in the year under review.

4.5 Personnel Administration

The following observations are made.

(a) The approved posts of the Board as at 31 December 2013 had been 44 and the actual number had been 42. As such 03 vacancies existed.

(b) Three posts of Assistant Director in the approved cadre had been vacant since the beginning of the year 2013 and action had not been taken to fill those vacancies even in the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

Variance ranging from 52 per cent and 336 per cent between the budgeted and the actual expenditure were observed thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Deficiencies in systems observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

(a) Budget

(b) Personnel Administration

(c) Fixed Assets

W. P. C. Wickramaratne

Acting Auditor General

Matters raised by the Auditor General and the Responses made by the Board for 2013

	Auditor General's Report	IBSL Responses
2.2	Comments on Financial Statement	
2.2.1	Sri Lanka Accounting Standards	
(a)	The Board had not taken action to present the financial statements in accordance with Sri Lanka Accounting Standards that should be adopted for the first time with effect from the year by the specific business enterprises.	Sri Lanka Accounting Standard SLFRS 1 will be applicable where an institution will first adopt SLFRSs. Accordingly, IBSL had begun to adopt the SLFRSs in year 2012 and Auditor Generals' Department has given a "Un-qualified opinion" in that year. As per the guidelines in 38 paragraph of the LKAS 1, IBSL has prepared the financial statements by only disclosing comparative information in respect of the previous year.
(b)	The sum of Rs.1,581,250,000 invested in financial instruments such as Government Securities and Fixed Deposits had not been recognized as financial assets and the information relating thereto had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standard No.7.	LKAS 39 needs to be directly applicable in this regard and accordingly, financial assets are classified into four categories. Out of these four categories IBSL investments can be recognized as held-to-maturity investments and initially it should be recognized at fair value at the time of transaction. After initial recognition held-to-maturity investments shall be measured at amortized cost using the effective interest rate. Hence, IBSL investments should be valued based on its cost and accrued interest. Since the Board has valued the investments at cost and the relevant accrued interest income has been disclosed separately in the financial statements, it is considered that the impact to the financial statements is not that material to qualify the audit opinion.
(c)	The property, plant and equipment of the Board valued at Rs.23,762,964 had not been revalued and such revalued amounts had not been disclosed in the financial statements in accordance with the Sri Lanka Accounting Standard No. 16.	Agreed. It is planned to carry out revaluation activity with the implementation of the Enterprise Resource Planning Process.
2.2.2	Accounting Deficiencies	
	Books and Publications valued at Rs.214,007 including one book valued Rs.113,100 had been purchased in the year under review and the Board had spent a sum of Rs.953,470 for such purchases of books and publications from the year 2005 to the year 2013. Such expenditure had been written off as recurrent expenditure without taking into consideration the value and the nature of the books, while action had not been taken to capitalize them. Nevertheless, the Chairperson of the Board informed the audit that only books valued over the Rs.100,000 could be capitalized in the future.	It is not necessary to capitalize the library books considering many books purchased for our library (such as the Central Bank Report). All these books have been listed out. However, actions will be taken to capitalize only the books with a value above Rs. 100,000 in the future.
2.3	Non-compliance with Laws, Rules, Regulations Management Decisions	
(a)	Reference to Laws, Rules, Regulations - Non Compliances	
(I)	Financial Regulation 454 and 757(1) An Inventory Register had not been maintained.	Although a register with the name "inventory goods" was not available, all the purchasing items have been listed out. However, action will be taken to maintain an inventory book in the future.
(II)	Financial Regulation 396(d) Action in terms of the regulation had not been taken on sums totaling Rs.89,780 payable on 13 cheques cancelled in the year 2008.	Not Agreed. It has been specified in the Financial Regulation No. 396 (d) that un presented cheques, if any, should be entered in the ledger as a liability. Although the relevant parties have been informed several times, no body has shown interest in this regard. Accordingly action will be taken to write off the relevant sum, after obtaining the approval of the Board

Matters raised by the Auditor General and the Responses made by the Board for 2013

	Auditor General's Report	IBSL Responses
2.3	Non-compliance with Laws, Rules, Regulations and Management Decisions	
(b)	Public Enterprises Circular No.PED/12 of 02 June 2003 Even though the Manual of Procedure had been prepared the approval of the secretary to the Treasury for that had not been obtained through the Department of Public Enterprises.	Not Agreed. As per the instructions given by the Department of Public Enterprises, the Manual of Procedure has already come into effect with the relevant amendments.
2.4	Transactions not supported by Adequate Authority The following observations are made.	
(a)	According to the Management Services Circular, even though the relevant Acts relating to the establishment of Public Corporation and Statutory Boards contain different provisions for prescribing salaries and allowances, such Statutory provision should not be implemented without the recommendations of the Salaries and Cadre Commission and the approval of the Department of Management Services. Nevertheless, without such approval, the Board had increased the salaries of the Board employees by 25 per cent with effect from the year 2012. Accordingly, sums of Rs.2,600,438 and Rs.5,221,448 had been paid without formal approval in the years 2012 and 2013 respectively.	Not agreed. Being a regulatory institute which does not come under the category of Public, Corporate and Statutory Bodies, we made this payment with the approval of the Board and Ministry of Finance and Planning. It is worth to remind that Chairman of the Committee of the Public Enterprise has instructed the Audit to withdraw the said matter according to the explanation made by us at the COPE Meeting held on 12th November 2012.
(b)	Even though the Board had prepared an incentive scheme and forwarded to the Ministry of Finance, the Board employees had been paid incentives amounting to Rs. 1,951,246 based on one month's salary to the 42 employees of the Board despite the non-receipt of the approval for the scheme.	Not agreed. The relevant incentives were paid during the year under review, subsequent to the evaluation of the Performance Appraisal system prepared as per the instructions made by the Ministry. In addition approval of the Board has been obtained in terms of the provisions of the Regulation of Insurance Industry Act No. 43 of 2000.
(c)	The Board employees had been paid holiday pay amounting to Rs. 599,941 in the year under review in accordance with the provisions in the Manual of Procedure forwarded to the Treasury for approval. But the approval for the Manual had not been received even by 30 October 2014.	
3.	Financial Review	
3.1	Financial Results	
	According to the financial statements presented, the pre-tax financial results of the Board for the year under review had been a surplus of Rs.148,207 as compared with the surplus of Rs.238,211 for the preceding year and as compared with the preceding year, a decrease of Rs.90,004 or 38 per cent in the financial results was indicated. Even though the overall income of the Board had increased by Rs.11,461,378 the increase of personnel cost and professional fees by Rs.9,662,751 and Rs.1,184,222 respectively had been the main reason for the decrease in the surplus.	

Matters raised by the Auditor General and the Responses made by the Board for 2013

	Auditor General's Report	IBSL Responses						
3.2	Analytical Financial Review							
	<p>According to the financial statements presented, the working capital ratios as at 31 December 2013 and as at 31 December 2012 are given below.</p> <table border="1"> <thead> <tr> <th>Ratios</th> <th>2013</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Current / Quick</td> <td>139:1</td> <td>120:1</td> </tr> </tbody> </table> <p>Even though current assets amounting to Rs.1,782,818,419 had been disclosed in the financial statements as at the end of the year under review, 99 per cent of that value or Rs.1,766,711,670 represented the investments in the Insurance Policy-Holders Security Fund" established in terms of Section 103 of the Sri Lanka Insurance Regularization Act, No. 43 of 2000.</p>	Ratios	2013	2012	Current / Quick	139:1	120:1	
Ratios	2013	2012						
Current / Quick	139:1	120:1						
4.	Operating Review							
4.1	Performance							
	The Board had failed to complete the following activities expected for implementation during the year under review by each Division in accordance with the Action Plan of the Board for the year 2013.							
(a)	<p>Legal Division Even though the completion of the following activities had been planned with the objective of the creation of the strong Insurance Statutory Framework under this Division, that had not been completed even by 30 April 2014.</p> <p>(i) Revision of the Regulations issued by the Controller of Insurance in the year 1987.</p> <p>(ii) Amendment of the Laws relating to the powers of the Board for supervision and investigation.</p> <p>(iii) Formulation of a formal regulating methodology for the registration of Damage and Loss Adjustors.</p> <p>(iv) Formulation of a formal methodology for the regulation of the registration of Insurance Agents engaged in matters relating thereto.</p> <p>(v) Formulation of a formal methodology for the establishment of risk based capital.</p>	<p>Out of the activities mentioned in the report, only the identification of the amendments to the Regulation of Insurance Industry Act could not be completed. The said amendment has also been identified and it has been scheduled to submit for the approval of the Board. The progress of the other activities are as follows.</p> <p>(i) Revision of the regulations issued in 1987 - The approval of the Board has already been taken. Remaining proceedings will be completed in this year.</p> <p>(ii) As per above paragraph.</p> <p>(iii) Registration of Loss Adjustors - Activities were completed and based on instructions given by the Board, newspaper advertisements have been published to gather public views.</p> <p>(iv) Regulation of registration of Insurance Agents - The task has been completed. The relevant gazette notification was issued on 10.05.2014.</p> <p>(v) Establishment of Risk Based Capital – This is a World Bank funded project. All the activities have been completed and referred to the Legal Draftsman to formulate the laws.</p>						

Matters raised by the Auditor General and the Responses made by the Board for 2013

	Auditor General's Report	IBSL Responses
4.	Operating Review	
4.1	Performance	
(b)	<p>Investigation Division Even though the following had been planned under this Division with a view to improve the confidence of the insurance policy-holders and the future policy-holders and advancement of the industry it had been limited to the identification of only one external institution.</p> <p>(i) Preparation of a report in the year under review by studying the foreign judicial limitations and the ideas of the industry.</p> <p>(ii) Identification of the external institutions for which the Board should provide investigation facilities and enter into agreements with them.</p>	<p>The relevant task was planned with the assistance of World bank as a special project. The project was not implemented since it was not approved. This is beyond control of the Board.</p>
(c)	<p>Supervision Division Even though the following had been planned under this Division with a view to directing the stability of the Sri Lanka Insurance Industry through an efficient Supervision System, only the conduct of 04 spot inspections and the analysis of the monthly reports of 04 insurance companies had been done.</p> <p>(i) Carry out 07 spot checks of selected divisions of Insurance Companies.</p> <p>(ii) Preparation of an Information system.</p> <p>(iii) Supervision, review and analysis of monthly reports of the respective company to assess the financial risk and performance of insurance company</p>	<p>Three of the seven scheduled onsite inspections could not be carried out since the limited number of officers in the division had to spend more time engaging in a special onsite inspection with regard to a fraud in an insurance company which had not been pre planned. Accordingly scheduled activities have to be postponed due to such unexpected incidents.</p> <p>Monthly reports are not obtained from a company with a pre plan, but only in cases where the Board decides. In addition Supervision Division analyses the quarterly reports and annual reports received from 21 companies.</p>
(d)	<p>Finance and Administrative Division Even though the following had been planned for completion under this Division the Board had failed to complete those activities authorities during the year 2013.</p> <p>(i) Formulation of a formal procedure for the payment of medical allowance under the staff welfare.</p> <p>(ii) Taking action for the participation of the officers only in the training programme related to the field with a view for making the training expenditure of the Board more effective.</p> <p>(iii) Nevertheless, out of the provision of Rs.2,250,000 made for local training in the year under review a sum of Rs.1,535,495 had been spent and the expenditure included Rs.636,000 and Rs.694,550 incurred on higher education courses without a direct contribution to the insurance field and the staff welfare respectively.</p>	<p>A formal procedure has already been implemented with regard to the payment of medical allowances.</p> <p>As reported earlier, it is necessary to emphasize that all relevant training courses given to the officers directly contribute for the regulation of insurance industry.</p> <p>Performance of the Board could not complete by limiting to get knowledge on insurance industry only. All the subjects including legal, finance, personnel administration, management, actuarial science, employees' motivation, communication, building the self-confidence and leadership training have a direct impact on the performance of the institute.</p>

Matters raised by the Auditor General and the Responses made by the Board for 2013

	Auditor General's Report	IBSL Responses
4.2	Management Inefficiencies	
	The sum of Rs.112,420 recoverable from a female officer who had resigned from service, including an unbanked income of Rs. 107,800 relating to the period 15 March 2007 to 05 August 2009 identified as misappropriated, had been shown as money receivable even as at the end of the year under review without taking action for settlement.	Not agreed. This is a pending matter in the court. Accordingly, it is not possible to settle this prior to the date of audit and hence this matter is beyond our control.
4.3	Operating Inefficiencies	
	A Computer monitor costing Rs.65,000 and a computer printer costing Rs.4,500 purchased on 09 May 2007 had been shown in the Register of Fixed Assets as missing assets.	Efforts taken to locate these two items were not successful. Accordingly, actions will be taken to write off these values from the fixed assets register, after the approval of the Board.
4.4	Uneconomic Transactions	
	A sum of Rs.53,400 representing the service charges on 05 telephones not used by the Board, 20 per cent telephone tax and the cess thereon had been paid in the year under review.	Not agreed. These are not unused telephone lines. Although many outgoing calls are connected through the exchange, many incoming calls are received by the Directors through these telephone numbers.
4.5	Personnel Administration	
	The following observations are made.	
(a)	The approved posts of the Board as at 31 December 2013 had been 44 and the actual number had been 42. As such 03 vacancies existed.	Your observation is not correct. There were only 2 posts of Assistant Directors remained vacant in the Board as at 31.12.2013. The post of Assistant Director (Actuary) should be filled subsequent to the commencement of RBS project. Since it is a very difficult task to create the suppressed posts again, it has not suppressed. Although the applications were called and interviews were held to fill the other Assistant Director post and unable to select a suitable person for the same. Actions will be taken to fill the said post.
(b)	Three posts of Assistant Director in the approved cadre had been vacant since the beginning of the year 2013 and action had not been taken to fill those vacancies even in the year under review.	
5.	Accountability and Good Governance	
5.1	Budgetary Control	
	Variance ranging from 52 per cent and 336 per cent between the budgeted and the actual expenditure were observed thus indicating that the budget had not been made use of as an effective instrument of financial control.	A variance of 336% has arisen as a reason the expenses incurred on behalf of the Actuary had been taken under the professional charges without considering it under the supervision expenses. Accordingly, such variance has occurred since this expenditure (Rs. 2,178,627) relating to supervision division has not been taken as an expenditure of that division. However, actions will be taken to prepare the budget for the year 2015 with minimum variances.
6.	Systems and Controls	
	Deficiencies in systems observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control. (a) Budget (b) Personnel Administration (c) Fixed Assets	By taking into consideration your instructions, special attention will be given for the areas which we have to rectify.

Appendix I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2013

No.	Name of the Insurer	Class of Insurance
1	AIA Insurance Lanka PLC	Long Term Insurance
		General Insurance
2	AIG Insurance Limited	General Insurance
3	Allianz Insurance Lanka Ltd.	General Insurance
4	Allianz Life Insurance Lanka Ltd.	Long Term Insurance
5	Amana Takaful PLC	Long Term Insurance
		General Insurance
6	Arpico Insurance Limited	Long Term Insurance
7	Asian Alliance Insurance PLC	Long Term Insurance
		General Insurance
8	Ceylinco Insurance PLC	Long Term Insurance
		General Insurance
9	Ceylinco Takaful Ltd.*	General Insurance
10	Continental Insurance Lanka Limited	General Insurance
11	Cooperative Insurance Company Ltd.	Long Term Insurance
		General Insurance
12	HNB Assurance PLC	Long Term Insurance
		General Insurance
13	Janashakthi Insurance PLC	Long Term Insurance
		General Insurance
14	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
15	LOLC Insurance Company Limited	Long Term Insurance
		General Insurance
16	MBSL Insurance Company Ltd.	Long Term Insurance
		General Insurance
17	National Insurance Trust Fund Board	General Insurance
18	Orient Insurance Limited	General Insurance
19	People's Insurance Limited	General Insurance
20	Seemasahitha Sanasa Rakshana Samagama	Long Term Insurance
		General Insurance
21	Sri Lanka Insurance Corporation Ltd.	Long Term Insurance
		General Insurance
22	Union Assurance PLC	Long Term Insurance
		General Insurance

* Ceylinco Takaful Limited is prohibited from engaging in insurance business since 5th August 2009.

Appendix II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2013

No	Name of the Insurance Broker	Class of Insurance Business
1	A. M. W. Insurance Brokers (Pvt) Ltd.	General Insurance
2	ADZ Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
3	Aitken Spence Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
4	Alfinco Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
5	Allion Insurance Brokers (Pvt) Ltd.	General Insurance
6	Aquiline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
7	Asset Eye Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
8	Assetline Insurance Brokers Ltd.	General Insurance
9	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
10	Ceyexxe Insurance Brokers Ltd.	General Insurance
11	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance
12	Ceynergy Insurance Brokers (Pvt) Ltd.	General Insurance
13	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
14	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
15	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
16	Daya Sarana Insurance Brokers (Private) Limited	Long Term and General Insurance
17	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
18	E A P – R M S Insurance Brokers (Private) Ltd.	Long Term and General Insurance
19	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
20	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
21	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	Foresight Insurance and Reinsurance Brokers (Pvt) Ltd.	General Insurance
23	George Steuart Insurance Brokers (Pvt) Limited	Long term and General Insurance
24	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance
25	Grand Insurance Brokers (Pvt) Ltd.	Long term and General Insurance
26	Guardian Insurance Brokers (Pvt) Ltd.	General Insurance
27	Industrial & Commercial Insurance Brokers (Pte) Ltd.	Long Term and General Insurance
28	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance
29	JF Insurance Brokers (Pvt) Ltd.	General Insurance
30	Kelani Uni Insurance Brokers (Pvt) Ltd.	General Insurance
31	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance
32	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
33	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance
34	Mackwoods Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
35	Maxwell Insurance Brokers (Pvt) Ltd	Long Term and General Insurance

Appendix II Contd...

36	Mercantile Insurance Brokers (Pvt) Ltd.	General Insurance
37	Nations Insurance Brokers Ltd.	Long Term and General Insurance
38	Pioneer Insurance Brokers (Pvt) Ltd.	General Insurance
39	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
40	Procure Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
41	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
42	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
43	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
44	Reliance AAG Insurance Brokers Lanka (Pvt) Ltd.	Long Term and General Insurance
45	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Rinkoon Lanka Insurance Brokers (Pvt) Ltd.	General Insurance
47	RO-PA Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
48	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
49	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
50	Senkadagala Insurance Brokers(Private) Ltd.	Long Term and General Insurance
51	Southern Merchant Insurance Brokers (Private) Limited.	General Insurance
52	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
53	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
54	UN Insurance Brokers (Pvt) Ltd.	General Insurance
55	United Insurance Brokers (Pvt) Ltd.	General Insurance
56	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
57	Victor Emmanuel Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
58	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
59	Zenith Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance

Glossary

Accumulation

The situation where a significant number of risks insured or reinsured with the same company be affected simultaneously by a loss event.

Acquisition Expenses

All expenses which vary with and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. e.g. commissions

Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investments, financial management and demography.

Administrative Expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000.

Annuity

A long term insurance product that pays periodic income benefits for a specific period of time or over the course of the annuitant's life time. Deferred annuity - If the payments start at some point in the future, it is a deferred annuity. Immediate annuity - if the payments start at the outset of the contract, it is an immediate annuity.

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Cedent

Client of a reinsurance company (primary insurance company).

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event: such as the destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured, maturity of an endowment policy, the attainment of pensionable age, the amount payable on the surrender of a policy.

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period.

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurance to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

Claims Outstanding Reserve - General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims.

Co-insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportion at a specified premium.

Commission

A payment made to a broker or an insurance agent in return for selling and servicing an insurer's products.

Deferred Acquisition Cost - General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired

period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Earned Premiums

Written premiums adjusted by the unearned premium provisions at the beginning and end of the accounting period.

General Insurance Business

Fire, marine, motor or miscellaneous insurance business carried on singly or in combination with one or more of them. Total premium received or due from all sources, including premiums for reinsurance assumed in respect of general insurance business, during an accounting period.

Gross Premium

The premium after deduction of discounts, refunds and rebates, but before the deduction therefrom of any premium paid or payable by an insurer for reinsurance ceded.

Insurance Risk

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurer

A company incorporated as a public company under the Companies Act, No. 7 of 2007 and registered as an insurer under the Regulation of Insurance Industry Act, No. 43 of 2000.

Long Term Insurance Business

The business of entering into or maintaining contracts of assurance on human lives, such contracts including contracts whereby the payment of money is assured on death or on the happening of any contingency dependent on human life and contracts which are subject to payment of premiums for a term dependent on human life.

Maturity

The time at which payment of the sum assured under a long term insurance policy falls due at the end of its term.

Glossary

Net Claims Ratio or Net Loss Ratio

A formula used by insurers to relate net loss expenses to net income (i.e. after deducting relevant reinsurance).

$$\frac{\text{Net claims incurred}}{\text{Net earned premium}} \times 100$$

Net Combined Ratio - General Insurance Business

This indicates the profitability of the insurer's operations by combining the net loss ratio with net expense ratio. The combined ratio does not take account of investment income.

$$\frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}} + \frac{\text{Expenses} \times 100}{\text{Net earned premium}}$$

Net Earned Premium - General Insurance Business

Gross written premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

Net Expense Ratio - General Insurance Business

A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commission, taxes, staff, selling and operating expenses).

Non - Participating Policy - Long term Insurance Business

Long Term insurance business where policyholders are not contractually entitled to share in the surplus of the relevant life fund.

Policy

A document setting out the terms and conditions of a contract of insurance.

Policyholder

The person who for the time being is the legal holder of the policy for securing the contract with the insurer.

Policy Loan

A loan from the insurer to a policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the

current surrender value of the policy and interest is charged on such loans.

Primary Insurer

Insurance Companies that assume risks in return for an insurance premium and have direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

Operating Profit

The profit generated by transacting general insurance business after taking into account the investment income, net capital gains and other income.

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent-the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance Commission

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

Reinsurance Inwards

The acceptance of risks under contract of reinsurance.

Reinsurance outwards

The placing of risks under contract of reinsurance.

Reinsurance Profit Commission

Commission received or receivable by the cedent (reinsured primary insurer) from the reinsurer based on the net profit (as defined in the reinsurance treaty) made by the reinsurer on the reinsurance treaty.

Retention

The part of the risk assumed which the insurer/reinsurer does not reinsure/ retrocede, i.e. retained net for own account.

Solvency Margin - Long Term Insurance

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on long term insurance business as

defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under Section 26 of the Regulation of Insurance Industry Act, No.43 of 2000.

Solvency Margin - General Insurance

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under Section 26 of the Regulation of Insurance industry Act, No.43 of 2000.

Surrender Value

The amount payable by an insurer to a policyholder in respect of long term insurance on termination of an insurance policy before the expiry of its term. In order to attain a surrender value, the policy should have been in force continuously for a period of at least three years.

Underwriting Profit

The technical profit generated by transacting general insurance business without taking into account the investment income and other income.

Unearned Premium

The portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve

A fund kept by a general insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Unexpired Risk Reserve

The excess of estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

GENERAL INFORMATION

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Legal Form

A Statutory Board established in Sri Lanka in terms of the Regulation of Insurance Industry Act, No. 43 of 2000, which came into operation with effect from 01 March 2001 by Government Gazette Notification No. 1172/27, dated 23 February 2001.

The Object and Responsibility of the Board

The object and responsibility of the Board shall be, to ensure that, insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policyholders and potential policyholders.

Accounting Year

31 December

Auditors

The Auditor General

Bankers

Bank of Ceylon

Audit Committee

Mr. S. R. Attygalle - Chairman
Mr. Samantha Kumarasinghe
Mr. Nalin Attygalle

IBSL
INSURANCE
BOARD OF SRI LANKA



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