

Creating  
A Global Tapestry  
Of Insurance Regulation



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# Creating A Global Tapestry Of Insurance Regulation

This year marks yet another milestone in the insurance regulation history - the successful and smooth transition of segregating composite insurance companies into two separate companies, carrying on insurance business.

The split of composite companies is expected to promote greater focus, transparency, policyholder protection and visibility on profitability.

While this financial year saw the regulatory reform process in place for the clear segregation of life and non-life insurance business, in tandem with global reforms in the insurance regulatory landscape, the Board embarked upon another significant regulatory revolution, the move from a fixed capital regime to a risk sensitive capital regime.



# 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
- 58 Insurance Brokers
- 43,343 Insurance Agents
- Insurance awareness reached 456 Grama Niladhari Divisions
- RBC Parallel Run Commenced
- Segregation Process Commenced

## Performance of Insurance Industry

	2014	2013	Change %
Gross Written Premium (Rs. billions)	99.87	94.99	5.14
Total Assets (Rs. billions)	406.83	357.47	13.81
Penetration as a % of GDP	1.02	1.10	(7.27)
Insurance Density (Rs.)	4,830.57	4637.34	4.17

## Performance of the Board

	2014	2013	Change %
Policyholders' Protection Fund (Rs. billions)	2.18	1.78	22.47%
Cess Income (Rs. millions)	273.91	245.74	11.46%
Annual Fees (Rs. millions )	73.44	70.08	4.79%

**Rs. 406.83 bn.**

Total Assets of Insurance Industry

**Rs. 99.87 bn.**

GWP of Insurance Industry



“ We are an industry that has the potential to have more strategic foresight and position ourselves as an exemplary industry in the region ”

# Chairperson's Review

We are pleased to present the Annual Report for the year 2014; a year in which the insurance industry faced a multitude of challenges and substantial changes in complying with the regulatory requirements. We expect these changes to create a more robust, sustainable insurance industry that delivers value to all stakeholders.

The IBSL experienced a leadership change with the new Director General assuming duties during the year under review. It is a pleasure to see talent from within rise to the top most position of the IBSL. We will continue to groom our talent and offer them opportunities for growth whilst infusing new blood in to the system by way of opening our doors to external talent.

Whilst the industry was shifting to a different landscape, the IBSL remained focused on the long-term strategic objectives to ensure that we move towards fulfilling our mission, "to protect policyholders interest whilst regulating, supervising and facilitating the development of the insurance industry".

## Industry Performance

The Gross Domestic Product (GDP) of the national economy increased by 7.4% in 2014 compared to 7.2% in 2013. This was mainly due to the National Monetary Policy which resulted in a decline in interest rates and inflation, and overall improvement in domestic macroeconomic conditions.

Within this context, the insurance industry was able to achieve an overall Gross Written Premium (GWP) of approximately Rs.99,872 million from life and non-life businesses recording an increase of Rs.4,885 million in absolute terms and a growth of 5.14%. This was relatively a lower growth rate compared to 8.97% experienced in 2013.

However, we note an increase in the total assets of Insurance Companies in 2014 recording a 13.81% growth compared to 13.19% in the previous year.

## Achievements

With regard to the adoption of the Risk Based Capital (RBC) model, we witnessed the successful completion of many phases of it during the last 2-3 years, as planned. We were able to finalize the RBC Final Framework in October 2013 based on the analysis of Road Test results and the industry feedback. The Parallel Run for the implementation of RBC commenced in 2014 and will continue until the end of 2015. In June 2014, a workshop was organized by us, in collaboration with the World Bank, to provide an opportunity to the industry participants to share and discuss the results of the first quarter of the parallel run and emerging challenges. The RBC Final Framework will be converted to RBC Final Rule in 2015.

We appreciate the cooperation rendered by all insurance companies in the RBC journey thus far and admire their readiness to change and adapt.

Segregation of composite insurance companies into two classes of insurance businesses was also successful except for a few companies that could not complete the task. We would be closely working with these companies to reach a conclusion.

Policyholders' protection remains one of our key objectives and a number of regulatory reforms were introduced during 2014 towards this objective. The Board took initiatives to safeguard the policyholders' interest by formalizing Institutional Agents and ensuring all insurance companies maintain a strong financial position and solvency among other factors.

The Complaint Handling Procedure was implemented in order to investigate the complaints received by the Board. We strive to resolve all complaints received and give redress wherever possible. From the numerous complaints we receive, it is evident that most of the policyholders do not read and understand the policy conditions and continue to rely on Agent's interpretation. In order to raise awareness of the Policyholders and potential Policyholders, the IBSL continued the awareness creation and market development programmes at Divisional Secretariat level, in addition to other promotional programmes.

## Chairperson's Review Contd...

### Way Forward

Enhancing insurance penetration has been and continues to be one of the biggest challenges before us. The total insurance penetration (as a percentage of GDP) in 2014 was 1.02% indicating a very low level of penetration for both life and non-life businesses. Relatively low per capita income when compared with some other Asian countries and lack of knowledge of the concept of insurance and its benefits, low disposable income of many population segments are some of the contributory factors to the low insurance penetration in the country.

However, with the decreasing poverty levels and increasing income levels of the population, as projected by the Government, I urge the insurance companies to look at the middle level of the pyramid, who will have more purchasing power. The people in the middle segment will have different lifestyles and discretionary spending patterns. 'Insurance' needs to be placed as an item in their priority list. This is the positioning that we need to aim for. We as an industry need to take a leap downward – to the middle and bottom of the economic pyramid, with innovative product solutions.

It is also important to note that the industry is yet to reach the masses in rural and semi urban areas where approximately 75% of the population resides, with appropriate and affordable products and effective distribution channels. There is a vast, under-served market, which needs to be tapped and developed in order to increase the insurance penetration in the country. We will continue implementing the Awareness Raising programmes throughout the country creating greater awareness on "insurance" among the general public. We also expect the industry as a whole to revisit the traditional business models and enhance its reach to the said areas of the country, whilst involving these communities in the insurance industry. Instead of focusing on the same existing customer base in the urban areas, we would like to see the industry focusing on and unlocking a new mass of consumers in the rural areas.

Lack of Actuarial Expertise is another major challenge in view of the impending implementation of the RBC model and Supervision framework. We encourage and support local professionals to obtain

necessary qualifications and expertise to become full-fledged Actuaries.

With the ever-changing socio-economic landscape and shifting demographics in our country, we encourage the industry to be more forward-thinking and introduce innovative products, whilst ensuring that these are products that your customers are willing to pay for, in order to ensure profitable growth. As the regulator, we reiterate the importance of assessing the overall dynamics of the industry when designing the product offerings. Become pioneers in segments that are yet to be penetrated and derive unprecedented value. We are an industry that has the potential to have more strategic foresight and position ourselves as an exemplary industry in the region. As the regulator, we assure you our fullest support to the industry's attempts of growth.

### In Appreciation

I wish to place on record my appreciation for the unstinted support and valuable contribution of my fellow Members of the Board. I also thank the industry stakeholders including the Insurance Ombudsman, Insurance Association of Sri Lanka and the Sri Lanka Insurance Brokers Association for their excellent cooperation and the cordial relationship that they maintain with us.

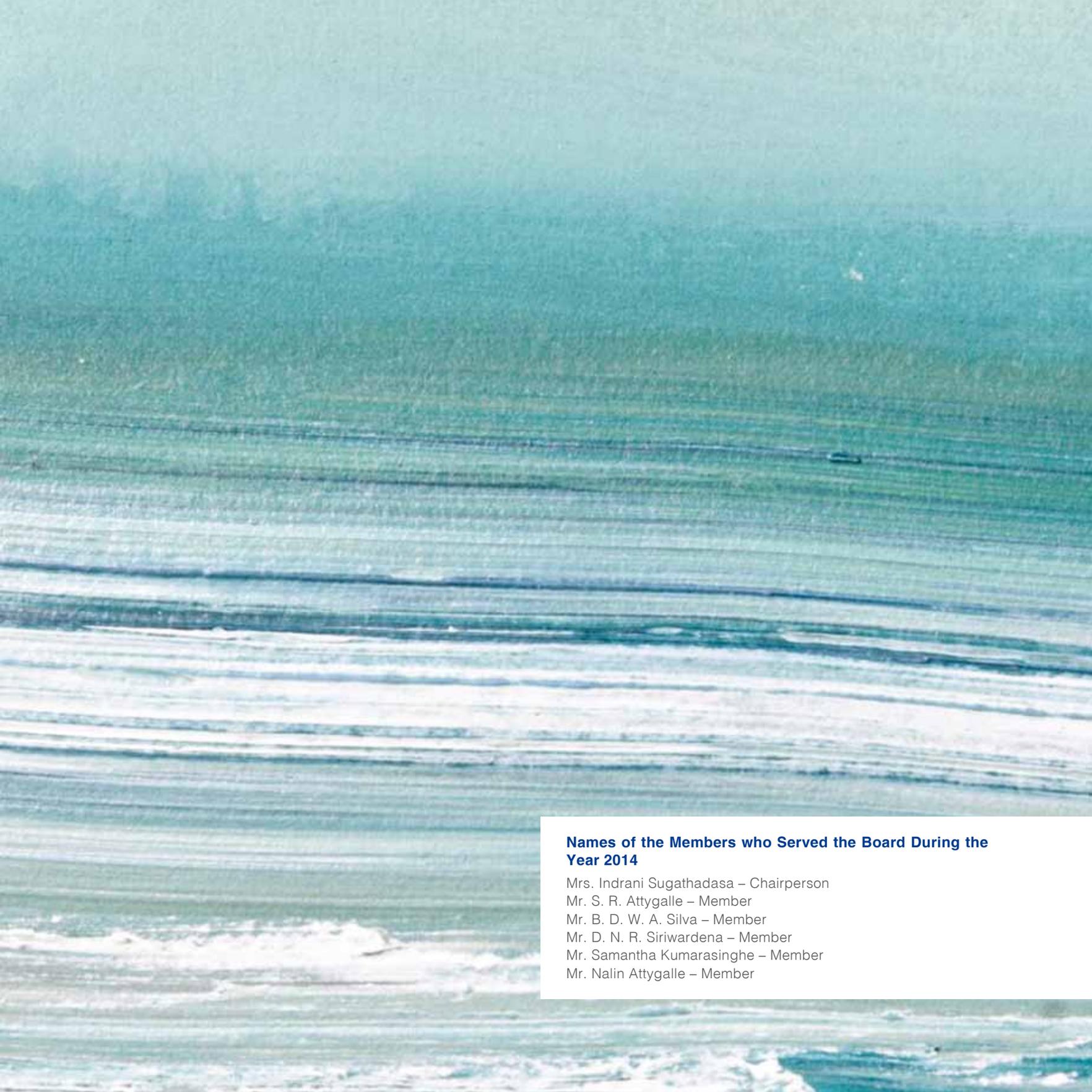
I also wish to recognize and appreciate the commitment of the Director General, Directors and other staff of the IBSL for their dedication and resilience in achieving the objectives of the IBSL. I am confident and positive that the team will continue to execute the strategies of the IBSL fulfilling its mission and vision in the years to come.



### Indrani Sugathadasa

*Chairperson*

*22nd June 2015*



**Names of the Members who Served the Board During the  
Year 2014**

Mrs. Indrani Sugathadasa – Chairperson

Mr. S. R. Attygalle – Member

Mr. B. D. W. A. Silva – Member

Mr. D. N. R. Siriwardena – Member

Mr. Samantha Kumarasinghe – Member

Mr. Nalin Attygalle – Member

# Director General's Review

“ Parallel to implementation of risk sensitive capital model, the Board's focus is to develop the supervisory function. The Board will move from a rules based supervisory framework to a risk based supervisory framework with the objective of strengthening the supervisory function of the Board ”



It's with great pleasure I report a successful year with solid and persistent performance on our journey to become the benchmark insurance regulator in Asia.

## **Regulatory and Supervisory Reforms**

The most significant achievement in the regulatory sphere I consider is the successful and smooth transition of segregating composite insurance companies into two separate companies carrying on insurance business. Out of the twelve composite companies, the Board was efficacious in granting licenses to seven companies to

meet the regulatory deadline imposed to carry out the segregation process. The other five composite companies, though eager to segregate need to overcome certain challenges prior to meeting with the regulatory requirement. I take this opportunity to thank industry players and staff of the Board for working tirelessly in this major exercise, having faced many limitations and challenges. The split of composite companies is expected to promote greater focus, transparency, policyholder protection and visibility on profitability. The Board has also permitted certain services to be shared amongst insurers to ease the transition process and to minimize the short

## Director General's Review Contd...

term cost escalation arising due to segregation. It is also remarkable to mention the assurances given by the Board to the industry on exemptions sought on levies effecting segregation having materialised.

Recognizing the need to keep abreast with global reforms taking place in the insurance regulatory landscape, the Board embarked upon another significant regulatory revolution to move from a fixed capital regime to a risk sensitive capital regime. The risk sensitive capital model will take into account a company's risk appetite to determine the required level of capital, which will result in disciplined investment function. The new rules will replace the existing solvency margin rules and will come into effect from year 2016. This new capital model was developed through a project initiated in year 2009 with the assistance of the World Bank and First Initiative, and after extensive research both locally and abroad, was successful in introducing a capital model unique to the Sri Lankan insurance industry. It is important to mention that these rules whilst being developed systematically, measures were taken to enhance the capacity and knowledge of the staff of the Board as well as to enhance the knowledge of the industry. Many workshops and training programs were held to the industry regarding the new rule and conducting a road test initially, and from 2014 on a two year parallel run. During the parallel run companies are apprised of industry compliance and assistance for compliance is provided by the Board wherever required.

Parallel to implementation of risk sensitive capital model, the Board's focus is to develop the supervisory function. The Board will move from a rules based supervisory framework to a risk based supervisory framework with the objective of strengthening the supervisory function of the Board. Technical assistance for this project is provided by the World Bank and commenced as phase II of the Risk Based Capital project. This two year project commenced in year 2013 and during the period of review much work relating to the project was completed. The main objective of the project is to enhance the Board's supervisory capacity to be more appreciative of risks associated with the insurance industry and to take immediate remedial measures to minimize an impact to the industry. This regime is far more advanced from a rules based supervisory regime. The project also focuses developing supervisory capacity in the areas of reinsurance, reinsurers, loss adjusters, investments and investment linked products.

### Performance of the industry

The industry continued its growth both in General Insurance Business (Rs 55,262 million) and Long Term Insurance Business (Rs 44,610 million) during the year recording an overall Gross Written Premium (GWP) growth of 5.14%. However, in comparison to 2013, the overall growth rate has declined by around 43% (2013: decline of 19%). A much slower growth is witnessed in the General Insurance Business (3.66%) compared to Long Term Insurance Business (7.04%). This slow growth pattern in General Insurance Business has been continuing from 2012. During the year, marine, miscellaneous and motor insurance business have experienced slow growth rates and fire insurance business has experienced a negative growth rate of 0.97% when compared to a positive growth of 16.25% in 2013. Another important factor to be considered is the increasing combined ratio for general insurance business, which has surpassed 100% over the last five years and recorded the highest at 109.66% in 2014. In Long Term insurance business too, surrenders over the years have been increasing and the industry is witnessing a constant high rate (around 19%) of lapsed policies as a percentage of new policies issued.

However, with Gross Domestic Product of the economy steadily increasing and industry witnessing low penetration levels both in long term and general insurance businesses, we could expect the sector to progress with improved levels of public confidence, awareness and appreciation of the concept and benefits of insurance and higher disposable income among the public.

Penetration levels continue to be low with a GWP/GDP ratio being just 1.02%. Penetration levels for general and long term insurance businesses for 2014 are recorded as 0.56% and 0.46% respectively.

In contrast, the insurance density which is represented by the GWP per person has increased to Rs 4,831 in 2014 from Rs 4,637, recorded in 2013 mainly due to increased GWP and insignificant increase in the population.

Total assets of insurance companies have grown steadily from 2010 and have posted a growth rate of 13.81% when compared to 2013. Further, the shareholders' funds of insurance companies have shown a significant growth of 17.96% compared to 2013.

As for the distribution channels of insurance companies, we have seen insurance agents to dominate the distribution channel of long term insurance business, and direct business of insurers to dominate

## Director General's Review Contd...

the distribution channel of general insurance business. In 2014 we can also witness an increase in the Bancassurance channel for distribution of long term insurance business.

The Brokering Company's contribution to the total GWP amounted to Rs 14,716 million and recorded a growth of 2.34% in 2014 compared to the contribution in 2013, being Rs 14,380 million. This contribution consists of premium income generated through general insurance business and long term insurance business amounting to Rs 14,558 million (98.93%) and Rs 158 million (1.07%) respectively.

### Human Resources

The Board during the year continued to invest in its human capital, a concept that recognizes that performance levels of the staff can be enhanced by continuous professional development. Currently, the Board comprises of a matured, professionally qualified, well trained staff and the Board has been successful in providing training to enhance their knowledge to keep up to the dynamics of the insurance sector.

### Looking Forward

The Board with the objective of aligning its regulatory framework with international standards has commenced benchmarking with the Insurance Core Principles (ICP's) issued by IAIS. The Board has also participated in many peer reviews of ICP's during the period and has been able to identify areas for improvement. These improvements will either be addressed through legislative revisions or by way of revisions to subordinate legislation.

An area of focus for the coming years will be the introduction of principles on market conduct. This too will be in line with the ICP's. A much talked about topic in many forums, the successful implementation of same would enhance public confidence on the industry. During the past few years we have witnessed a significant number of policyholder complaints made to the Board. Much work in the area of building public confidence on insurance is essential to the growth of the industry. During the year under review the Board undertook market development activities, such as conducting awareness campaigns at District and Divisional Secretariats, awareness through electronic and print media and participation at exhibitions where, inter alia, the importance of having insurance is advocated.

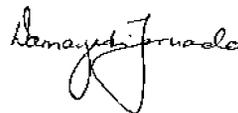
The Board recognizing the importance of developing the "microinsurance" sector as a market development activity organized a workshop on "microinsurance" to create awareness among participants and encourage development in this area. The workshop is the commencement of a larger project that the Board intends taking forward.

### In Appreciation

In conclusion I wish to express my sincere gratitude to the Chairperson and all Members of the Board for the guidance and unstinted support given throughout the year to me and the senior management of the Board. The Chairperson with her wealth of knowledge has guided us in times of challenge and we are indeed grateful to her.

I also wish to place on record my sincere gratitude to the Chairperson and all Board Members for having confidence in me and appointing me as the DG of IBSL.

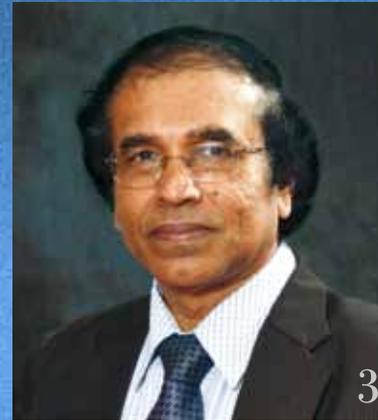
My appreciation is also extended to the Presidents and office bearers of IASL, SLIBA and SLII for the cooperation extended to the Board. Finally I wish to express my appreciation to my team of Directors and staff for their high level commitment and hard work to achieve our goals for the year.



**Damayanthi Fernando**

*Director General*  
22nd June 2015

# Members of The Board



## Members of The Board

1. Mrs. Indrani Sugathadasa  
*Chairperson*
2. Ms. Pushpa Wellappili  
*Member*
3. Mr. P. Samarasiri  
*Member*
4. Mr. D. N. R. Siriwardena  
*Member*
5. Mr. Jeromy Bolling  
*Member*
6. Dr. A. A. Shabbir Gulamhusein  
*Member*
7. Mr. Asanga Abeyagoonasekera  
*Member*

# Profiles of Members of The Board

## **(1) Mrs. Indrani Sugathadasa Chairperson**

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.

## **(2) Ms. Pushpa Wellappili**

Ms. Pushpa Wellappili is an officer of the Sri Lanka Administrative Service. During her over 32 years of service in the public sector, she has held various positions such as Additional Secretary to the President, Director General-Public Finance Department of the General Treasury, Director in the Ministry of Housing and Urban Development and Assistant Commissioner of Probation & Childcare Services.

She holds a Masters degree in Laws from the University of Colombo, Bachelor of Laws degree from the Open University of Sri Lanka, Bachelor of Science honours degree in Mathematics & Statistics from the University of Jaffna and Postgraduate diploma in Urban Development from the Institute of Housing & Urban Development Studies in Rotterdam, Netherlands. She is also an Attorney-at-Law of the Supreme Court of Sri Lanka.

Ms. Wellappili currently holds the position of Deputy Secretary to the Treasury. In addition, she is serving as an ex-officio Director of the Board of Directors of Bank of Ceylon.

## **(3) Mr. P. Samarasiri**

Mr. P Samarasiri is currently a Deputy Governor of the Central Bank of Sri Lanka. Prior to appointing to the post of Deputy Governor, he has served in many senior positions such as Assistant Governor, Secretary to the Monetary Board, Compliance Officer and Director of Bank Supervision in the Central Bank. He also holds the post of Vice Chairman of the Institute of Bankers of Sri Lanka for the past four years and held the post of the Chairman of the Sri Lanka Accounting and Auditing Standards Monitoring Board for the past five years until February, 2015.

Mr. Samarasiri holds a BA Degree (Hons.) in Economics from University of Colombo and MA in Economics from the University of Kansas, USA. Mr. Samarasiri counts 33 years of experience in the Central Bank in areas of statistics, economic policies, regulation and supervision of banks and non-bank financial institutions, financial system stability, corporate governance, currency management, foreign exchange policies, financial intelligence and regional development.

Mr. Samarasiri has authored three books "මුදල් ගනුදෙනු, බැංකු සහ ආර්ථිකය", "මූලික ආර්ථික විද්‍යා මූලධර්ම විග්‍රහය" සහ "ආර්ථික විද්‍යා මූලධර්ම සහ ප්‍රතිපත්ති" published by the Central Bank. He has also published several articles on economic and financial topics in various publications and news papers.

## **(4) Mr. D. N. R. Siriwardena**

Mr. D. N. R. Siriwardena holds 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

## Profiles of Members of The Board Contd...

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.

### **(5) Mr. Jeromy Bolling**

Associate of The Chartered Insurance Institute London with a Master of Business Administration Degree from University of Sydney.

Over 20 years of experience in the Insurance sector and this included working for both Insurance Companies and Insurance/Reinsurance Brokers spanning across Sri Lanka, Australia, and Maldives.

Presently Director of NHJ Risk Management Services P/L, Octagon Consultants P/L and Endless Outdoors P/L.

### **(6) Dr. A. A. Shabbir Gulamhusein**

Deshabandhu Dr. Ali Asger Shabbir Gulamhusein serves as Chairman of the board of Adam Investments Plc. He holds a PhD from Tokyo, Japan and a Degree from King's College London, UK. Dr. Gulamhusein has been bestowed with the prestigious title of "Deshabandhu Manawahithawadhi, Lankaputhra" and also serves as advisor to the Ministry of Justice, Ministry of Co-operatives and Internal Trade, Ministry of Productivity Promotion and as a Justice of Peace (all island).

Dr. Gulamhusein also serves as a Director of Ceylon and Foreign Trades Plc, Orient Garments PLC, PCH Holdings Plc, Adamexpo (Pvt) Ltd, Spice of Life (Pvt) Ltd, Network Communications (Pvt) Ltd, Adam Apparels (Pvt) Ltd, Adam Metals (Pvt) Ltd, Giorgio Morandi (Pvt) Ltd, Sonakshi Investments (Pvt) Ltd, Sonakshi Gems (Pvt) Ltd, Adam Air conditioners (Pvt) Ltd, Adam Automobiles (Pvt) Ltd, Colombo Apothecaries Company Ltd, Business Chamber of Commerce, Hamilton Resorts (Pvt) Ltd, Ceylon & Foreign Trade Surgi-Tech (Pvt) Ltd, Colombo Freight and Transport Ltd, and Dodwell & Company Ltd.

### **(7) Mr. Asanga Abeyagoonasekera**

Asanga Abeyagoonasekera is a Young Global Leader (YGL) for the World Economic Forum. He is a member of the Regional Centre for Strategic Studies (RCSS).

Asanga was the former Executive Director of the Premiere National think tank Lakshman Kadirgamar Institute for International Relations and Strategic Studies (LKIIRSS) and the Director General of BIDTI, a diplomatic training institute.

Asanga has nearly a decade experience in Government Administration Sector, he was the former Chairman of the Foreign Employment Agency and the Ceylon Fishery Harbours Corporation, and worked in the private sector at Sri Lanka Telecom and Hutchison. He was the youngest ever appointed for all three Government positions. He was a Director at Sri Lanka Ports Authority. He has served as a member at subcommittees for National Science Foundation and the Coordinating Secretariat for Science Technology and Innovation (COSTI).

He is the founding Curator of the Global Shapers Colombo Hub and the Country Chair of Global Dignity (globaldignity.org). And he is the Chairman and Founder of the "Diri Saviya" Foundation, a community-based non-governmental organization in Sri Lanka. He is the founder and Chairman of the Junior World Entrepreneurship Forum Sri Lanka Chapter.

Asanga holds a Bsc in Computer Science and an MBA from Western Australia, and completed Executive Education from Harvard Kennedy School, Jackson Institute for Global Affairs at Yale University, LKY School of Public Policy (Singapore) and ISB(Hyderabad). Asanga's primary education was at St. Thomas' Preparatory School and Ananda College Colombo.

Asanga was invited as a panellist for World Economic Forum Geneva and World Entrepreneurship Forum France. He was a panellist for many international conferences in USA, South Africa, South & Southeast Asia, China, Russia and Davos.

Asanga is an Alumnus of the US State Department IVLP and National Defense University in Washington. Asanga is a visiting lecturer in International Political Economy.



## Senior Management Team

1. Mrs. Damayanthi Fernando  
*(Director General)*
2. Mr. Nihal Ramanayake  
*(Director Supervision)*
3. Mrs. Chaya Withanawasam  
*(Director Finance and Administration)*
4. Mr. Sudheera Senaratne  
*(Director investigation)*
5. Mrs. Chamarie Ekanayake  
*(Assistant Director Supervision)*
6. Mr. Rajan Nirubasingham  
*(Assistant Director Legal)*

## Staff Members

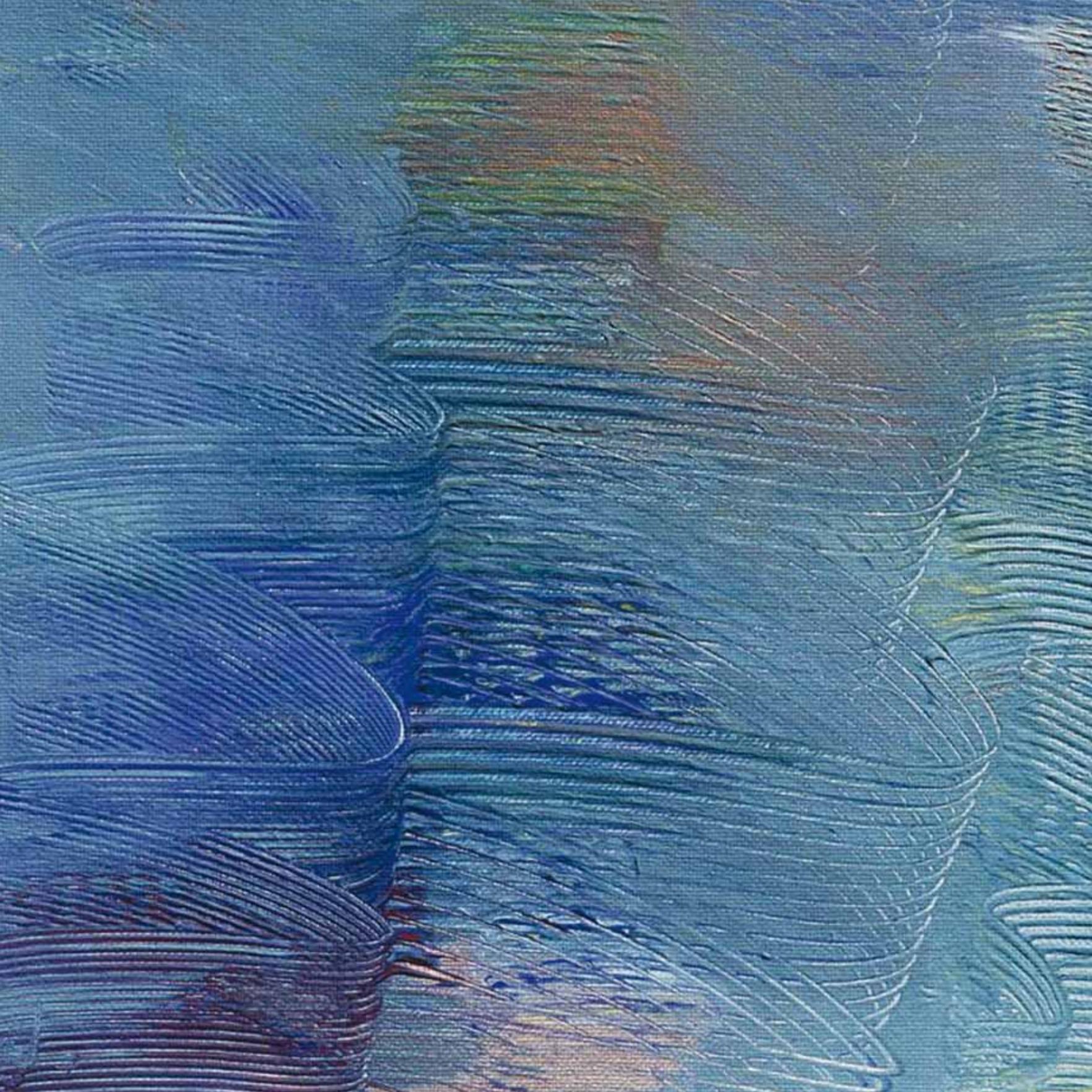


- |                            |                               |                                   |
|----------------------------|-------------------------------|-----------------------------------|
| 1. Mr. Luxman Wijesinghe   | 7. Mrs. Thanuja Antoney       | 13. Mrs. Thushari Wijegunawardana |
| 2. Mrs. Lasanthi Thotahewa | 8. Mrs. Decika Rathnayaka     | 14. Mrs. Kokila Sirirwardana      |
| 3. Mr. Bimsara Wijesinghe  | 9. Mr. H. P. Asanka           | 15. Mr. Charitha Wickramasinghe   |
| 4. Mrs. Sarika Wattuhewa   | 10. Mrs. Shyamalie Attanayaka | 16. Mr. Lakmal Kalubowila         |
| 5. Mrs. Chathuri Bandara   | 11. Mrs. Upendra Senevirathne | 17. Mrs. Pavithra Punchihewa      |
| 6. Mrs. Priyangi De Silva  | 12. Mrs. Kaushali Dayaratne   |                                   |

## Staff Members



- |                              |                                 |   |
|------------------------------|---------------------------------|---|
| 18. Mrs. Thilini Wakista     | 24. Mr. Ethirraj Srikanthan     | 30. Mrs. Veena Dineka                     |
| 19. Ms. Upalakshi Ranasinghe | 25. Mrs. D. W. S. S. Supulee    | 31. Mr. Saman Senadeera                   |
| 20. Mrs. Shashini Premalal   | 26. Mrs. Merina Dias            | 32. Mr. Sanath Udayanga                   |
| 21. Mrs. Shanika Nanayakkara | 27. Mrs. Chandima Kamburugamuwa | 33. Mr. Chaminda Lal Kumara               |
| 22. Mr. Roshan De Costa      | 28. Mrs. Malhari Wickramasinghe | 34. Mrs. Lakmali Algama ( <i>Absent</i> ) |
| 23. Mrs. Sujeewa Ranasinghe  | 29. Mrs. Ruvini Liyanage        | 35. Mrs. Hasini Perera ( <i>Absent</i> )  |



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# General Review

## Administration of the Act

### Legislation

The object and responsibility of the Insurance Board of Sri Lanka (hereinafter referred to as “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 (hereinafter referred to as “the Act”) provides the relevant legal framework for the regulation and supervision of insurance companies, insurance brokering companies, insurance agents and loss adjusters.

The Act is amended by the Regulation of Insurance Industry (Amendment) Acts, Nos. 27 of 2007 and 03 of 2011.

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

### Market Structure

#### Insurers

In terms of 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 insurance business.

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

21 companies were in operation as insurers as at the end of the year and the suspension of registration imposed on Ceylinco Takaful Limited continues from 2009. Chart 1 depicts the classes of insurance business companies were engaged in. Out of the 21 companies in operation, 12 companies were composite insurers, carrying on both long term insurance business and general insurance business, 3 companies were carrying on long term insurance business and 6 companies were carrying on general insurance business.

### Segregation

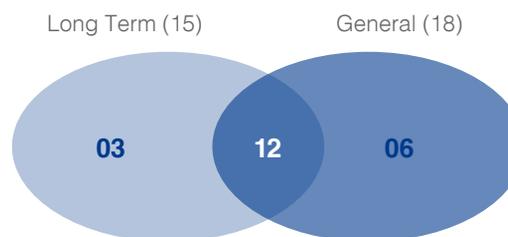
In order to have a smooth transition of the insurance business, the Board issued guidelines on segregation of composite insurers in consultation with the industry.

Section 53 of the Regulation of Insurance Industry Amendment Act, No. 3 of 2011 (hereinafter referred to as the “Amendment Act”) requires composite insurance companies to separate the two classes of insurance businesses into two separate companies (hereinafter referred to as “segregated insurance companies/ segregated insurance company”) on or before February 2015.

During the year under review, applications submitted by composite insurers to comply with section 53 of the Amendment Act were evaluated and as at the end of the year the Board granted registration to 8 companies. However, out of the eight new companies Board has issued licenses to 07 new companies with effect from 1<sup>st</sup> January 2015 and one company has been directed to comply with required capital in order for the Board to issue license.

### Chart 1

#### Classes of Insurance Business Carried on by Insurers



### Insurance Brokers

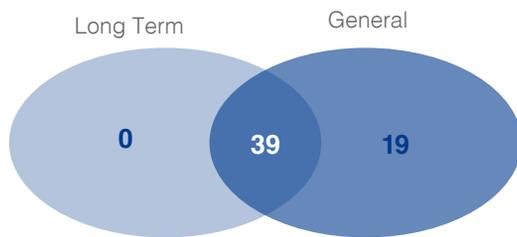
An insurance broker is a company incorporated under the Companies Act, No. 07 of 2007 and registered under the Act to carry on insurance brokering business. Insurance Brokers function as intermediaries for the placing of insurance business for or on behalf of an insurer, a policyholder or a proposer for insurance or reinsurance, with an insurance company or reinsurance company, in expectation of a payment by way of brokerage or commission.

## General Review Contd...

At the end of the year, there were 58 companies registered as insurance brokers. Out of the said companies, 39 companies were registered in both long term and general insurance brokering business while 19 companies were registered only in general insurance brokering business. Chart 2 depicts the classes of insurance brokering business insurance brokers carried on during the year.

**Chart 2**

**Classes of Insurance Brokering Business Carried on by Insurance Brokers**



### Insurance Agents

Insurance Agents are persons 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.

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

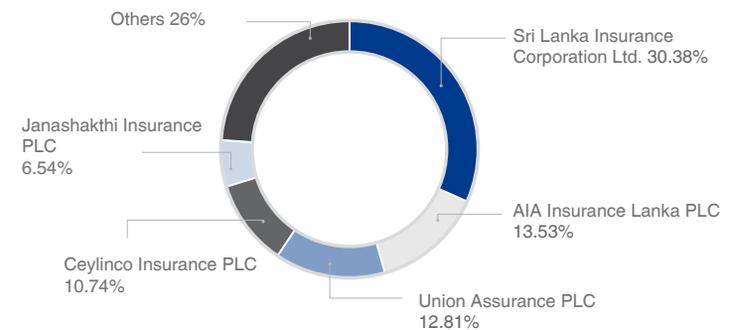
As per information given by insurers, the total number of individuals recruited as insurance agents during the year was approximately 17,018, a 9.05% increase from the previous year (15,606).

Total number of individual insurance agents representing insurers as at the end of year was approximately 42,958 a 11.19% increase from the previous year 38,635.

Chart 3 depicts insurance agents registered with insurance companies.

**Chart 3**

**Individual Insurance agents registered with insurers**



There are approximately 385 individual insurance agents registered with insurance brokering companies during last year.

### Company Status and Changes in Capital

Out of the insurers, 07 companies were 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 4 depicts the percentage of listed and non-listed insurers.

**Chart 4**

**Status on 'listed/non listed' insurers**



## General Review Contd...

The Amendment Act requires insurers to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987. Composite insurance companies are required to segregate its business into two separate companies on or before February 2015 and obtain a listing on or before February 2016.

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 stated capital of insurers registered prior to June 2011 has been required by the Board to be increased to a minimum of rupees Five Hundred Million, for a particular class of insurance business on or before February 2015.

Insurance companies registered subsequent to June 2011 have a stated capital not less than Rupees Five Hundred 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.

In the case of insurance brokers, the Board has required insurance brokers 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 2014 was Rs. 274 Mn. Table 1 depicts the movement of the Cess and the Policyholders' Protection Fund.

### Policyholders' Protection Fund

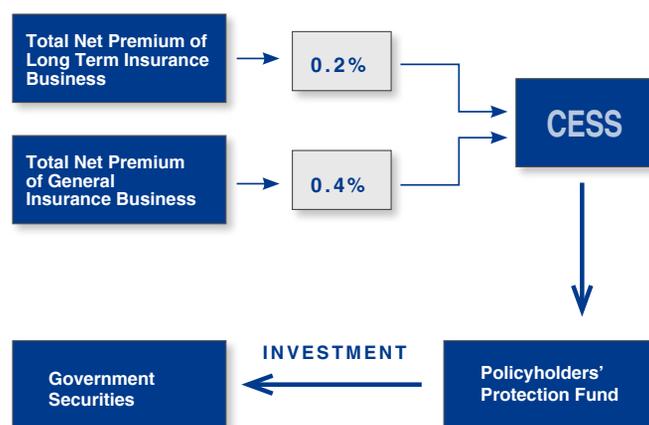
The Cess collected from insurers is deposited into the Policyholders' Protection Fund, established in terms of Section 103 of the Act. This Fund may be utilized, inter alia, for the following purposes in so far as it would be for the benefit of the policyholders and potential policyholders -

- 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 2014 is Rs.2,185 million a 22.89% increase from the previous year (Rs 1,778 million).

**Table 1**

*Cess and the Policyholders' Protection Fund*



## General Review Contd...

### 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 1 January 2002, 2005 and 2007 respectively.

### Exemptions to the application of the Act

In terms of 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.

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 30% of all types of Reinsurance Treaties and Facultative Reinsurance arrangements to NITF with effect from 1st January 2013. Prior to this the percentage was 20%.

### 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.

## General Review Contd...

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.

#### **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 to persons employed in the insurance industry;

The Board has entrusted the Institute with the responsibility of 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

The Sri Lankan insurance industry recorded a growth of 5.14% in 2014 by generating a Gross Written Premium (GWP) amounting to Rs. 99,872 million. This is a relatively lower growth rate compared to 8.97% experienced in 2013. This lower growth rate was particularly evident from the decline in the growth of general insurance business which recorded a growth rate of 3.66% compared to 7.28% recorded in 2013. GWP of long term insurance business also experienced a slowdown in growth in 2014 and grew by only 7.04% compared to 11.20% recorded in 2013.

The Gross Domestic Product (GDP) of the Sri Lankan economy steadily increased by 7.40% in 2014 compared to 7.20% recorded in 2013 which was mainly attributed to the substantial increases in the GDP of the industrial and services sectors. As reflected in Table 1, GDP of the economy has increased to Rs. 9,785 billion in 2014 compared to Rs. 8,674 billion recorded in 2013 mainly due to the monetary policy exercised by the Central Bank of Sri Lanka which resulted in a decline in interest rates and inflation and overall improvement in macroeconomic factors. Further, gradual improvement of the global economy following the 2008-2012 financial crisis, decline in oil prices during the latter part of 2014, etc. had favorable effects on the Sri Lankan economy.

GWP generated from long term and general insurance businesses in 2014 amounted to Rs. 99,872 million (2013: Rs. 94,987 million) as depicted in Table 1. GWP generated from the long term insurance

business amounted to Rs. 44,610 million in 2014 (2013: Rs. 41,676 million) while general insurance business generated GWP amounted to Rs. 55,262 million (2013: Rs. 53,311 million) indicating declining growth rates for both classes against the previous year. Strike, Riot, Civil Commotion & Terrorism (SRCC & T) premium pertaining to general insurance business amounted to Rs. 3,491 million in 2014 (2013: Rs. 2,957 million) and therefore GWP of general insurance business inclusive of SRCC & T premium amounted to Rs. 58,753 million in 2014 (2013: Rs. 56,268 million).

Insurance penetration which reflects the total insurance premium as a percentage of GDP was recorded at 1.02% in 2014 and indicated a decline compared to 1.10% recorded in 2013. Penetration level of long term insurance business was 0.46% in 2014 (2013: 0.48%) while penetration level of general insurance business was recorded at 0.56% in 2014 (2013: 0.61%) with both classes indicating a decline in penetration levels. Low growth rates and low penetration levels recorded for both long term and general insurance businesses reflect the greater need to promote benefits of insurance among all segments of the society and to develop and offer insurance products which meet diverse needs of customers.

Insurance density which represents the insurance premium income per person of the population has increased to Rs. 4,831 in 2014 from Rs. 4,637 recorded in 2013, growing by 4.18% mainly due to increased premium income against insignificant increase in the population.

## Statistical Review Contd...

**Table 1**  
*Premium Income & Penetration*

	2010	2011	2012	2013 (a)	2014 (b)
Long Term Insurance (Rs. millions)	31,152	35,162	37,477	41,676	44,610
General Insurance (Rs. millions)	35,101	43,329	49,694	53,311	55,262
Total Premium Income (Rs. millions)	66,253	78,491	87,171	94,987	99,872
Growth Rate in Total Premium (%)	15.12	18.47	11.06	8.97	5.14
Gross Domestic Product (Rs. billons)*	5,604	6,544	7,579	8,674	9,785
GDP Growth Rate % *	8.0	8.2	6.3	7.2	7.4
Penetration % (Total Industry Premium as a % of GDP)	1.18	1.20	1.15	1.10	1.02
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.56	0.54	0.49	0.48	0.46
Penetration % (Premium of General Insurance Business as a % of GDP)	0.63	0.66	0.66	0.61	0.56
Insurance Density (Total Premium Income/ Population) Rs.	3,208	3,761	4,288	4,637	4,831
Population '000 (Mid Year) *	20,653	20,869	20,328	20,483	20,675

\*Source: Central Bank of Sri Lanka and 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 has not been considered for insurance companies' general insurance GWP from year 2010.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

## Statistical Review Contd...

### Total Assets of Insurance Companies

As reflected in Table 2, total assets of insurance companies after eliminating inter segment transactions amounted to Rs. 406,827 million as at 31st December 2014 (2013: Rs. 357,465 million) posting a growth rate of 13.81% compared to 2013. As reflected in Table 2 assets of insurance companies had grown steadily from 2010 to 2014.

Assets of long term insurance business stood at Rs. 249,850 million as

at 31st December 2014 (2013: Rs. 216,275 million) and grew by 15.52% in 2014 compared to 2013. Assets pertaining to general insurance business and shareholders amounted to Rs. 163,834 million as at 31st December 2014 and grew by 10.39% in 2014 compared to assets worth of Rs. 148,410 million recorded as at 31st December 2013.

Chart 1 depicts the total assets of insurance companies, growth rates of assets and value of intersegment assets from 2010 to 2014.

**Table 2**

#### Assets of Insurance Companies

	2010	2011	2012	2013 (a)	2014 (b)
Long Term Insurance (Rs. millions)	139,647	165,519	190,642	216,275	249,850
General Insurance & Shareholders (Rs. millions)	82,450	100,192	131,202	148,410	163,834
<b>Total</b>	<b>*219,102</b>	<b>*261,412</b>	<b>*315,817</b>	<b>*357,465</b>	<b>*406,827</b>

\*Intersegment transactions (long term and general) of composite insurance companies have been eliminated as per Table 3

(a) Reinstated audited figures

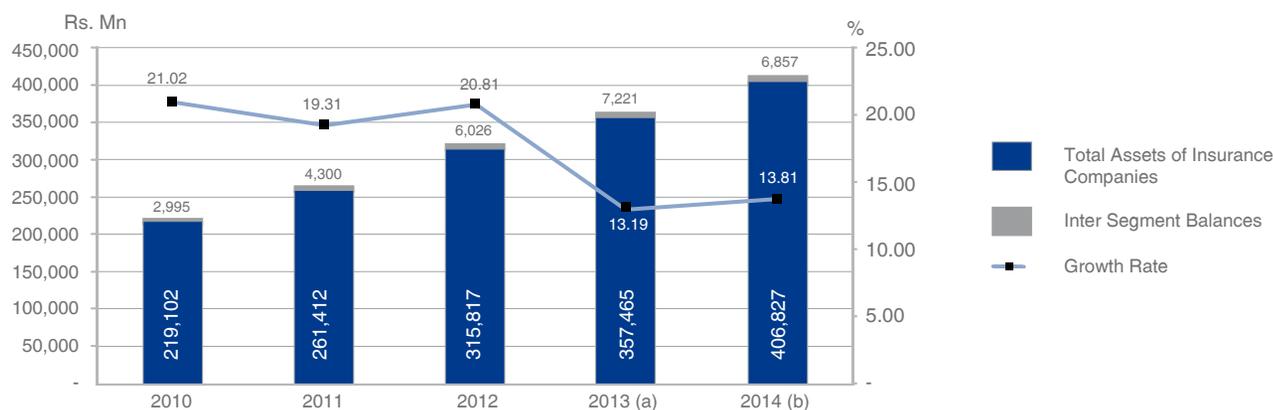
(b) Provisional figures

Notes:

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

**Chart 1**

#### Total Assets and Assets Growth Rate of the Insurance Industry



(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

### **Distribution of Assets of Insurance Companies**

The distribution of assets among insurance companies under long term insurance and general insurance / shareholders segments as at 31st December 2014 and 31st December 2013 is illustrated in Table 3. Total assets of insurance companies as at 31st December 2014 amounted to Rs. 406,827 million (2013: Rs. 357,465 million) after eliminating an inter-segment asset balance of Rs. 6,857 million (2013: Rs. 7,221 million).

Similar to previous year, SLIC held the largest portion of the insurance industry's assets and accounted for 39.81% of total assets of insurance companies in 2014 (2013: 40.20%) with assets worth of Rs. 161,967 million (2013: Rs. 143,693 million). In 2014 SLIC held assets worth of Rs. 90,804 million under long term insurance business (2013: Rs. 79,519 million) while general insurance business and shareholders accounted for assets worth of Rs. 71,162 million (2013: Rs. 64,174 million). It was

notable that assets of both classes of insurance business of SLIC had recorded double digit growth in 2014.

Ceylinco held the second largest asset portion of the insurance industry as at 31st December 2014 by accounting for 22.63% of total assets (2013: 22.82%) followed by AIA which held 11.72% of assets (2013: 12.35%). Assets owned by Ceylinco amounted to Rs. 92,078 million as at 31st December 2014 (2013: Rs. 81,574 million) whilst AIA held assets worth of Rs. 47,666 million (2013: Rs. 44,158 million). UAL and Janashakthi accounted for 8.71% and 4.95% of total assets and claimed fourth and fifth places in terms of asset ownership in the insurance industry as at 31st December 2014. It is interesting to note that 87.82% of total assets of insurance companies were concentrated among five companies as at 31st December 2014 while the remaining 12.18% of assets were owned by the other fifteen companies.

## Statistical Review Contd...

**Table 3**

*Company-wise Analysis of Total Assets*

Insurer	2013 (a)					2014 (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	35,442,431	8,742,090	26,385	44,158,136	12.35	38,436,443	9,229,720	-	47,666,163	11.72
AIG	-	1,226,001	-	1,226,001	0.34	-	459,716	-	459,716	0.11
Allianz Gen.	-	2,727,215	-	2,727,215	0.76	-	3,131,772	-	3,131,772	0.77
Allianz Life	1,077,009	-	-	1,077,009	0.30	1,459,083	-	-	1,459,083	0.36
Amana Takaful	1,006,855	1,686,462	44,253	2,649,064	0.74	1,399,828	1,693,869	105,638	2,988,059	0.73
Arpico	723,566	-	-	723,566	0.20	962,865	-	-	962,865	0.24
Asian Alliance	4,418,928	2,921,100	-	7,340,028	2.05	6,735,510	3,476,151	-	10,211,661	2.51
Ceylinco	57,204,038	30,853,084	6,483,228	81,573,894	22.82	65,374,901	32,689,041	5,986,239	92,077,703	22.63
Continental	-	1,415,146	-	1,415,146	0.40	-	2,028,177	-	2,028,177	0.50
Cooperative	838,598	2,165,406	10,720	2,993,284	0.84	976,777	2,720,604	10,869	3,686,512	0.91
HNBA	4,598,540	3,436,137	-	8,034,677	2.25	5,930,808	3,977,661	-	9,908,469	2.44
Janashakthi	7,553,509	10,692,654	-	18,246,163	5.10	8,159,309	11,995,381	-	20,154,690	4.95
LIC	1,668,517	-	-	1,668,517	0.47	1,903,185	-	-	1,903,185	0.47
LOLC	291,199	2,044,502	6,398	2,329,304	0.65	1,042,182	2,671,810	20,755	3,693,237	0.91
MBSL	257,450	1,322,384	-	1,579,834	0.44	395,336	1,355,127	-	1,750,463	0.43
Orient	-	925,027	-	925,027	0.26	-	1,019,481	-	1,019,481	0.25
People's	-	3,853,669	-	3,853,669	1.08	-	4,598,563	-	4,598,563	1.13
Sanasa	572,540	617,857	-	1,190,397	0.33	738,763	986,026	-	1,724,789	0.42
SLIC	79,518,628	64,174,216	-	143,692,844	40.20	90,804,450	71,162,367	-	161,966,817	39.81
UAL	21,103,511	9,607,354	649,778	30,061,087	8.41	25,530,258	10,638,421	733,048	35,435,631	8.71
<b>Total</b>	<b>216,275,318</b>	<b>148,410,305</b>	<b>7,220,762</b>	<b>357,464,861</b>	<b>100</b>	<b>249,849,697</b>	<b>163,833,886</b>	<b>6,856,549</b>	<b>406,827,033</b>	<b>100</b>

(a) Reinstated audited figures

(b) Provisional figures

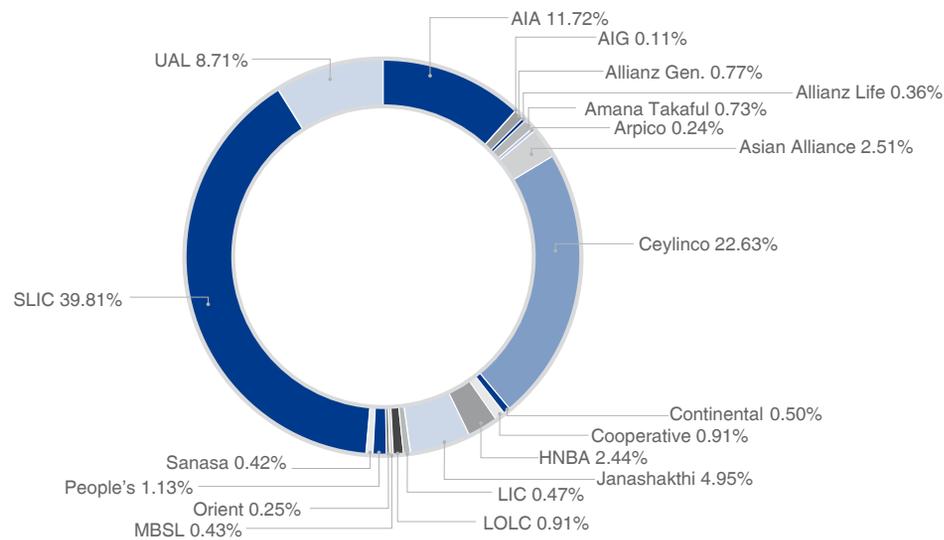
Notes:

1. Above analysis does not include information of NITF since required complete 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 Contd...

### Chart 2

#### Company-wise Analysis of Concentration of Assets as at 31<sup>st</sup> December 2014



### Shareholders' Funds of Insurance Companies

Total shareholders' funds of insurance companies had increased to Rs.112,000 million as at 31st December 2014 from Rs. 94,950 million recorded as at 31st December 2013. This has been a significant growth of 17.96% compared to 2013.

As illustrated in Table 4, total shareholders' funds comprised of stated capital amounted to Rs. 22,547 million and reserves worth of Rs. 89,453 million as at 31st December 2014. Similar to 2013, SLIC had accounted for more than half of the entire shareholders' funds as at 31st December

2014 by accounting for 56.19% of the total insurance industry's shareholders' funds. Ceylinco and UAL accounted for 15.83% and 5.54% of total shareholders' funds respectively and claimed the second and the third positions in 2014. Fourth and fifth largest shareholders' fund values were recorded by Janashakthi and AIA in 2014 and owned 4.65% and 4.32% of total insurance industry's shareholders' funds respectively. It is noteworthy that insurance companies who held the five largest portions of shareholders' funds accounted for 86.53% of the total shareholders' funds belonged to all insurance companies in 2014 (2013: 87.18%).

## Statistical Review Contd...

**Table 4**

**Total Shareholders' Funds of Insurance Companies**

Insurer	2013 (a)		2014 (b)			
	Total Shareholders' Funds (Rs.'000)	%	Stated Capital (Rs.'000)	Total Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA	4,538,450	4.78	300,000	4,535,259	4,835,259	4.32
AIG	277,458	0.29	659,265	(410,086)	249,179	0.22
Allianz Gen.	875,510	0.92	500,000	402,085	902,085	0.81
Allianz Life	261,958	0.27	592,624	(365,889)	226,734	0.20
Amana Takaful	983,286	1.03	1,250,001	(250,064)	999,937	0.89
Arpico	496,908	0.52	675,565	(63,389)	612,176	0.55
Asian Alliance	1,831,693	1.93	1,062,500	1,495,992	2,558,492	2.28
Ceylinco	15,922,159	16.77	1,324,822	16,408,998	17,733,820	15.83
Continental	567,276	0.60	750,000	132,713	882,713	0.79
Cooperative	899,249	0.95	1,003,066	364,018	1,367,084	1.22
HNBA	2,113,612	2.23	1,171,875	1,234,482	2,406,356	2.15
Janashakthi	4,028,491	4.24	1,496,000	3,710,641	5,206,641	4.65
LIC	632,071	0.67	500,000	214,417	714,417	0.64
LOLC	708,452	0.75	1,100,000	(85,706)	1,014,294	0.91
MBSL	339,399	0.36	1,080,022	(617,244)	462,778	0.41
Orient	680,330	0.72	750,000	(122,051)	627,949	0.56
People's	1,084,881	1.14	600,000	809,322	1,409,322	1.26
Sanasa	416,711	0.44	592,635	54,357	646,992	0.58
SLIC	53,175,185	56.00	6,000,000	56,933,533	62,933,533	56.19
UAL	5,117,292	5.39	1,138,432	5,071,785	6,210,217	5.54
<b>Total</b>	<b>94,950,371</b>	<b>100</b>	<b>22,546,806</b>	<b>89,453,172</b>	<b>111,999,978</b>	<b>100</b>

(a) Reinstated audited figures

(b) Provisional figures

Note:

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

## Statistical Review Contd...

### Distribution of Total Assets of Major Financial Sectors

Total assets of major financial sectors of the economy increased to Rs. 12,041.2 billion as at 31st December 2014 from Rs. 10,320.2 billion recorded as at 31st December 2013 by 16.68%. As depicted in Table 5, banking sector accounted for 70.0% of the total assets with assets worth of Rs. 8,436.4 billion as at 31st December 2014 reflecting its dominance in the financial sector. Contractual savings institutions accounted for

15.5% of total assets of the financial sector in 2014 by recording assets worth of Rs. 1,866.1 billion (2013: Rs. 1,640.8 billion). Other deposit taking financial institutions and specialized financial institutions owned assets worth Rs. 892 billion and Rs. 439.9 billion respectively as at 31st December 2014 and accounted for 7.4% and 3.7% assets of the financial sector respectively. Insurance companies had assets worth of Rs. 406.8 billion as at 31st December 2014 (2013: Rs. 357.5 billion) and accounted for 3.4% of the assets of the financial sector.

**Table 5**

### Distribution of Total Assets of Major Financial Sectors

Financial Sector	Distribution of Assets									
	2010		2011		2012		2013		2014	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	4,527.3	68.9	5,375.6	69.7	6,377.0	70.3	7,187.5	69.6	8,436.4	70.0
Other Deposit Taking Financial Institutions	295.0	4.5	427.1	5.5	621.2	6.9	756.4	7.3	892	7.4
Specialized Financial Institutions	354.3	5.4	338.8	4.4	310.4	3.4	378	3.7	439.9	3.7
Contractual Savings Institutions	1,178.7	17.9	1,305.4	16.9	1,445.6	15.9	1,640.8	15.9	1,866.1	15.5
Insurance Companies	219.10	3.3	261.4	3.4	315.8	3.5	357.5(a)	3.5	406.8 (b)	3.4
<b>Total</b>	<b>6,574.4</b>	<b>100</b>	<b>7,708.3</b>	<b>100</b>	<b>9,070.0</b>	<b>100</b>	<b>10,320.2</b>	<b>100</b>	<b>12,041.2</b>	<b>100.0</b>

Source: Central Bank of Sri Lanka Annual Report - 2014 (Assets of insurance companies were reinstated based on data received from insurance companies).

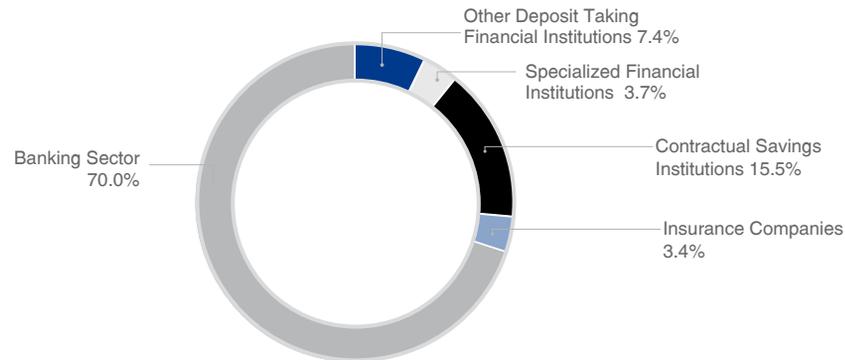
(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

### Chart 3

#### *Distribution of Total Assets of Major Financial Sectors as at 31<sup>st</sup> December 2014*



### Analysis of Branches, Employees and Agents of Insurance Companies

Insurers adopt various distribution channels to reach customers with numerous insurance needs across the country. Direct marketing, branch network, brokering companies and agency distribution play a key role in the traditional marketing structure of insurers while innovative distribution channels such as online marketing and services offered to customers through telecommunication providers also play a significant part in expanding their business.

As reflected in Table 6 insurance companies operated 1,462 branches in the country as at 31st December 2014, an increase of 6.02% compared to 1,379 branches operated in 2013. There were 487 branches situated in the Western province as at 31st December 2014 compared to 489 branches as at 31st December 2013. Almost one third of the total number of branches of the country was situated in the Western province reflecting the high level of concentration of insurance business in the Western province. Southern and Central provinces had the second and third largest branch network with 191 and 159 branches respectively while Uva province had the least number of branches which amounted to 76.

Insurance companies collectively employed 16,134 employees as at 31st December 2014 (2013: 13,764) with 10,780 employees located

in the Western province representing 66.82% of total employees of all insurance companies (2013: 62.58%). Southern and Central provinces stationed the second and third highest number of employees with 1,137 and 941 employees respectively as at 31st December 2014. Lowest number of employees was located in the Northern province which amounted to 400 and represented only 2.48% of total employees of insurance companies.

Total number of agents attached to all insurance companies amounted to 42,958 as at 31st December 2014 indicating an increase of 11.19% compared to 38,635 agents employed as at 31st December 2013. Largest number of agents was located in the Western province which amounted to 16,578 agents as at 31st December 2014 (2013: 14,618) and represented 38.59% of the total agents of insurance companies. Least number of agents was located in the Uva province which amounted to 2,197 agents as at 31st December 2014 reflecting a slight decline of 4.23% compared to 2,294 agents reported as at 31st December 2013. The notable fact illustrated by Table 6 is the high level of concentration of branches, employees and agents in the Western province when compared to other provinces of the island.

## Statistical Review Contd...

Chart 4 illustrates the distribution of number of branches, employees and agents across the nine provinces of the country as at 31st December 2014.

**Table 6**

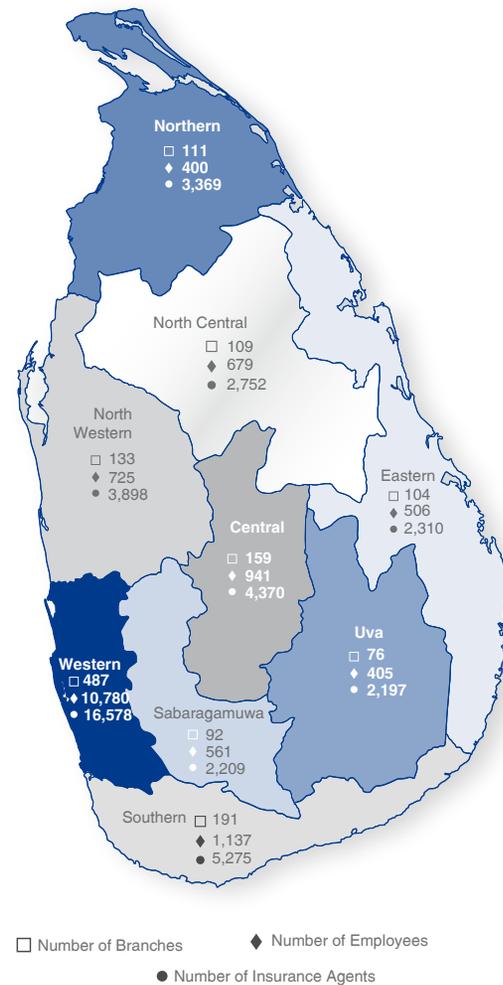
*Number of Branches, Employees and Agents as at 31st December, 2014 and 2013*

Province	No of Branches		No. of Employees		No. of Agents	
	2013	2014	2013	2014	2013	2014
Central Province	126	159	1,031	941	3,820	4,370
Eastern Province	86	104	404	506	1,773	2,310
North Central Province	97	109	603	679	2,324	2,752
North Western Province	126	133	749	725	3,613	3,898
Nothern Province	108	111	421	400	2,945	3,369
Sabaragamuwa Province	104	92	535	561	2,611	2,209
Southern Province	176	191	1,046	1,137	4,637	5,275
Uva Province	67	76	362	405	2,294	2,197
Western Province	489	487	8,613	10,780	14,618	16,578
<b>Total</b>	<b>1,379</b>	<b>1,462</b>	<b>13,764</b>	<b>16,134</b>	<b>38,635</b>	<b>42,958</b>

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

**Chart 4**

*Number of Branches, Employees and Agents as at 31st December 2014*



## Statistical Review Contd...

### Distribution Channels of Insurance Companies

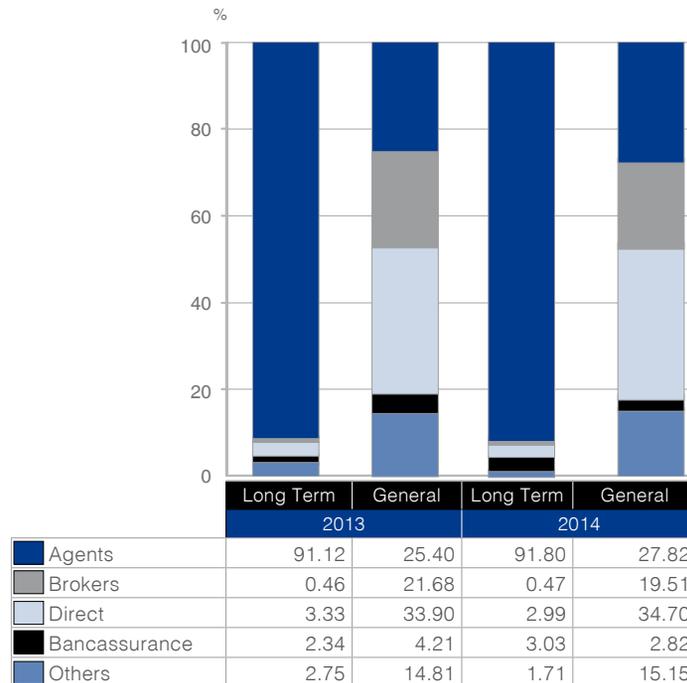
Similar to previous years, agents continued to be the key distribution channel used to reach customers of long term insurance business in 2014. Agents accounted for 91.80% of the total GWP of long term insurance business generated in 2014 almost similar to their contribution of 91.12% in 2013. As depicted in Chart 5, distribution channels such as bancassurance, direct marketing, other channels and brokers did not generate substantial GWP amounts of long term insurance business and accounted for only 3.03%, 2.99%, 1.71% and 0.47% respectively in 2014.

Distribution channels such as direct marketing, agents, brokers, and

other distribution channels play important roles in reaching the general insurance customers as opposed to long term insurance business where agents play the dominant role. As depicted in Chart 5, direct marketing had generated 34.70% of GWP of general insurance business followed by agents, brokers, other distribution channels and bancassurance which represented 27.82%, 19.51%, 15.15% and 2.82% respectively in 2014. It is noteworthy that GWP generated through direct marketing, agents and other distribution channels have increased in 2014 compared to 2013 although premiums generated through brokers and bancassurance have decreased.

### Chart 5

#### Distribution Channels of Insurance Companies



## Statistical Review Contd...

### Long Term Insurance Business

#### Gross Written Premium

In 2014, long term insurance business had generated GWP worth of Rs. 44,610 million (2013: Rs. 41,676 million) as reflected in Table 7. The long term insurance market has recorded slow growth of 7.04% in 2014 compared to 11.20% growth recorded in 2013.

Ceylinco has continued to maintain its dominance in the long term insurance market by generating GWP of Rs. 12,003 million in 2014 (2013: Rs. 11,123 million) and accounted for 26.91% of the total GWP. SLIC and AIA claimed the second and third positions in the market in 2014 similar to the previous year by recording GWP worth of Rs. 8,121 million (2013: Rs. 8,398 million) and Rs. 7,267 million (2013: Rs. 6,863 million) with market shares of 18.20% and 16.29% respectively. SLIC's

market share has dropped by 1.95% in 2014 compared to 20.15% recorded in 2013. UAL and Asian Alliance had earned GWP worth of Rs. 5,945 million (2013: Rs. 5,515 million) and Rs. 3,048 million (2013: Rs. 2,520 million) respectively to become the fourth and fifth largest GWP generators in the long term insurance sector similar to the previous year by achieving market shares of 13.33% and 6.83%. The top five GWP contributors have collectively accounted for 81.56% (2013: 82.59%) of the total long term insurance GWP in 2014. There was a noticeable growth in GWP of new player LOLC (115.58%) in 2014 when compared to 2013. Chart 6 analyses the company-wise market share of GWP pertaining to long term insurance business.

**Table 7**

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

Insurer	2010		2011		2012		2013(a)		2014(b)	
	Premium (Rs.'000)	Market Share (%)								
AIA	7,783,925	24.99	7,846,447	22.32	6,495,863	17.33	6,863,047	16.47	7,266,574	16.29
Allianz Life	204,814	0.66	351,299	1.00	532,142	1.42	828,790	1.99	838,326	1.88
Amana Takaful	240,156	0.77	303,786	0.86	364,759	0.97	542,986	1.30	679,029	1.52
Apico	-	-	-	-	101,900	0.27	206,494	0.50	299,040	0.67
Asian Alliance	1,242,608	3.99	1,579,191	4.49	2,034,084	5.43	2,520,283	6.05	3,048,148	6.83
Ceylinco	8,786,120	28.21	9,815,943	27.91	10,829,470	28.91	11,122,906	26.69	12,002,524	26.91
Cooperative	233,540	0.75	269,579	0.77	312,056	0.83	337,623	0.81	402,046	0.90
HNBA	1,084,480	3.48	1,290,367	3.67	1,500,028	4.00	2,014,547	4.83	2,342,867	5.25
Janashakthi	1,685,409	5.42	1,871,986	5.32	2,025,075	5.40	2,193,662	5.26	2,170,419	4.87
LIC	252,656	0.81	295,859	0.84	303,344	0.81	322,268	0.77	349,311	0.78
LOLC	-	-	51,427	0.15	106,238	0.28	274,798	0.67	592,422	1.33
MBSL	89,984	0.28	143,156	0.41	192,780	0.51	251,720	0.60	294,299	0.66
Sanasa	73,030	0.23	128,113	0.36	203,616	0.54	283,975	0.68	258,771	0.58
SLIC	6,009,859	19.29	6,743,073	19.18	7,369,031	19.67	8,397,718	20.15	8,121,140	18.20
UAL	3,465,505	11.12	4,471,627	12.72	5,106,323	13.63	5,515,063	13.23	5,945,499	13.33
<b>Total</b>	<b>31,152,086</b>	<b>100</b>	<b>35,161,853</b>	<b>100</b>	<b>37,476,709</b>	<b>100</b>	<b>41,675,880</b>	<b>100</b>	<b>44,610,416</b>	<b>100</b>
<b>Growth Rate (%)</b>	<b>29.77</b>		<b>12.87</b>		<b>6.58</b>		<b>11.20</b>		<b>7.04</b>	

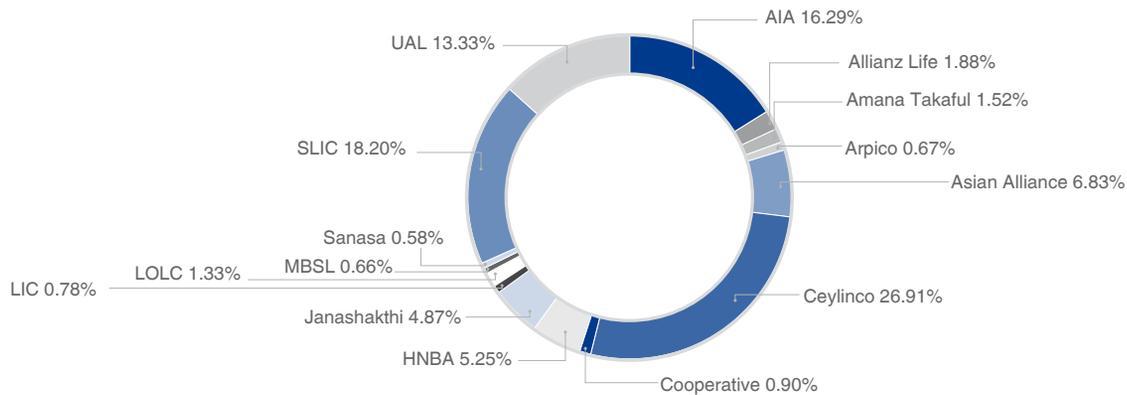
(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

**Chart 6**

*Company-wise Market Share of Gross Written Premium - Long Term Insurance Business for the year ended 31st December 2014*



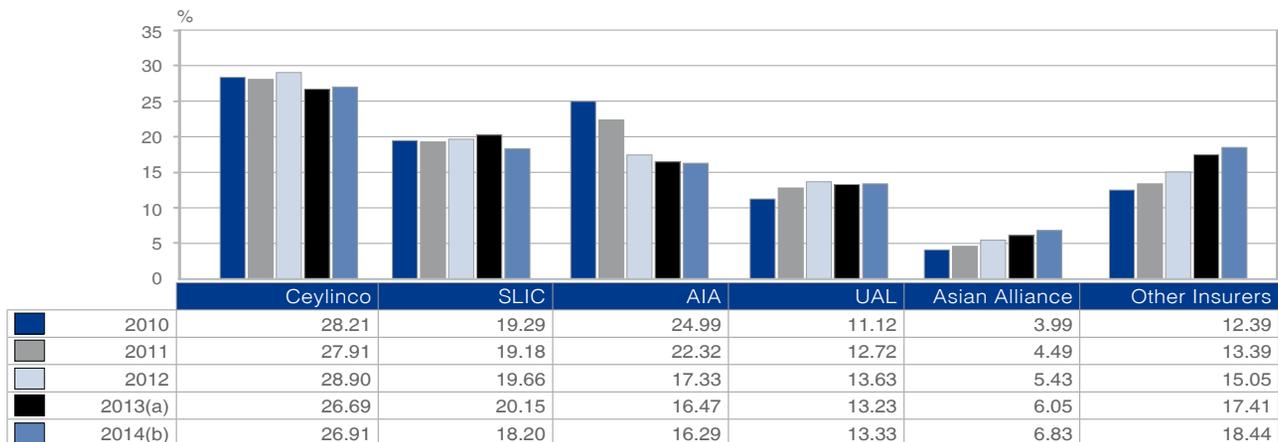
### Market Share of top five Contributors and Other Insurers – Long Term Insurance Business

As depicted in table 7 Ceylinco, SLIC, AIA, UAL and Asian Alliance were able to secure top five positions in the market. However, high level

of competition among the fifteen players has reduced the accumulated market share of GWP of top five companies further from 82.59% in 2013 to 81.56% in 2014. The analysis of the market share of these five companies and others are reflected in chart 7.

**Chart 7**

*Market Share of top five Contributors and other Insurers for the Years 2010 to 2014 - Long Term Insurance Business*



(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

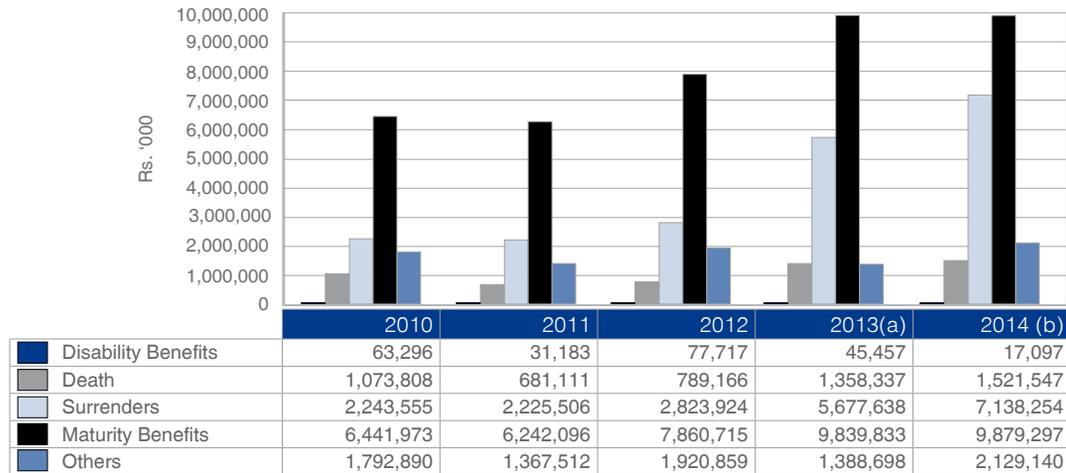
### Claims Incurred by Insurance Companies - Long Term Insurance Business

Chart 8 depicts 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 2014 amounted to Rs. 20,685 million (2013: Rs. 18,310 million) which represented an increase of 12.97% compared to 2013. Maturity benefits amounted to Rs. 9,879 million (2013: Rs. 9,840 million) which represented 47.76% of the total claims.

There was a noticeable increase in surrenders including unit linked products during 2014, which resulted in surrender claims of Rs. 7,138 million compared to Rs. 5,678 million recorded in 2013. This represented 34.51% of the total claims incurred in 2014. Death claims amounted to Rs. 1,522 million (2013: Rs. 1,358 million) while other claims including advance payments, cash bonuses, and prematurity payments etc. amounted to Rs. 2,129 million (2013: Rs. 1,389 million).

#### Chart 8

#### Claims Incurred by Insurance Companies - Long Term Insurance Business



(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

### Number of Insurance Claims –Long Term Insurance Business

In 2014, there were 252,065 claims incurred by the long term insurance companies. The matured claims accounted for 42.59% of total claims. Further other claims and surrender claims represented 33.66% and

18.23% of total number of long term insurance claims respectively. Table 8 depicts the category wise break up of number of long term insurance claims incurred for the years 2010 to 2014.

**Table 8**

### Number of Insurance Claims –Long Term Insurance Business

	2010	2011	2012	2013(a)	2014(b)
Maturity Benefits	87,742	98,363	102,465	102,050	107,353
Death	5,063	4,328	4,358	5,284	5,795
Disability Benefits	628	569	578	6,980	8,120
Surrenders	25,771	25,661	24,631	41,964	45,962
Other benefits	42,939	45,885	51,773	99,257	84,835
<b>Total</b>	<b>162,143</b>	<b>174,806</b>	<b>183,805</b>	<b>255,535</b>	<b>252,065</b>

(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

### Assets of Long Term Insurance Business

Concentration of assets of long term insurance business among different asset categories as at 31st December 2014 is reflected in Table 9 and Chart 9.

Rs. 111,600 million (2013: Rs. 93,539 million) has been invested in government securities out of the total assets worth of Rs. 249,850 million (2013: Rs. 216,275 million). This accounted for 44.67% (2013: 43.25%) of the total assets of long term insurance business. Throughout the year, the Board ensured that insurers comply with the minimum statutory investment of 30% of long term insurance fund in government securities as required under the Act. Furthermore insurance companies are required to invest balance assets of long term insurance fund in accordance with Determination No. 1 of 2011 and the Board ensured compliance with same during the year under review.

In the year 2014, a trend towards investments in corporate debt

instruments continued. There was an increase in corporate debt investments up to Rs. 40,478 million (2013: Rs. 32,944 million) in 2014 compared to the previous year. This represented 16.20% (2013: 15.23%) of the total assets and became the second largest investments instrument of long term insurance business pushing the deposits to third position.

Investments in deposits amounted to Rs. 38,032 million (2013: Rs. 40,806 million) and accounted for 15.22% (2013: 18.87%) of total assets. Equity investments amounted to Rs. 31,729 million (2013: Rs. 24,606 million) and accounted for 12.70% (2013: 11.38%) of total assets.

Main investments categories namely government securities, corporate debt and deposits collectively accounted for 76.09% (2013: 77.35%) of the total assets of long term insurance business and the balance assets were held in equities, land and building, unit trusts, etc.

**Table 9**

#### Concentration of Assets as at 31st December 2013 and 2014- Long Term Insurance Business

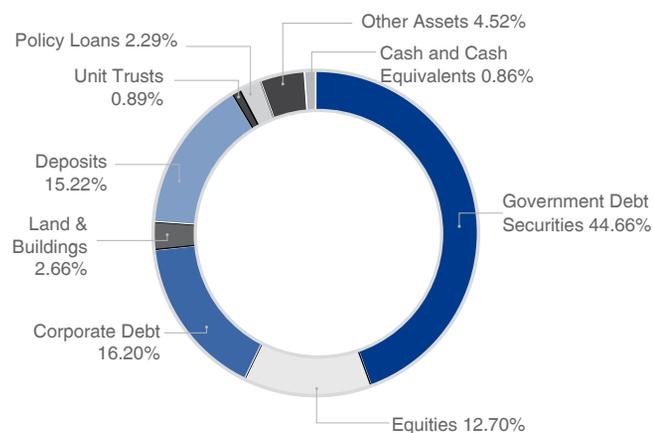
Type of Asset	2013(a)		2014(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	93,539,259	43.25	111,600,355	44.66
Equities	24,606,466	11.38	31,729,171	12.70
Corporate Debt	32,943,830	15.23	40,478,128	16.20
Land & Buildings	6,130,156	2.83	6,638,896	2.66
Deposits	40,806,373	18.87	38,032,430	15.22
Unit Trusts	2,302,039	1.06	2,220,486	0.89
Investments in Gold	29,295	0.01	-	-
Policy Loans	5,235,167	2.42	5,711,407	2.29
Other Assets	9,202,854	4.26	11,288,496	4.52
Cash and Cash Equivalents	1,479,876	0.68	2,150,326	0.86
<b>Total</b>	<b>216,275,317</b>	<b>100</b>	<b>249,849,697</b>	<b>100</b>

(a) Reinstated audited figures

(b) Provisional figures

**Chart 9**

#### Concentration of Assets as at 31st December 2014 - Long Term Insurance Business



## Statistical Review Contd...

### Investment Income of Long Term Insurance Business

As depicted in Table 10, total investment income generated from investments of long term insurance business amounted to Rs. 26,081 million in 2014 (2013: Rs. 21,492 million). Average investments of long term insurance business in 2014 amounted to Rs. 221,918 million (2013: Rs. 194,653 million).

In 2014, average amount of investment in government debt securities which represented the largest portion of average investments amounted to Rs. 102,570 million (2013: Rs. 95,843 million) and generated an investment yield of 11.17% (2013: 12.47%) which represented a decline in investment yield compared to 2013. Investment income generated from equities aggregated to Rs. 3,970 million (2013: Rs. 888 million) in 2014 and reflected an investment yield of 14.10%. (2013: 3.48%). This includes capital gains of Rs. 3,041 million (2013: capital losses

of Rs. 129 million) and dividend income of Rs. 930 million (2013: Rs. 1,017 million). Investment income of corporate debts amounted to Rs. 4,601 million in 2014 (2013: Rs. 2,544 million) with an investment yield of 12.53% which had increased compared to the yield of 11.01% recorded in 2013.

Deposits generated an investment income of Rs. 4,673 million (2013: Rs. 5,826 million) including interest income of Rs. 4,448 million from bank deposits (2013: Rs. 5,666 million) and Rs.224 million from finance companies (2013: Rs. 160 million). Interest income from average investment in deposits generated an investment yield of 11.85% to insurance companies in 2014 compared to 16.05% earned in 2013 which reflects reduction of interest rates during 2014. Unit trusts and policy loans generated relatively high and moderate investment returns in 2014 with investment yield ratios of 23.74% (2013: 5.29%) and 8.14% (2013: 2.20%) respectively.

**Table 10**

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

Category	2013(a)			2014(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	11,950,852	95,843,035	12.47	11,453,476	102,569,807	11.17
- Treasury Bonds	9,606,186			10,256,814		
- Treasury Bills	299,139			491,187		
- Others (REPO)	2,045,527			705,475		
<b>Equity</b>	888,200	25,505,675	3.48	3,970,443	28,167,819	14.10
- Capital Gain/Losses	(128,524)			3,040,570		
- Dividend	1,016,724			929,873		
<b>Corporate Debts</b>	2,544,302	23,114,748	11.01	4,601,233	36,710,979	12.53
- Debentures	2,490,639			4,587,022		
- Commercial Papers	66,801			20,783		
- Asset Backed Securities	11,324			6,206		
- Other Similar Financial Instruments	(24,462)			(12,779)		
<b>Land and Buildings</b>	65,636	6,040,803	1.09	78,067	6,384,526	1.22
<b>Deposits</b>	5,825,710	36,298,242	16.05	4,672,766	39,419,402	11.85
- Bank	5,666,128			4,448,475		
- Finance Companies	159,581			224,292		
<b>Unit Trust</b>	103,025	1,945,956	5.29	536,872	2,261,263	23.74
<b>Gold</b>	(10,968)	30,564	(35.89)	(56)	14,648	(0.38)
<b>Policy Loans</b>	108,932	4,957,036	2.20	445,761	5,473,287	8.14
<b>Others</b>	16,632	917,152	1.81	322,865	916,111	35.24
<b>Total</b>	<b>21,492,321</b>	<b>194,653,211</b>	<b>11.04</b>	<b>26,081,427</b>	<b>221,917,841</b>	<b>11.75</b>

(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 Contd...

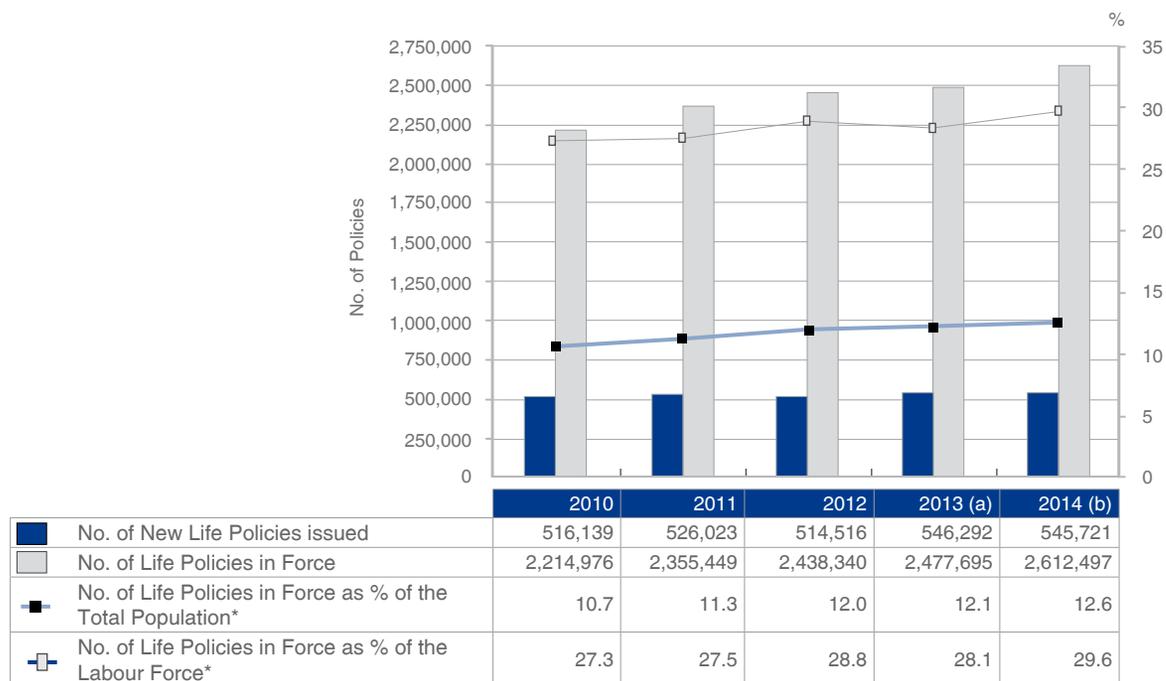
### Number of Insurance Policies Issued and Policies in Force –Long Term Insurance Business

At the end of 2014, total number of effective long term insurance policies was 2,612,497. Long term insurance policies in force have increased by 5.44% compared to 2,477,695 policies in force at the end of 2013. As indicated in chart 10 insurance companies have issued 545,721 new

long term insurance policies in 2014. Similar to previous year, number of effective policies in force as a percentage of total population was 12.6%. Further long term insurance policies in force as a percentage of labour force have increased slightly by 1.5% compared to 28.1% recorded in 2013.

#### 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 Contd...

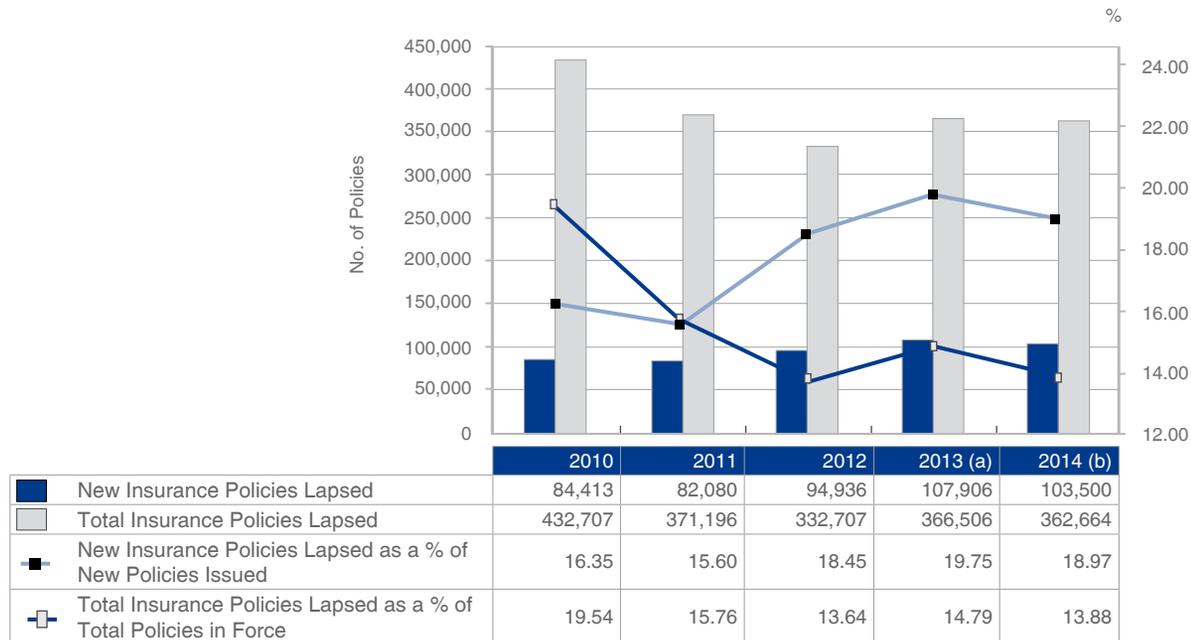
### Insurance Policy Lapses - Long Term Insurance Business

As depicted by Chart 11, total insurance policies lapsed in 2014 has decreased to 362,664 policies from 366,506 policies recorded in 2013 which represents a marginal drop of 1.05%. Therefore total insurance policy lapses as a percentage of total insurance policies in force had declined to 13.88% in 2014 compared to 14.79% recorded in 2013.

New long term insurance policies lapsed during 2014 amounted to 103,500 reduced by 4.08% compared to 107,906 lapsed policies reported in 2013. Therefore new insurance policy lapses as a percentage of new policies issued had declined to 18.97% in 2014 compared to 19.75% recorded in 2013.

### Chart 11

Number of Policies Lapsed and Lapse Ratio from 2010 to 2014- Long Term Insurance Business



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

(b) Provisional figures.

## Statistical Review Contd...

### Solvency Position of Insurance Companies – Long Term Insurance Business

The insurance companies are required to comply with solvency margin requirement which need to compute in accordance with rules and regulations issued by the Board. Table 11 depicts individual companies' solvency ratio and value of policy liabilities as at 31st December 2013 and 2014. One company could not meet the required solvency ratio

of 1 as at 31st December 2014 and the Board has taken necessary actions regarding same. Total policy liabilities amounting to Rs. 147,938 million in 2014 when compared with Rs. 132,493 million recorded in the previous year.

**Table 11**

*Company-wise Analysis of Solvency Position and Policy Liabilities as at 31st December 2013 & 2014 - Long Term Insurance Business*

Insurer	At 31st December 2013(a)		As at 31st December 2014 (b)			
	Solvency Ratio (ASM/RSM)	Value of Policy Liabilities (Rs. '000)	Available Solvency Margin (ASM) (Rs. '000)	Required Solvency Margin (RSM) (Policy Liabilities*0.05) (Rs. '000)	Solvency Ratio (ASM/RSM)	Value of Policy Liabilities (Rs. '000)
AIA	2.89	23,644,788	5,426,460	1,256,003	4.32	25,120,062
Allianz Life	5.40	663,689	112,640	49,037	2.30	980,741
Amana Takaful	2.02	538,568	30,463	27,781	1.10	555,610
Arpico	10.62	149,313	485,842	14,177	34.27	283,540
Asian Alliance	2.48	3,697,969	771,570	245,669	3.14	4,913,375
Ceylinco	12.85	32,593,476	26,234,688	1,836,480	14.29	36,729,597
Cooperative	3.23	676,575	41,913	39,912	1.05	798,243
HNBA	2.04	4,033,316	576,093	252,009	2.29	5,040,184
Janashakthi	6.77	5,285,357	865,829	341,124	2.54	6,822,472
LIC	10.62	919,426	708,104	56,556	12.52	1,131,121
LOLC	(11.18)	251,522	196,151	34,147	5.74	682,942
MBSL	(0.40)	218,559	(36,451)	18,381	(1.98)	367,615
Sanasa	1.03	537,990	220,261	34,138	6.45	682,753
SLIC	11.48	43,227,530	31,529,776	2,268,016	13.90	45,360,319
UAL	3.99	16,054,685	4,375,064	923,478	4.74	18,469,562
<b>Total/Overall</b>	<b>8.43</b>	<b>132,492,764</b>	<b>71,538,404</b>	<b>7,396,907</b>	<b>9.67</b>	<b>147,938,137</b>

(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

### General Insurance Business

#### Gross Written Premium

The total GWP generated by insurance companies engaged in general insurance business amounted to Rs. 55,262 million in 2014 compared to Rs. 53,311 million in 2013, up by 3.66 % as depicted in Table 12. This lower growth rate was mainly due to slow growth experienced in marine, miscellaneous and motor insurance businesses and the negative growth recorded in fire insurance business. Most classes of general insurance business remained price competitive with insurance companies competing for market share.

Insurance companies have confirmed that the SRCC & TC premium in respect of general insurance business has amounted to Rs. 3,491 million in 2014 (2013: Rs. 2,957 million) and therefore GWP of general insurance business inclusive of SRCC & TC premium amounted to Rs. 58,753 million in 2014 (2013: Rs. 56,267 million).

Similar to previous years SLIC achieved the largest market share of the general insurance market by accounting for 21.92% of the total GWP (2013: 23.54 %) which amounted to Rs. 12,114 million (2013: Rs. 12,550 million). However SLIC's market share has decreased marginally by 1.62% in 2014 when compared to 2013.

Ceylinco remained in the second position of the general insurance market in 2014 with a market share of 19.49% (2013: 19.34%) and generated GWP worth of Rs. 10,773 million (2013: Rs. 10,311 million) which reflected a marginal increase in GWP compared to 2013.

Janashakthi generated GWP worth of Rs. 6,492 million in 2014 (2013: Rs. 6,319 million) to achieve the third largest market share of 11.75% (2013: 11.85%). UAL and People's generated GWP worth of Rs. 4,951 million (2013: Rs. 5,117 million) and Rs. 3,286 million (2013: Rs. 3,085 million) respectively to claim the fourth and the fifth largest market shares of 8.96% (2013: 9.60%) and 5.95% (2013: 5.79%) respectively. UAL's GWP has decreased in 2014 compared to 2013 though People's GWP had increased in 2014 compared to 2013.

In 2014, the five insurance companies which claimed the top five positions in terms of market share in the general insurance business had collectively accounted for 68.07% of the total industry GWP (2013: 70.12%) which indicated a marginal decrease in the concentration of GWP among the said companies. It is noteworthy that most of the medium and small sized players of the general insurance market had been able to increase their market share in 2014 compared to 2013.

Chart 12 illustrates the company-wise market share of GWP of general insurance business achieved by insurance companies in 2014.

## Statistical Review Contd...

**Table 12**

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

Insurer	2010		2011		2012		2013 (a)		2014 (b)	
	Premium (Rs. '000)	Market Share (%)								
AIA	2,490,843	7.10	2,456,347	5.67	2,143,252	4.31	2,428,675	4.55	2,655,577	4.81
AIG	890,387	2.54	942,901	2.18	819,448	1.65	880,060	1.65	523,857	0.95
Allianz Gen.	1,356,660	3.86	1,379,406	3.18	1,397,127	2.81	1,964,907	3.68	2,563,968	4.64
Amana Takaful	908,756	2.59	916,754	2.12	1,125,838	2.27	1,432,135	2.69	1,297,651	2.35
Asian Alliance	397,789	1.13	582,257	1.34	1,133,240	2.28	1,556,386	2.92	1,651,827	2.99
Ceylinco	8,724,292	24.85	9,558,942	22.06	10,434,917	21.00	10,311,479	19.34	10,772,849	19.49
Continental	359,105	1.02	1,149,121	2.65	1,545,225	3.11	1,330,515	2.50	1,765,202	3.19
Cooperative	644,814	1.84	922,859	2.13	1,135,011	2.28	1,272,941	2.39	1,346,018	2.43
HNBA	1,255,190	3.58	1,623,830	3.75	1,635,306	3.29	1,767,361	3.32	2,213,061	4.00
Janashakthi	4,324,170	12.32	5,086,207	11.74	5,773,429	11.62	6,318,626	11.85	6,491,556	11.75
LOLC	-	-	364,735	0.84	1,295,133	2.61	1,485,521	2.79	1,843,393	3.34
MBSL	467,606	1.33	636,738	1.47	1,049,147	2.11	1,132,789	2.12	913,125	1.65
Orient	-	-	1,749	-	308,547	0.62	355,001	0.66	491,127	0.89
People's	847,064	2.42	2,284,578	5.27	2,795,448	5.63	3,085,041	5.79	3,286,063	5.95
Sanasa	234,914	0.67	232,374	0.54	308,142	0.62	322,592	0.61	382,057	0.69
SLIC	8,766,027	24.97	11,134,583	25.70	12,359,188	24.87	12,549,763	23.54	12,113,568	21.92
UAL	3,433,830	9.78	4,055,443	9.36	4,436,052	8.93	5,116,966	9.60	4,950,741	8.96
<b>Total</b>	<b>35,101,447</b>	<b>100</b>	<b>43,328,824</b>	<b>100</b>	<b>49,694,450</b>	<b>100</b>	<b>53,310,758</b>	<b>100</b>	<b>55,261,639</b>	<b>100</b>
<b>Growth Rate (%)</b>	<b>4.63</b>		<b>23.44</b>		<b>14.69</b>		<b>7.28</b>		<b>3.66</b>	

(a) Reinstated audited figures

(b) Provisional figures

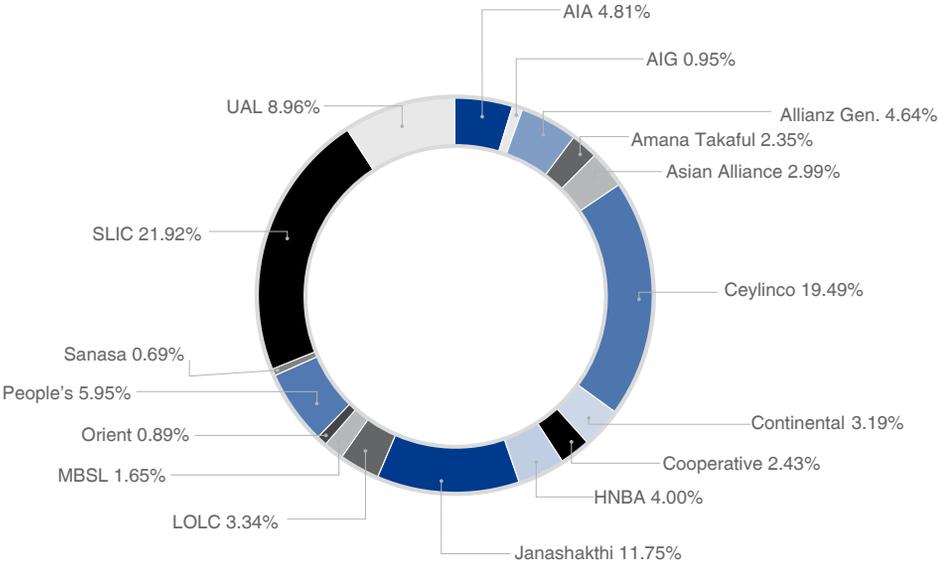
Notes:

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 2014.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

# Statistical Review Contd...

**Chart 12**

*Company-wise Market Share of Gross Written Premium - General Insurance Business for the Year ended 31<sup>st</sup> December 2014*



## Statistical Review Contd...

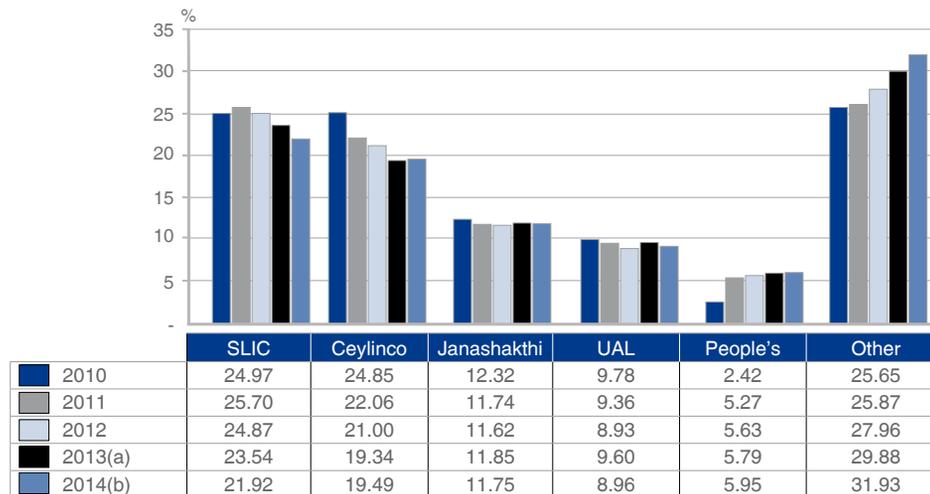
### Market Share of Top Five Contributors to Gross Written Premium and Other Insurers - General Insurance Business

Chart 13 depicts the market share recorded by the top five contributors to GWP of general insurance business and GWP generated by the other insurance companies from 2010 to 2014. SLIC remained in the number one position in the general insurance market in 2014 similar to previous years. However SLIC's market share fell to 21.92% in 2014 from 23.54% recorded in 2013 and as depicted in Chart 13, SLIC's market share has gradually decreased from 2011. Ceylinco has secured the second position in the general insurance market in 2014 with a market share of 19.49%. Janashakthi had secured the third position in the market and

achieved a market share of 11.75% in 2014. However market share of Janashakthi had declined marginally in 2014 compared to 2013. UAL had remained in the fourth position in the general insurance market since 2010 and their market share amounted to 8.96% in 2014. People's accounted for a market share of 5.95% in 2014 and achieved the fifth position in the market. Further, People's market share has increased gradually during the past five years. It is notable that the market share of the other insurance companies had increased during the past five years indicating the increase in the GWP generated by companies other than the top five contributors to GWP.

#### Chart 13

#### Market Share of top five Contributors and Other Insurers for the Years 2010 to 2014 – General Insurance Business



(a) Reinstated audited figures

(b) Provisional figures

## Statistical Review Contd...

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

Table 13 and Chart 14 depict gross written premium generated from the main sub-classes of general insurance business along with their growth rates and percentage share from the total GWP of general insurance business for the period from 2010 to 2014. Fire, marine, motor and miscellaneous insurance constitute the main sub-classes of general insurance business.

As reflected in Table 13 motor insurance had dominated the general insurance market by generating GWP amounted to Rs. 34,945 million in 2014 (2013: Rs. 33,157 million) which represented 63.24% of total GWP of general insurance business. Motor insurance had grown by 5.39% in 2014 over 2013.

In 2014, miscellaneous insurance business accounted for 22.19% of the total GWP (2013: 22.61%) of general insurance business by posting GWP worth of Rs. 12,262 million (2013: Rs. 12,054 million) indicating a marginal growth of 1.73% compared to 2013. Similar to previous years miscellaneous insurance represented the second largest sub-class of general insurance business in 2014.

GWP of fire insurance business amounted to Rs. 6,242 million in 2014 (2013: Rs. 6,304 million) and accounted for 11.29% of the total GWP (2013: 11.82%). GWP generated from fire insurance has reduced in 2014 compared to 2013 and posted a negative growth of 0.97%. Marine insurance generated GWP amounted Rs. 1,812 million in 2014 (2013: Rs. 1,796 million) and accounted for 3.28% of the total GWP in 2014 (2013: 3.37%) growing by only 0.87% compared to 2013.

**Table 13**

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

Class	Gross Written Premium (Rs.'000)				
	2010	2011	2012	2013 (a)	2014(b)
Fire	5,012,443	5,376,094	5,422,346	6,303,579	6,242,137
Marine	1,498,832	1,678,027	1,917,570	1,796,374	1,811,989
Motor	20,948,782	27,141,119	31,637,508	33,157,131	34,945,370
Miscellaneous	7,641,390	9,133,584	10,717,026	12,053,673	12,262,143
<b>Total</b>	<b>35,101,447</b>	<b>43,328,824</b>	<b>49,694,450</b>	<b>53,310,758</b>	<b>55,261,639</b>

Class	Growth (%)				
	2010	2011	2012	2013 (a)	2014(b)
Fire	(28.90)	7.25	0.86	16.25	(0.97)
Marine	3.89	11.96	14.28	(6.32)	0.87
Motor	17.05	29.56	16.57	4.80	5.39
Miscellaneous	6.75	19.53	17.34	12.47	1.73
<b>Total</b>	<b>4.63</b>	<b>23.44</b>	<b>14.69</b>	<b>7.28</b>	<b>3.66</b>

Class	Percentage Share (%)				
	2010	2011	2012	2013 (a)	2014(b)
Fire	14.28	12.41	10.91	11.82	11.29
Marine	4.27	3.87	3.86	3.37	3.28
Motor	59.68	62.64	63.66	62.20	63.24
Miscellaneous	21.77	21.08	21.57	22.61	22.19
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

(a) Reinstated audited figures (b) Provisional figures

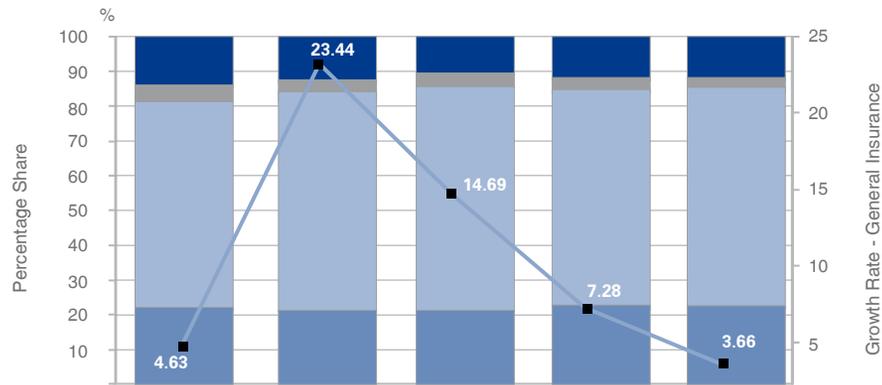
Notes:

- 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 2014.
- Above analysis does not include information of NITF since required complete information was not submitted to the Board.

## Statistical Review Contd...

### Chart 14

#### Class-wise Analysis of GWP from 2010 to 2014- General Insurance Business



	2010	2011	2012	2013 (a)	2014 (b)
■ Fire	14.28	12.41	10.91	11.82	11.29
■ Marine	4.27	3.87	3.86	3.37	3.28
■ Motor	59.68	62.64	63.66	62.20	63.24
■ Miscellaneous	21.77	21.08	21.57	22.61	22.19
■ Industry Growth (General Insurance)	4.63	23.44	14.69	7.28	3.66

(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 2014.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

## Statistical Review Contd...

### Category - wise Analysis of GWP of Miscellaneous Insurance Business

Table 14 depicts the GWP generated from different insurance segments categorized under miscellaneous insurance business during the years 2014 and 2013. Total GWP generated from miscellaneous insurance excluding SRCC & TC and coinsurance premium amounted to Rs. 12,262 million in 2014 (2013: Rs. 12,054 million). Health and surgical, personal accident, air craft hull, title, cash in transit, etc. were some of the main insurance segments categorized under miscellaneous insurance

products. Health and surgical was the segment which generated the highest GWP under miscellaneous insurance business which amounted to Rs. 6,397 million in 2014 (2013: Rs. 5,875 million) which represented 50.26% of total GWP inclusive of SRCC & TC and coinsurance premium. Health and surgical category has grown by 8.89% in 2014 compared to 2013 reflecting the growing demand for health and surgical insurance products. Other insurance categories of miscellaneous insurance business had increased to Rs. 2,072 million in 2014 by 19.63% compared to GWP worth of Rs. 1,732 million generated in 2013.

**Table 14**

#### Category - wise Analysis of GWP of Miscellaneous Insurance Premium for 2013 & 2014

Category	GWP Rs.'000	
	2013 (a)	2014 (b)
Health & Surgical	5,875,382	6,397,496
Title	293,292	390,491
Personal Accident	1,578,256	1,129,894
Contractors' All Risk	48,356	31,845
Professional Indemnity	265,077	238,610
Travel Insurance	232,543	343,227
Fidelity Guarantee	58,558	73,704
Burglary	320,750	260,629
Cash in transit including cash in safe	377,805	384,720
Goods in Transits	49,181	52,534
Products Liability	39,089	34,846
Public Liability	118,694	118,578
Bankers' Indemnity	329,112	276,473
Air Craft Hull	632,891	558,862
WCI	374,455	365,790
Others	1,732,291	2,072,314
<b>Total Miscellaneous Insurance GWP</b>	<b>12,325,736</b>	<b>12,730,014</b>
Total of SRCC & TC due to NITF	(252,055)	(298,984)
Coinsurers Premium	(20,008)	(168,887)
<b>Net Premium Income of Insurance Industry</b>	<b>12,053,673</b>	<b>12,262,143</b>

(a) Reinstated audited figures (b) Provisional figures

Notes :

1. Above GWP figures of sub categories of miscellaneous insurance business were stated without excluding Co-insurance, SRCC & T- Premium
2. Above analyses does not include information of NITF since required complete information was not submitted to the Board.

## Statistical Review Contd...

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

Table 15 and Chart 15 depict the GWP generated by insurance companies, reinsurance premium ceded to reinsurers and the retention levels of main classes of general insurance business from 2010 to 2014. In 2014, Rs. 9,259 million had been ceded to reinsurers (2013: Rs. 9,387 million) out of the total GWP of Rs. 55,262 million generated by general insurers (2013: Rs. 53,311 million) which had resulted in an overall retention ratio of 83.25% (2013: 82.39%).

Similar to previous years, the highest retention ratio was recorded in motor insurance business which amounted to 98.28% in 2014 (2013: 97.39%) reflecting the higher level of risk borne by insurance companies. Premiums ceded to reinsurers for motor insurance has reduced significantly in 2014 by 30.44% and amounted to Rs. 601 million compared to Rs. 864 million recorded in 2013.

Miscellaneous insurance recorded the second highest retention ratio which amounted to 79.36% in 2014 (2013: 77.60%) and indicated an

increase of 1.76%. Premiums ceded to reinsurers for miscellaneous insurance has reduced to Rs. 2,531 million in 2014 from Rs. 2,700 million recorded in 2013 by 6.28% which has contributed to the increase in the retention ratio.

The retention ratio of marine insurance had decreased to 40.64% in 2014 compared to 44.39% recorded in 2013. Reinsurance premiums ceded to reinsurers in respect of marine insurance has increased to Rs. 1,076 million in 2014 from Rs. 999 million recorded in 2013 by 7.67% which has contributed to the decrease in the retention ratio.

Similar to previous years fire insurance recorded the lowest retention ratio in 2014 which amounted to 19.08% and indicated a decrease compared to the retention ratio of 23.48% recorded in 2013. A drop in retention ratio indicated the high level of reliance placed on reinsurance for fire insurance business in 2014.

## Statistical Review Contd...

**Table 15**

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

Class	Gross Written Premium (Rs.'000)				
	2010	2011	2012	2013 (a)	2014 (b)
Fire	5,012,443	5,376,094	5,422,347	6,303,579	6,242,137
Marine	1,498,832	1,678,027	1,917,570	1,796,374	1,811,989
Motor	20,948,782	27,141,119	31,637,508	33,157,131	34,945,370
Miscellaneous	7,641,390	9,133,584	10,717,025	12,053,673	12,262,143
<b>Total Gross Written Premium</b>	<b>35,101,447</b>	<b>43,328,824</b>	<b>49,694,450</b>	<b>53,310,758</b>	<b>55,261,639</b>

Class	Reinsurance Premium (Rs.'000)				
	2010	2011	2012	2013 (a)	2014 (b)
Fire	4,233,236	4,090,136	4,140,877	4,823,731	5,051,044
Marine	813,665	847,392	1,326,369	998,976	1,075,640
Motor	316,594	387,211	478,478	864,394	601,306
Miscellaneous	2,020,031	2,302,942	2,752,627	2,700,309	2,530,557
<b>Total Reinsurance Premium</b>	<b>7,383,526</b>	<b>7,627,681</b>	<b>8,698,351</b>	<b>9,387,410</b>	<b>9,258,546</b>

Class	Retention (Rs.'000)				
	2010	2011	2012	2013	2014
Fire	779,208	1,285,958	1,281,469	1,479,848	1,191,094
Marine	685,167	830,635	591,202	797,399	736,349
Motor	20,632,188	26,753,908	31,159,029	32,292,737	34,344,064
Miscellaneous	5,621,359	6,830,643	7,964,399	9,353,364	9,731,586
<b>Total Net Written Premium</b>	<b>27,717,922</b>	<b>35,701,143</b>	<b>40,996,099</b>	<b>43,923,348</b>	<b>46,003,093</b>

Class	Retention as a Percentage of Gross Written Premiums (%)				
	2010	2011	2012	2013	2014
Fire	15.55	23.92	23.63	23.48	19.08
Marine	45.71	49.50	30.83	44.39	40.64
Motor	98.49	98.57	98.49	97.39	98.28
Miscellaneous	73.56	74.79	74.32	77.60	79.36
<b>Overall Retention Ratio</b>	<b>78.97</b>	<b>82.40</b>	<b>82.50</b>	<b>82.39</b>	<b>83.25</b>

(a) Reinstated audited figures

(b) Provisional figures

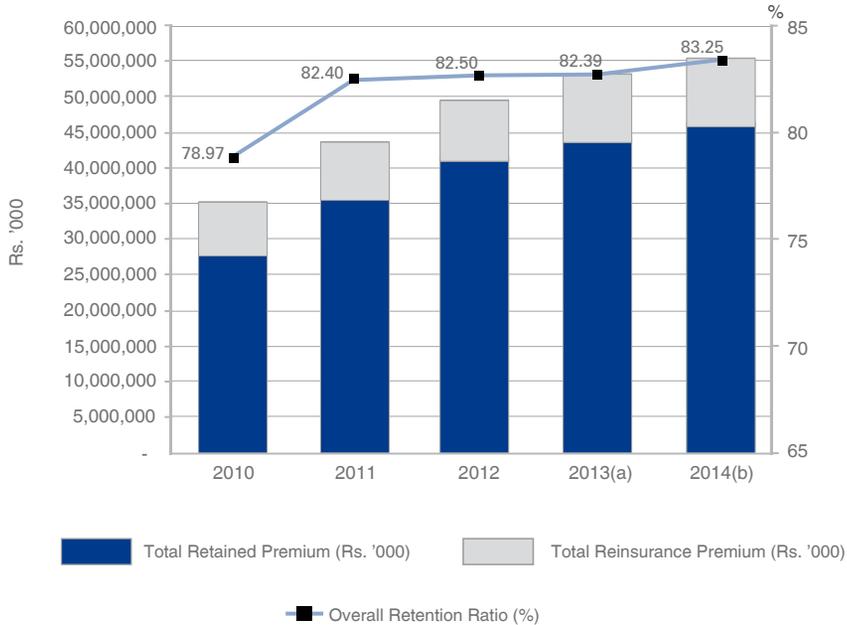
Notes:

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 2014.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

# Statistical Review Contd...

**Chart 15**

*Reinsurance Premium and Retention by Insurers - General Insurance Business*



(a) Reinstated audited figures  
 (b) Provisional figures

## Statistical Review Contd...

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

Net earned premium generated from main sub-classes of general insurance business increased to Rs. 44,233 million in 2014 from Rs. 42,036 million generated in 2013 by 5.23% as depicted in Table 16. Motor insurance business recorded the highest net earned premium which amounted to Rs. 33,031 million and reflected 74.68% of total net earned premium recorded in 2014.

Total net claims incurred during 2014 amounted to Rs. 28,935 million indicating an increase of 13.16% compared to Rs. 25,570 million recorded in 2013. Motor insurance business accounted for 73.83% of total net claims incurred in 2014 by recording claims amounted to Rs. 21,363 million (2013: Rs. 19,398 million).

Net claims ratio which reflects net claims as a percentage of net earned premium was highest for fire insurance business in 2014. Net claims ratio of fire insurance business has increased to 69.72% in 2014 from 57.64% recorded in 2013. Though net claims incurred for fire insurance business had decreased in 2014 compared to 2013, net earned premium of fire insurance business had decreased at a higher rate which has resulted in the higher net claims ratio.

Miscellaneous insurance business also recorded a net claims ratio of 69.40% in 2014 which was higher than the net claims ratio of 57.37% recorded in 2013. Though net earned premium of miscellaneous

insurance business had increased to Rs. 9,470 million in 2014 from 8,592 million recorded in 2013 by 10.22%, net claims incurred for miscellaneous insurance business had increased significantly by 33.33% in 2014 which had resulted in the higher net claims ratio.

Motor insurance business recorded a net claims ratio of 64.68% in 2014 and reflected an increase over 62.11% recorded in 2013. Net claims incurred for motor insurance business has increased by 10.13% in 2014 although its net earned premium has only increased by 5.76% which has resulted in the increase in net claim ratio of motor insurance business in 2014.

Net claims ratio of marine insurance business has significantly dropped to 40.22% in 2014 from 53.71% recorded in 2013 due to the significant drop of 34.70% in net claims incurred in 2014.

As reflected in Table 16 and Chart 16 net expenses incurred by general insurance sector amounted to Rs. 19,569 million in 2014 (2013: Rs. 17,360 million) increasing by 12.72% in 2014. The overall net expense ratio of general insurance business has also increased to 44.24% in 2014 compared to 41.30% recorded in 2013. Net combined ratio which reflects the aggregate of net claims ratio and net expense ratio had increased to 109.66% from 102.13% recorded in 2013. A combined ratio exceeding 100% reflects that the total claims and expenses incurred by the general insurance sector had been higher than the earned premium.

## Statistical Review Contd...

**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)				
	2010	2011	2012	2013(a)	2014(b)
Fire	1,098,186	1,141,591	1,400,808	1,405,741	1,029,013
Marine	674,476	802,677	537,073	805,682	702,595
Motor	18,356,887	23,575,071	29,293,110	31,232,673	33,030,719
Miscellaneous	5,282,148	6,298,058	7,222,611	8,591,530	9,470,186
<b>Total</b>	<b>25,411,697</b>	<b>31,817,397</b>	<b>38,453,602</b>	<b>42,035,626</b>	<b>44,232,513</b>

Class	Net Claims Incurred (Rs.'000)				
	2010	2011	2012	2013(a)	2014(b)
Fire	529,448	482,646	505,101	810,281	717,400
Marine	216,143	232,189	321,077	432,748	282,585
Motor	11,733,879	15,416,753	18,235,622	19,397,683	21,363,322
Miscellaneous	3,091,110	4,160,145	4,705,619	4,929,225	6,572,105
<b>Total</b>	<b>15,570,580</b>	<b>20,291,734</b>	<b>23,767,419</b>	<b>25,569,936</b>	<b>28,935,411</b>

Class	Net Claims Ratio (%)				
	2010	2011	2012	2013(a)	2014(b)
Fire	48.21	42.28	36.06	57.64	69.72
Marine	32.05	28.93	59.78	53.71	40.22
Motor	63.92	65.39	62.25	62.11	64.68
Miscellaneous	58.52	66.05	65.15	57.37	69.40
<b>Total</b>	<b>61.27</b>	<b>63.78</b>	<b>61.81</b>	<b>60.83</b>	<b>65.42</b>

Class	2010	2011	2012	2013(a)	2014(b)
Net Expenses (Rs.'000)	10,058,322	12,105,102	14,807,142	17,359,623	19,569,487
<b>Net Expense Ratio (%)</b>	<b>39.58</b>	<b>38.04</b>	<b>38.51</b>	<b>41.30</b>	<b>44.24</b>

<b>Net Combined Ratio (%)</b>	<b>100.85</b>	<b>101.82</b>	<b>100.32</b>	<b>102.13</b>	<b>109.66</b>
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(a) Reinstated audited figures

(b) Provisional figures

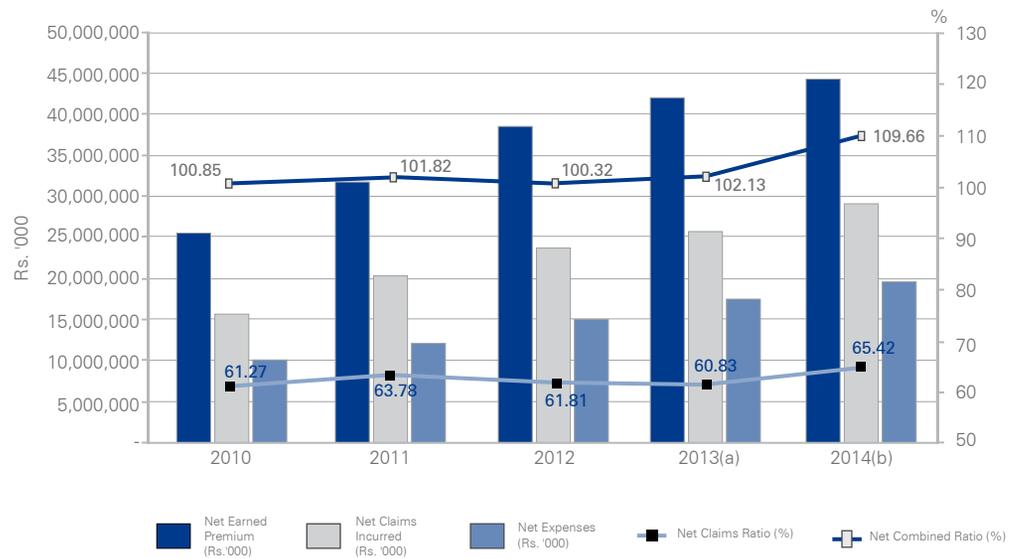
Notes:

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 2014.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

## Statistical Review Contd...

**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 Contd...

### Number of Policies Representing Gross Written Premium - General Insurance Business

Table 17 reflects the number of insurance policies pertaining to different sub-classes of general insurance business which had contributed to generate GWP from 2010 to 2014. The total number of general insurance policies related to all sub-classes of general insurance business has increased to 4,589,139 in 2014 from 4,327,860 policies reported in 2013. As depicted in Table 17 total number policies of general insurance

business had increased gradually during the past five years and motor insurance business accounted for the largest number of policies from a single sub-class of general insurance business representing 87.31% of total policies. The total number of motor insurance policies amounted to 4,006,740 in 2014 which consisted of 2,229,170 third party insurance policies and 1,777,570 comprehensive insurance policies.

Insurance policies of fire, marine and miscellaneous insurance businesses had increased in 2014 compared to 2013. However insurance policies of workmen compensation had decreased in 2014 compared to 2013.

**Table 17**

### Number of Policies Representing Gross Written Premium - General Insurance Business

	2010	2011	2012	2013	2014
Fire	154,474	205,622	186,462	177,723	190,725
Marine	138,201	169,610	154,411	158,836	179,173
Motor					
3rd Party Only	1,929,875	2,074,303	1,997,502	2,126,037	2,229,170
Comprehensive	952,113	1,223,534	1,474,742	1,667,752	1,777,570
WCI	14,606	17,172	17,415	18,717	16,252
Miscellaneous					
Health	7,277	7,872	10,294	11,384	13,876
Excluding Health	163,374	204,646	198,197	167,411	182,373
<b>Total</b>	<b>3,359,920</b>	<b>3,902,759</b>	<b>4,039,023</b>	<b>4,327,860</b>	<b>4,589,139</b>

## Statistical Review Contd...

### Assets of General Insurance Business and Shareholders

Total assets of general insurance business including shareholders' assets amounted to Rs. 163,834 million as at 31st December 2014 and recorded a growth of 10.39% compared to assets worth of Rs. 148,410 recorded as at 31st December 2013.

As reflected in Table 18 and Chart 17, equities accounted for 28.81% of the total asset portfolio of general insurance business as at 31st December 2014 and amounted to Rs. 47,194 million. This has been an increase of 34.94% compared to the previous year's investment in equities which amounted to Rs. 34,974 million reflecting insurers' preference to invest in the stock market during 2014.

Government securities represented the second largest asset category in general insurance business and accounted for 15.56% of total assets as at 31st December 2014. Investments in government securities amounted to Rs. 25,496 million as at 31st December 2014 and recorded a significant drop of 9.47% compared to Rs. 28,163 million recorded as at 31st December 2013 mainly due to further decline in interest rates

during 2014. Throughout the year the Board ensured that insurance companies invest at least 20% of investments of Technical Reserves in government securities as stipulated by the Act and the remaining assets in accordance with Determination 1.

Other assets were the third largest asset category of general insurance business and shareholders which represented 13.44% of total assets as at 31st December 2014 and amounted to Rs. 22,018 million as at 31st December 2014 increasing marginally over Rs. 21,110 million recorded as at 31st December 2014.

Deposits in banks and finance companies represented 12.33% of total assets as at 31st December 2014 and amounted to Rs. 20,200 million (2013: Rs. 18,956 million) which recorded a growth of 6.56% compared to 2013.

Premium receivables, land and buildings and corporate debts were the other main asset categories of general insurance business and shareholders which accounted for 8.32%, 6.81% and 4.62% of total assets respectively as at 31st December 2014.

**Table 18**

#### Concentration of Assets of General Insurance Business and Shareholders as at 31st December 2013 & 2014

Type of Asset	2013(a)		2014(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	28,162,948	18.98	25,495,519	15.56
Equities	34,974,481	23.57	47,193,839	28.81
Corporate Debt	5,973,048	4.02	7,575,359	4.62
Land & Buildings	11,078,105	7.46	11,151,304	6.81
Deposits	18,955,900	12.77	20,200,288	12.33
Unit Trusts	2,042,822	1.38	2,362,436	1.44
Investments in Gold	32,219	0.02	2,491	0.00
Reinsurance Receivable	6,734,352	4.54	6,651,289	4.06
Premium Receivable from Policyholders and Intermediaries	12,824,613	8.64	13,625,956	8.32
Property Plant and Equipments	5,069,556	3.42	5,158,889	3.15
Other Assets	21,110,092	14.22	22,018,427	13.44
Cash and Cash Equivalents	1,452,169	0.98	2,398,089	1.46
<b>Total</b>	<b>148,410,304</b>	<b>100</b>	<b>163,833,886</b>	<b>100</b>

(a) Reinstated audited figures

(b) Provisional figures

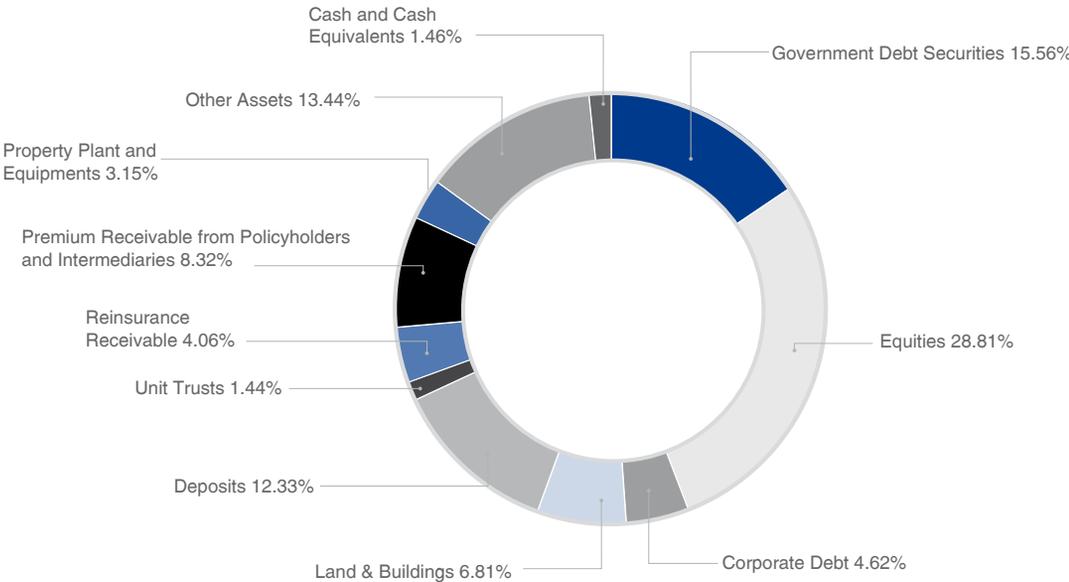
Notes:

1. Above analysis does not include information of NITF since required complete 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 Contd...

**Chart 17**

*Concentration of Assets of General Insurance Business and Shareholders - 31<sup>st</sup> December 2014*



## Statistical Review Contd...

### **Investment Income of General Insurance Business and Shareholders**

Table 19 depicts the investment income, average investments and investment yield ratios of different asset categories of general insurance business and shareholders for the years 2013 and 2014.

Average investments of general insurance business and shareholders amounted to Rs. 108,981 million in 2014 which had increased by 10.58% compared to Rs. 98,554 million recorded as at 31st December 2013. The total investment income generated from the said investments amounted to Rs. 8,211 million in 2014 (2013: Rs. 7,502 million) and resulted in an overall investment yield of 7.53% slightly lower than the 7.61% recorded in 2013.

Average investment in equities amounted to Rs. 41,084 million in 2014 (2013: Rs. 34,385 million) and continued to be the largest investment category of general insurance business and shareholders. The investment income generated from equities amounted to Rs. 2,044 million in 2014 (2013: Rs. 1,217 million) which included capital gains of Rs. 984 million and dividends worth of Rs. 1,060 million. Investment yield of equities amounted to 4.98% which was higher than the investment yield of 3.54% recorded in 2013. This has been particularly due to the boom in the stock market during 2014 which induced insurers to increase their investments in equities.

Average investments in government securities amounted to Rs. 26,829 million in 2014 and recorded a decline of 7.11% when compared to Rs.

28,883 million worth of average investments recorded in 2013. Investment income generated from government securities amounted to Rs. 2,520 million and reflected a decrease compared to Rs. 2,942 million recorded in 2013. The investment yield generated from government securities amounted to 9.39% in 2014 and recorded a decrease compared to 10.91% investment yield ratio recorded in 2013 which was mainly attributable to the further drop in interest rates during 2014.

Average investment in deposits in banks and finance companies amounted to Rs. 19,578 million in 2014 and recorded a significant growth of 23.57% compared to Rs. 15,844 million recorded in 2013. Deposits generated an investment income of Rs. 1,632 million in 2014 and recorded a significant drop of 18.60% when compared to Rs. 2,005 million recorded in 2013. Investment income of deposits in 2014 included interest income worth of Rs. 1,387 million received from bank deposits (2013: Rs. 1,845 million) and Rs. 245 million worth interest received from finance companies (2013: Rs. 160 million). Investment yield of deposits amounted to 8.34 % in 2014 and recorded a drop when compared to the investment yield of 12.65% generated in 2013 corresponding to the decrease in interest rates during 2014.

Further, during 2014 corporate debts, land and buildings, unit trusts and other investments generated investment yield ratios of 13.37%, 0.07%, 14.39% and 56.78% respectively. However investments in gold generated a negative investment yield of 3.49% in 2014 due to the drop in gold prices during 2014.

## Statistical Review Contd...

**Table 19**

*Breakup of Investment Income and Average Investments - General Insurance Business*

Category	2013(a)			2014(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	2,941,718	28,882,731	10.19	2,520,496	26,829,233	9.39
- Treasury Bonds	1,366,144			1,376,014		
- Treasury Bills	594,456			411,388		
- Others (REPO)	981,118			733,094		
<b>Equity</b>	1,217,438	34,385,010	3.54	2,044,132	41,084,160	4.98
- Capital Gain/Losses	212,760			984,076		
- Dividend	1,004,678			1,060,056		
<b>Corporate Debts</b>	782,655	4,907,639	15.95	906,022	6,774,203	13.37
- Debentures	625,407			881,250		
- Commercial Papers	134,743			8,635		
- Asset backed securities	13,947			10,037		
- Other similar financial instruments	8,558			6,100		
<b>Land and Buildings</b>	(27,858)	11,489,134	(0.24)	8,234	11,114,705	0.07
<b>Deposits</b>	2,004,679	15,844,275	12.65	1,631,835	19,578,094	8.34
- Bank	1,844,706			1,386,536		
- Finance Companies	159,973			245,299		
<b>Unit Trust</b>	146,843	1,631,623	9.00	317,022	2,202,629	14.39
<b>Gold</b>	(27,777)	19,674	(141.19)	(606)	17,355	(3.49)
<b>Others</b>	464,084	1,393,775	33.30	783,824	1,380,517	56.78
<b>Total</b>	<b>7,501,782</b>	<b>98,553,861</b>	<b>7.61</b>	<b>8,210,959</b>	<b>108,980,896</b>	<b>7.53</b>

(a) Reinstated audited figures

(b) Provisional figures

Note:

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

## Statistical Review Contd...

### Solvency Position of Insurance Companies - General Insurance Business

Table 20 illustrates the solvency ratio and Technical Reserve details recorded by individual general insurance companies as at 31st December 2013 and 31st December 2014. The average solvency ratio recorded by general insurers amounted to 2.39 as at 31st December 2014 and reflected a slight decline compared to the solvency ratio of 2.75

recorded as at 31st December 2013. Technical reserves of all general insurers collectively amounted to Rs. 38,569 million as at 31st December 2014 and recorded an increase of 7.96% compared to Rs. 35,724 million recorded as at 31st December 2013. All general insurers were able to satisfy the minimum required solvency ratio of 1 as at 31st December 2014 and the Board scrutinized the solvency position of all insurance companies throughout the year.

**Table 20**

*Company-wise Analysis of Solvency Position and Technical Reserves as at 31st December 2013 & 2014 - General Insurance Business*

Insurer	as at 31st December 2013(a)		As at 31st December 2014(b)			
	Solvency Ratio (ASM/RSM)	Technical Reserves (Rs. '000)	Available Solvency Margin (ASM) (Rs. '000)	Required Solvency Margin (Rs. '000)	Solvency Ratio (ASM/RSM)	Technical Reserves (Rs. '000)
AIA	4.01	1,702,296	1,371,314	437,609	3.13	1,833,987
AIG	2.04	403,207	180,118	50,000	3.60	61,982
Allianz Gen.	2.25	1,010,087	455,046	305,505	1.49	1,280,203
Amana Takaful	1.85	511,409	229,795	227,696	1.01	493,240
Asian Alliance	2.21	781,103	481,199	280,828	1.71	999,641
Ceylinco	1.33	5,686,878	2,869,781	1,957,655	1.47	6,110,117
Continental	1.75	611,398	610,977	246,789	2.48	767,911
Cooperative	1.72	845,156	455,138	263,748	1.73	1,014,064
HNBA	3.89	924,712	1,136,355	369,839	3.07	1,150,323
Janashakthi	1.67	4,103,078	1,940,852	1,135,015	1.71	4,327,793
LOLC	1.05	1,074,318	423,993	317,274	1.34	1,326,137
MBSL	(0.39)	627,183	177,596	160,016	1.11	546,459
Orient	8.04	150,739	320,935	79,209	4.05	259,891
People's	1.51	2,238,159	1,008,830	629,334	1.60	2,581,583
Sanasa	1.28	131,248	78,556	50,000	1.57	181,426
SLIC	4.93	11,881,612	9,881,897	2,806,388	3.52	12,481,712
UAL	2.07	3,040,948	2,630,193	830,493	3.17	3,152,537
<b>Total</b>	<b>2.75</b>	<b>35,723,531</b>	<b>24,252,575</b>	<b>10,147,398</b>	<b>2.39</b>	<b>38,569,006</b>

(a) Reinstated audited figures

(b) Provisional figures

Note:

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

## Statistical Review Contd...

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

Table 21 depicts details of new insurance policies, renewed policies and policies in force for 2013 and 2014 for different sub-classes of general insurance business. The total number of policies in force pertaining to all sub-classes of general insurance business amounted to 4,445,458 policies in 2014 (2013: 4,311,694) and increased by 3.10% compared to 2013. New policies issued during 2014 amounted to 1,966,945 policies (2013: 1,844,386) while 2,601,640 policies were renewed in 2014 (2013: 2,435,007).

Motor insurance represented the largest number of insurance policies in force as at end of 2014 by recording 3,870,083 policies (2013: 3,774,571)

which comprised of 2,225,766 third party policies (2013:2,273,047) and 1,644,317 comprehensive policies (2013: 1,501,524). The total motor insurance policies in force had increased by only 2.53% in 2014 over 2013.

Fire insurance policies in force had reduced to 181,907 policies in 2014 from 196,386 policies recorded in 2013 indicating a decline of 7.37%. Marine insurance policies in force had increased to 157,371 in 2014 from 131,201 policies recorded at the end of 2013 increasing by 19.95%. Miscellaneous insurance policies in force including workmen compensation had increased to 236,097 policies in 2014 by 12.68% when compared to 209,536 policies recorded in 2013.

**Table 21**

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

Class	2013			2014		
	New Policies	Renewed Policies	Policies In Force At Year End	New Policies	Renewed Policies	Policies In Force At Year End
Fire	64,841	128,805	196,386	69,219	120,431	181,907
Marine	150,959	3,075	131,201	182,926	2,267	157,371
Motor						
3rd party only	952,618	1,274,643	2,273,047	893,843	1,328,329	2,225,766
Comprehensive	543,594	952,399	1,501,524	684,961	1,072,141	1,644,317
Miscellaneous including WCI	132,374	76,085	209,536	135,996	78,472	236,097
<b>Total</b>	<b>1,844,386</b>	<b>2,435,007</b>	<b>4,311,694</b>	<b>1,966,945</b>	<b>2,601,640</b>	<b>4,445,458</b>

Note:

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

## Statistical..0 Review Contd...

### Insurance Brokering Companies

#### Performance of Insurance Brokering Companies

During 2014, fifty nine insurance brokering companies operated in the market and generated a Gross Written Premium (GWP) amounting to Rs.14,716 million. Accordingly, total GWP generated through insurance brokering business recorded a growth of 2.34% in 2014 when compared to Rs.14,380 million generated in 2013. This total GWP consisted of premium income generated through long term insurance business and general insurance business which amounted to Rs.158 million and Rs.14,559 million respectively. Out of the total GWP generated through insurance brokering companies 98.93% represented GWP of general insurance business and only 1.07% represented GWP of long term insurance business.

Similar to previous years, insurance brokering companies' contribution towards long term insurance business was insignificant in 2014 and only 0.35% of the total GWP of long term insurance business (Rs.44,610

million) was generated from brokering companies. Insurance brokering companies have generated 24.78% of the total GWP of general insurance business which amounted to Rs.58,753 million (including SRCC & T premium).

In 2014, twenty three insurance brokering companies procured GWP exceeding Rs.100 million each and these insurance brokers collectively generated GWP amounted to Rs.13,691 million. The remaining thirty six insurance brokering companies generated Rs. 1,025 million as depicted in Table 22.

Chart 18 depicts GWP generated through insurance brokering companies in respect of long term and general insurance businesses and their contribution to total GWP during the period 2005 to 2014.

## Statistical Review Contd...

**Table 22**

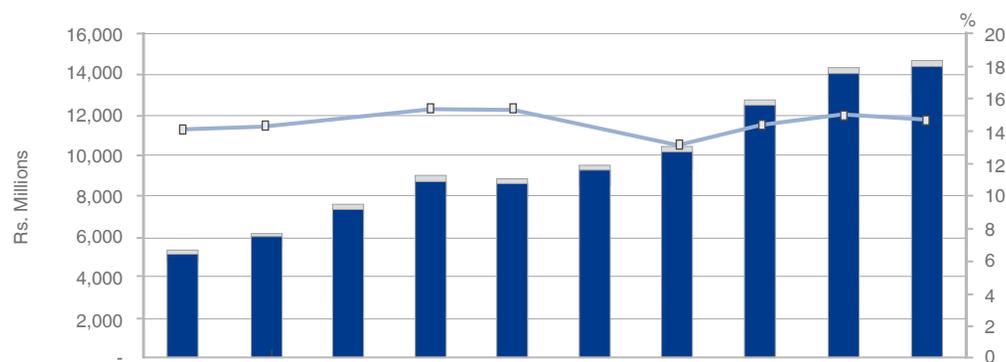
*Gross Written Premium Generated through Insurance Brokering Companies - 2014*

	Name of the Brokering Company	Gross Written Premium					
		Long Term Insurance Business		General Insurance Business		Total	
		Rs.('000)	Market Share (%)	Rs.('000)	Market Share (%)	Rs.('000)	Market Share (%)
1	ADZ Insurance Brokers (Pvt) Limited	5,478	3.48	391,752	2.69	397,230	2.70
2	Aitken Spence Insurance Brokers (Pvt) Limited	790	0.50	435,621	2.99	436,411	2.97
3	Alfinco Insurance Brokers (Pvt) Limited	-	0.00	714,829	4.91	714,829	4.86
4	Assetline Insurance Brokers Limited	-	0.00	1,151,824	7.91	1,151,824	7.83
5	CF Insurance Brokers (Pvt) Limited	31	0.02	2,059,092	14.14	2,059,123	13.99
6	Colombore Insurance Brokers (Pvt) Limited	-	0.00	111,613	0.77	111,613	0.76
7	Commercial Insurance Brokers (Pvt) Limited	50,346	31.96	1,740,656	11.96	1,791,002	12.17
8	Delmege Insurance Brokers (Pvt) Limited	13,266	8.42	705,923	4.85	719,189	4.89
9	Equity Insurance Brokers (Pvt) Limited	-	0.00	148,660	1.02	148,660	1.01
10	Essajee Carimjee & Co. (Pvt) Limited	15,020	9.54	341,773	2.35	356,793	2.42
11	Finlay Insurance Brokers (Pvt) Limited	19,857	12.61	1,357,651	9.33	1,377,508	9.36
12	Global Insurance Brokers & Services (Pvt) Ltd	266	0.17	400,957	2.75	401,223	2.73
13	Industrial & Commercial Insurance Brokers (Pte) Limited	1,915	1.22	271,704	1.87	273,619	1.86
14	Life & General Insurance Brokers Ceylon (Pvt) Limited	672	0.43	150,080	1.03	150,752	1.02
15	Nations Insurance Brokers Limited	7,440	4.72	1,234,267	8.48	1,241,707	8.44
16	Placid Insurance Brokers (Pvt) Limited	85	0.05	106,923	0.73	107,008	0.73
17	Procare Insurance Brokers (Pvt) Limited	1,173	0.74	193,315	1.33	194,487	1.32
18	Protection & Assurance Insurance Brokers (Pvt) Limited	15	0.01	601,153	4.13	601,168	4.09
19	Reliance Insurance Brokers (Pvt) Limited	5,839	3.71	315,175	2.16	321,014	2.18
20	Senarantne Insurance Brokers (Pvt) Limited	4,262	2.71	243,646	1.67	247,907	1.68
21	Senkadagala Insurance Brokers (Pvt) Limited	-	0.00	616,294	4.23	616,294	4.19
22	Strategic Insurance Brokers (Pvt) Limited	173	0.11	116,318	0.80	116,491	0.79
23	Zenith Insurance Brokers (Pvt) Limited	1,142	0.72	153,930	1.06	155,071	1.05
	<b>Sub - Total</b>	<b>127,770</b>	<b>81.11</b>	<b>13,563,155</b>	<b>93.16</b>	<b>13,690,923</b>	<b>93.03</b>
	<b>Other Insurance Brokering Companies (36)</b>	<b>29,750</b>	<b>18.89</b>	<b>995,541</b>	<b>6.84</b>	<b>1,025,291</b>	<b>6.97</b>
	<b>Grand Total</b>	<b>157,520</b>	<b>100</b>	<b>14,558,696</b>	<b>100</b>	<b>14,716,215</b>	<b>100</b>

## Statistical Review Contd...

**Chart 18**

*Gross Written Premium Generated through Insurance Brokering Companies From 2005 to 2014*



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Long Term Insurance GWP (Rs. Million)	103	144	158	195	188	243	296	195	191	158
General Insurance GWP (Rs. Million)	5,208	6,028	7,393	8,781	8,698	9,317	10,193	12,532	14,189	14,559
Brokers' Contribution as a % of total GWP	14.27	14.34	14.55	15.43	15.44	14.43	13.36	14.60	15.14	14.74

### Abbreviations for Insurance Companies

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

# Review of Operations

## Supervisory Review Insurance Companies

### 1. Review of Returns

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

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 provision of the Act. Further the insurers who are engaged in long term insurance business are required to submit an Actuarial Report and an Abstract along with their Annual Statutory Return in terms of the Act.

The Board monitored the timely submission of the returns and scrutinized them for accuracy and compliance with the provisions of the Act and other Rules and Regulations of the Board. Further assistance of Consultant Actuary is obtained to review Actuarial Reports and Abstracts. Deviations from statutory requirements observed during the review are advised to rectify within stipulated deadlines. Follow up actions are taken by the Board to ensure that insurers comply with the provisions of the Act, Rules and Regulations of the Board. In addition, the Board addressed material issues observed during the review of returns and at meetings and during onsite inspections conducted at respective companies.

#### b) Quarterly Returns

Insurance companies are required to submit their Quarterly Returns to the Board within forty five days of the end of each quarter as per the provisions of the Act. Returns submitted for all four quarters of 2014 were reviewed by the Board to assess and ensure their quarterly performance and compliance with relevant Rules and Regulations of the Act.

In order to evaluate the quarterly performance of each insurer the Board analyzed the returns 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 and compared against the ratios of previous quarters.

Also, the financial positions of every insurer for each quarter are analyzed by scrutinizing their asset and liability position and ratios such as solvency, liquidity and capital adequacy. Any non-compliance with the Act, Rules, Regulations and discrepancies observed during the review of quarterly returns are instructed for rectification and compliance within stipulated deadlines.

Insurers are 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 provision of the Financial Transactions Reporting Act, No. 6 of 2006. Further, insurers are required to submit details regarding their facultative reinsurance arrangement for all four quarters along with the Quarterly returns.

#### c) Monthly Returns

According to the directions issued by the Board, six insurance companies were required to submit monthly returns within fifteen days from the end of each month. The Board reviewed the monthly returns submitted by the companies, in order to ensure their financial position was in compliance with the Act, other Rules and Regulations. Where non-compliances and discrepancies were observed in the returns, the relevant companies were instructed to take appropriate action within stipulated timelines.

#### d) Risk Assessment Summary (RAS)

Insurers are required to submit their Risk Assessment Summary (RAS) to Board on or before 31<sup>st</sup> March of each year. The Board

## Review of Operations Contd...

reviewed the information disclosed in the RAS pertaining to organizational structure and ownership, business profile, senior management, functions such as marketing and distribution, claims administration, risk management, etc. to obtain an overview of insurers' operations.

### **2. Monitoring Compliance with Solvency Margin Rules**

According to the Solvency Margin (General and Long Term Insurance Business) Rules, insurers are required to maintain the minimum required solvency margins for both general and long term insurance businesses. Insurers need to submit their solvency margin computations together with Monthly, Quarterly and Annual Returns. The Board reviewed and analyzed such computations to ensure compliance with the Solvency Margin Rules. If Insurers are unable to fulfill the required Solvency Margin requirement or if the computations are inaccurate, the Board instructs them to take immediate action to comply with the Solvency Margin Rules and rectify the same within stipulated timelines.

### **3. Monitoring Compliance with Investment Specifications**

#### **a) Investment in Government Securities**

As per section 25 of the Act, insurers are required to invest in government securities not less than 20% of the asset of the Technical Reserves and not less than 30% of the assets for the Long Term Insurance Fund. Investments in government securities are closely monitored by the Board to ensure compliance with section 25 of the Act on Monthly, Quarterly and Annual basis. The Board reviewed the Statements of Holding issued by the Central Bank of Sri Lanka in order to substantiate the accuracy and ownership of investment in government securities reported in the returns. Any non-compliance or deviations observed during the reviews are communicated to respective insurers for corrective action within stipulated timelines.

#### **b) Other Investments as per Determinations**

Every Insurer carrying on general insurance business or long term insurance business is required to invest the balance assets of Technical Reserve and the Long Term Insurance Fund in accordance with the Determination 1 of 1<sup>st</sup> March 2011 and its subsequent amendments. The Board reviewed the investments of the insurers to ensure compliance with Determination 1. If any non-compliance observed, the Board informs the respective insurers for necessary rectification within stipulated timelines.

### **4. Other Financial Analysis**

The Board carries out further financial evaluations in respect of information received as part of the investigations/complaints handled by the Board. Additional financial information gathered in respect of complaints received are analyzed in order to facilitate the Board to arrive at decisions.

### **5. Review of Reinsurance Arrangements**

As per Sections 31(1) and 50(1) of the Act insurers are required to furnish certified copies of reinsurance treaties, contracts and arrangements to the Board annually. The Board reviewed the said documents to ensure reinsurance covers are obtained from reinsurers who satisfy the rating requirements prescribed by the Board. Any non-compliance or deviations observed by the Board are informed to relevant Companies to take corrective action within stipulated timelines.

### **6. Risk Based Capital (RBC) Model for Insurance Industry Supervision**

In 2009, the Board with the assistance of the World Bank and FIRST Initiative commenced developing a risk sensitive minimum capital (RBC) regime for supervision of the insurance sector in Sri Lanka instead of current rules based regime.

## Review of Operations Contd...

The RBC Project comprises many phases. Many milestones have been achieved to date as planned. During the year 2014 RBC Project continued to progress. The mandatory parallel run for the implementation of RBC commenced in 2014. All insurance companies have submitted generic templates for life and general insurance businesses together with questionnaires for the four quarters in 2014, except National Insurance Trust Fund (NITF). Further, the Board organized a workshop in June 2014 with the collaboration of World Bank to educate the insurance industry on results of the first quarter of the parallel run and emerging challenges. The parallel run will continue until end of the year 2015 and all insurers are required to comply with the RBC requirements from the year 2016.

### 7. Onsite Inspections

During the year 2014 the Board conducted seven onsite inspections at insurance companies. Through these inspections the Board reviewed the operations, systems, policies and procedures of insurers to ensure compliance with the provision of the Act and other Rules and Regulations issued by the Board. Further, interviews were conducted with the senior officials of the insurers, Internal/External Auditors and the Actuaries in order to gather more information relating to insurers' operations, procedures and systems. According to the observations made during the onsite inspections the Board's recommendations were communicated to respective insurers for areas which needed improvements through onsite inspection reports. Further, appropriate actions were taken for violations observed during the inspection.

### 8. Submission of information to the Central Bank of Sri Lanka

Based on the information gathered from the Quarterly returns, the Board submitted financial information relating to the performance of the insurance industry on quarterly basis to the Financial System Stability Department of the Central Bank of Sri Lanka. In order to ascertain the performance of the insurance industry the Board analyzed premium income, profitability, liquidity, etc., for the year 2014.

### 9. Segregation of Composite Insurers

Section 53 of the Amendment Act, requires composite insurance companies to segregate the two classes of insurance businesses into two separate companies by February 2015. During the year 2014 the Board reviewed the proposals and applications submitted by twelve composite insurers to segregate their composite insurance business. In addition, observations were communicated to respective insurers as transfer of insurance business requires District Court approval.

### 10. Risk Based Supervision (RBS) Project

With the assistance of the World Bank and the FIRST Initiative the Board commenced implementation of Risk Based Supervision (RBS) project during 2013, with an objective of strengthening the supervisory function of the Board. The project is expected to complete in 2015. The RBS project is planned to enhance Board's supervisory capacity in the areas of Risk Based Supervision, reinsurance, reinsurers, loss adjustors, investments and investment linked products.

The deliverables under RBS have been agreed with the World Bank (WB) Consultants and the project is progressing.

## Insurance Brokering Companies

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

Insurance brokering companies are required to submit their Quarterly Returns and Interim Financial Statements to the Board within Forty Five days of the end of each quarter in terms of the Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010.

Most of the insurance brokering companies submitted their Quarterly Returns and Interim Financial Statements to the Board within the

## Review of Operations Contd...

deadline. The Board reviewed the Quarterly Returns submitted by the companies, in order to ensure their financial position and compliance with the Act, other Rules and Regulations. Any non-compliance or deviations observed by the Board were informed to relevant brokering companies to take corrective action within stipulated timelines.

As per the directions issued by the Board, two insurance brokering companies were required to submit monthly returns within fifteen days from the end of each month.

Audited Financial Statements of Insurance brokering companies are required to be submitted within six months from the end of the financial year. The Board reviewed the Audited Financial Statements submitted. Any deviations from regulatory requirements were communicated to the respective insurance brokering companies for rectification.

### **2. Monitoring Premium Collections**

As per section 89 of the Act, insurance premiums collected by insurance brokering companies on behalf of insurers should be remitted to respective insurers within two weeks of collection. The Board closely monitored insurance brokering companies for compliance with section 89 of the Act through quarterly returns and during the onsite inspections. Necessary actions are taken by the Board against such insurance brokering companies who did not comply with the said provision.

### **3. Onsite inspections**

During the year 2014 the Board carried out eight on-site inspections at insurance brokering companies to assess compliance with the Rules and Regulations of the Board. According to the observations made during the onsite inspections the Board's recommendations were communicated to the relevant insurance brokering companies for corrective action. Further, appropriate regulatory actions have been taken by the Board for violations.

### **4. Renewal of Registration**

The applications received from the insurance brokering companies seeking renewal of their licenses to carry out operations during the year 2015. The Board analyzed audited Financial Statements and quarterly returns to ascertain their financial position prior to taking action to renew.

## Review of Operations Contd...

### Regulatory Review

#### Registration of Insurance Companies

Board received 12 applications for registration and licence as insurers in compliance with section 53 of the Amendment Act, during the year and registration has been granted to 08 companies as insurers.

However, out of the 08 new companies registered, the Board has issued licenses to 07 of them with effect from 1st January 2015 and 01 company has been required to comply with capital requirements in order for the Board to issue license.

Appendix I: Provides names of all insurance companies licensed as at 31st December 2014 by 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

Board has temporarily stopped entertaining new applications for registration of persons as insurance brokers with effect from 27th April 2012. Accordingly, no new registrations have been granted to persons to operate as insurance brokers by during the year.

Applications from 58 insurance brokering companies seeking renewal of registration for year 2015 were received by the Board during the year, and renewal of registration was granted to all companies for the year 2015 in view of them fulfilling necessary requirements under the Act.

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

### 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 Memorandum of Understanding signed between the Board and 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, Paper notices were published requesting claimants of Ceylinco Takaful Limited to forward their claims to the Board in writing. The assessment of the status of the claims was carried out during the year. The settlement of matters cannot be concluded immediately since there are ongoing cases against Ceylinco Takaful Limited. Further, there is only one active director remaining in the Board of Ceylinco Takaful Limited, and accordingly, the Board intends obtaining the advise of Hon. Attorney General.

##### Directions

Directions were issued by the Board to two insurance companies in terms of Section 57 of the Act, for violating Solvency Margin Rules and these companies were required to furnish returns monthly in addition to the Quarterly Returns.

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.

## Review of Operations Contd...

### Warnings

The Board warned an insurance company for violating a previous Direction issued by the Board by incorporating a subsidiary company without the prior written approval of the Board.

The Board once again warned the same insurance company for violating two Directions issued previously, one such warning is for incorporating a subsidiary company without the prior written approval of the Board and the second warning is for issuing insurance policies to persons within the group of companies of the insurer without having received the full premium as at the commencement date of cover.

### Insurance Brokering Companies

#### Suspensions

An insurance brokering company was suspended twice by the Board for violating section 86(1) of the Act, read with Rule 7 published in Gazette Extraordinary No. 1642/16 of 25th February 2010 and section 86(2) of the Act from 12th September 2014 to 19th September 2014 and from 20th October 2014 to 24th November 2014 respectively.

Section 86 (1) of the Act read with Rule 7 published in Gazette Extraordinary 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.

In terms of section 86(2) of the Act every insurance broker is required to submit its Audited Financial Statements to the Board within six months of the expiry of the accounting period, comprising of a balance sheet, a profit and loss account and a note to such accounts certified by a qualified auditor.

#### Warnings

Warnings were issued to 03 insurance brokering companies by the Board, since the companies failed to comply with Section 86 (1) of the Act.

Further, warnings were issued by the Board to 08 insurance brokering companies for violating Section 86(2) of the Act.

Having noted a violation of the provisions of the Act in relation to an insurance scheme for migrant workers with the Sri Lanka Foreign Employment Agency another insurance brokering company was warned by the Board.

In terms of section 80(2)(b)(ii) of the Act, a company shall not be entitled to be registered as an insurance broker where a director or the chief executive officer of an associate, subsidiary or a holding company is a director or shareholder or employee of an insurer. However, one insurance brokering company has failed to disclose the fact that one Director of their holding company is also a director of an insurer in their renewal application for year 2013.

Accordingly, Board has warned the said insurance brokering company for furnishing false, misleading or inaccurate information or for having concealing or failing to disclose material facts in the application for renewal of registration for year 2013.

#### Directions

No Directions were issued by the Board to insurance brokering companies during the year.

#### Regulatory/Advisory Measures:

1. Approval of the Board was sought by a foreign re-insurance company to set up a liaison office in Sri Lanka. The Board is in the process of setting up a regulatory framework for registering reinsurers in Sri Lanka and therefore, the Board deferred granting approval to the said request until the regulatory framework was finalized.
2. Approval of the Board was sought by a foreign company to purchase an Erection All Risks insurance and third party liability insurance policy from a foreign insurance company for a development project in Sri Lanka. The said project was funded by a foreign authority and according to the agreement they had

## Review of Operations Contd...

entered into with the Government of Sri Lanka, the said company being the contractor, was required to obtain such policy from a foreign insurance company. Further, the project office of such company was located in Sri Lanka. After having confirmed the information, approval was granted by the Board to the said request in terms of Section 101(1) of the Act.

As per section 101 of the Act, no person in Sri Lanka, shall without the prior written approval of the Board, directly or indirectly place any insurance business with an insurer not registered under the Act, except in relation to reinsurance business. Further, the Board may grant written approval for same only upon taking into consideration the policy of the Government in respect of the insurance industry and the national interest.

3. An insurance company appointed a Principal Officer without obtaining the approval of the Board and the Board informed the company to appoint a suitable person in terms of section 94 of the Act, as the concerned person was not suitable to function as a Principal Officer. As per section 94 of the Act, every insurance company is required to maintain a principal office, and with the approval of the Board, appoint as its Principal Officer, a person having such qualifications as shall be determined by the Board by rules made in that behalf. An appeal was made by such person to the Board, requesting to reconsider his appointment as the Principal Officer of such company and the Board did not accede to same.
4. The Board issued a notice to show cause to a broker on renewal of registration for year 2014 in view of them violating the provisions of the Act in connection with an insurance product for Sri Lankan overseas migrant workers. Further, the Board informed the company of the expiry of registration and required the company to refrain from functioning as a broker with effect from 1st January 2014. The broker filed a writ application against the Director General and the Board on 9th January 2014 challenging the decision of the Board. The broker sought a writ of Certiorari to quash the notice to show cause and the letter informing the expiry of registration issued by the Board and further a writ of Mandamus for renewal of their registration for year 2014. However, the broker withdrew the said application on 15th October 2014 after the objections were filed on behalf the Director General and the Board.
5. The Securities and Exchange Commission of Sri Lanka (SEC) has inquired regarding the concerns of the Board on an insurance company listing its subsidiary company which was established in place of another two subsidiaries of the insurance company. The SEC inquired on same in relation to a direction imposed by the Board on such insurer, prohibiting from incorporating any subsidiaries or any other category of companies or establishing branches without the prior written approval of the Board. After inquiring into the matter, the Board issued a no objection letter to the SEC on same since the insurance company was not in violation of the said Direction.
6. A request was made by an insurance company to engage insurance brokers who are able to provide value added services to such insurance company to enhance its product offering in Sri Lanka. According to the sample agreement provided, the main purpose for such engagement was to obtain services relevant to promoting insurance products of such insurance company to customers. The Board refused to grant permission to such request as it was not in conformity with the Act.
7. Approval of the Board was sought by a company willing to register as an insurance company to permit them to incorporate a company with the word "Assurance" in its name in terms of section 96 of the Act. As per section 96 of the Act, a person other than an insurer, a broker or an insurance agent of an insurer or broker, without the written approval of the Board, cannot use as part of its name, title or description, the word "insurance" or any of its derivatives or any other similar word in any language, to indicate that such person carries on insurance business in Sri Lanka. The Board considering the information submitted by them granted approval to same subject to them submitting the duly completed application to function as an insurer to the Board within six months and in the event, the license to function as an insurer is not granted to them by the Board that it will change the name to do away with the word "Assurance".

## Review of Operations Contd...

8. The Board has issued a Direction to an insurance company in the year 2009, requiring them to obtain the prior written approval of the Board to establish subsidiaries, branches, etc. The said insurance company sought approval of the Board to waive off the said requirement for setting up of future branches. The Board having reviewed the request, modified said Directions allowing the said insurance company to set up new branches. As per section 57(2) of the Act, the Board is empowered to modify or cancel any Directions issued.
9. The Board has issued a Direction to an insurance company in the year 2012, requiring them to refrain from granting any donations, loans, advances to persons outside, including payments to charities. The said insurance company requested the Board to amend same in respect of donations and payments to charities up to 5% of the net profits of the Company. The Board did not accede to the said request as the revenue reserves of such company were negative as at 31st December 2014 and also as they did not satisfy the minimum capital requirement as specified by the Board.
10. The Board issued a Direction to two insurance companies, requiring them to furnish returns monthly to the Board commencing from the month of March 2014, in view of their decreased solvency positions. After having reported monthly for a period of six months, such insurance companies requested to lift the aforesaid Direction. The Board acceded to such request as the companies were in compliance with the minimum solvency ratios for both General and Long Term Insurance Businesses according to the returns submitted and further, both companies were in compliance with other statutory requirements.
11. The Board issued a Direction to an insurance company, requiring them to remove their Head of Finance in view of malpractices associated with an insurance scheme with Sri Lanka Foreign Employment Agency. The concerned person appealed to the Board requesting to reconsider his removal from such company. However, the Board did not consider his appeal in view of his involvement in the unlawful payments of brokerage commissions, Third Party Administration payments on the aforesaid insurance scheme and for providing inaccurate information in returns submitted by such company to the Board.
12. Approval of the Board was sought by an insurance company in terms of section 25(3) of the Act read with Rule 4 (ii) of Gazette Extraordinary No. 1414/19 of October 2005, to invest Rs. 15,684,000/= in its subsidiary company in Maldives to increase its present stake.  
  
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 total value of assets permitted to be kept outside Sri Lanka at any given time. Therefore, the effective single party exposure of such is 1% of the Total Assets.  
  
The said investment by the company was less than 1% of the Total Assets of the said insurer. Accordingly, the Board granted approval to same subject to certain conditions.
13. An insurance company has informed the Board of their process of wind up insurance business in Sri Lanka due to an economic decision taken by their holding company. The Board has conducted an onsite inspection on same and required them to submit further information.
14. The Application for registration as an insurance company was further revised by the Board to be more user-friendly and to be in line with the Amendment Act. The application also states that where the applicant withdraws the application prior to granting registration, only 50% of the registration fee will be refunded to the applicant.

## Review of Operations Contd...

15. Observations of the Board have been granted to nine composite insurance companies on the transfer of insurance business as required under section 102 of the Act. As per section 102 of the Act all transactions relating to any transfer and amalgamation of insurance business shall be approved by a District Court, and when applying for such approval, a copy of the Board's observations on such transfer and amalgamation should also be submitted to Court for its perusal.
16. The Board has granted approval to a number of applications by insurance companies for appointment of Directors in terms of the new provisions introduced by the Amendment Act.
17. The Board has granted approval 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.
18. Approval of the Board has been granted to two insurance companies to appoint Valuers under the Solvency Margin Rules.

### REGULATORY REFORMS

#### Rules

##### **Rule No. 01 of 2014 issued to specify Qualifications of Insurance Agents (other than individuals):**

The Board issued Insurance Agents (other than individuals) Qualification Rules by Gazette Extraordinary No.1861/45 of 10th May 2014. These rules introduced qualifications required of any person (other than individuals) to function as an Insurance Agent under the Act.

As per the rule, such person shall be, a company which is registered under the Companies Act who are having a stated capital of not less than Rupees Ten Million and maintains a minimum net capital of rupees Two Million and Five Hundred Thousand at all times, or a Finance

company registered under the Finance Business Act, or a Finance Leasing establishment registered under the Finance Leasing Act, or a Cooperative Society registered under the Cooperative Societies Law, or registered under relevant Statute of a Provincial Council with a specific reference given in its by-laws to operate as an insurance agent and which has been registered under Cooperative Societies Law or relevant Statute of a Provincial Council.

This Rule has been introduced to meet the varying requirements of the insurance industry and to fulfill requirements under section 78 of the Act.

##### **Rules to amend paid up share capital of insurance companies:**

As per Gazette Extraordinary No.1848/25 of 06th February 2014 the Board has permitted insurance companies which were 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 7, 2015.

This decision has been taken by the Board to grant a relief to newly formed insurers.

#### Determinations

##### **Determination pertaining to the Annual Return of Insurance Companies**

##### **Section 47 (1) & 56 of the Regulation of Insurance Industry Act, No. 43 of 2000 – Annual Returns of Insurance Companies- Determination# 14 of 30th March 2012 as amended on 27th March 2014**

Insurance companies are required to submit its annual returns in several formats in accordance with Determination 14 issued on 30th March 2012. Out of them, format for Solvency General Insurance and format for Statement of Recommended Practice (SORP) have been

## Review of Operations Contd...

revised on 27th March 2014. Solvency General Insurance format has been revised in order to include Reserves Report to be given by the General Insurance Actuary and instructions in forms K-GI and K-GI-2, while format for Statement of Recommended Practice has been revised to be in accordance with the International Financial Reporting Standards (IFRS).

### **Determination pertaining to the Actuarial Abstract of Insurance Companies**

#### **Section 48 (1) of the Regulation of Insurance Industry Act, No. 43 of 2000 – Actuarial Returns of Insurance Companies- Determination# 15 of 30th March 2012 as amended on 27th March 2014**

Insurance companies are further required to submit its actuarial returns in several formats in accordance with Determination 15 issued on 30th March 2012 as per Section 48 (1) of the Act. Out of them, Actuarial Report and Abstract have been revised on 27th March 2014 in order to obtain more information about the valuation of policy liabilities.

According to Section 47 (1) and 48 (1) of the Act, the Board is permitted to issue formats of Annual Returns and Actuarial Returns respectively.

### **Directions issued under Section 96A of the Act**

#### **Amendment made to Direction # 3 (iii) of 31st December 2013 - Direction #3(A) of 24th September 2014 common Principal Officer and common Specified Officer of insurers**

According to Direction # 3 (iii) of 31st December 2013, by 30th June 2014, insurers are required to appoint a separate Principal Officer and a Specified Officer for the company, who have not been appointed by another insurer.

However, the Board having observed that some insurers were facing difficulties in finding suitable persons within the stipulated time period, has decided to extend the date of compliance. Accordingly, amended Direction #3 (A) was issued on 24th September 2014 to extend the compliance date up to 31st December 2014.

### **Direction # 04 of 02nd January 2014 –Use of common infrastructure**

The Board has issued Direction #04 of 02nd January 2014 pursuant to segregation requirement of composite insurance companies. By this Direction, guidelines for 'use of common infrastructure' are specified.

The aforementioned Direction specifies the requirements which an insurer has to comply to use the existing common infrastructure with another insurer.

### **Direction # 05 of 18th November 2014 issued to all Insurers and Insurance Brokers who engage the services of Insurance Agents (other than individuals)**

The Board has issued Direction # 05 of 18th November 2014 to all insurers and insurance brokers who engage the services of Insurance Agents (other than individuals) registered under Rule No.01 of 2014 published in Gazette Number 1861/45 of 10th May 2014. The said Direction requires insurers and insurance brokers who engage the services of Insurance Agents (other than individuals) to enter into written agency agreements with such insurance agents in which obligations of both parties should be clearly defined. The Direction further specifies several terms and conditions which are required to be included in the written agency agreement.

## Review of Operations Contd...

### **Circulars**

#### **Circular # 34 of 10th June 2014 -Register of Insurance Agents (other than for individuals)**

Having reflected the requirements under Section 78 (1) of the Act, the Board has issued circular # 34 requiring all insurance companies and insurance brokering companies to maintain a separate register of insurance agents (other than for individuals) according to the draft format submitted in the said circular.

#### **Circular # 35 of 17th October 2014 - Eligibility criteria for Valuers - Amendment to Circular # 30 of 14th March 2013**

Considering the requests received from the industry, the Board has granted approval to amend Circular # 30 of 14th March 2013 to include Graduate Members for the eligibility criteria for valuers. Therefore, according to the amendment made to paragraph A of said Circular # 30, a Graduate Member of the Institute of Valuers of Sri Lanka with 15 years post qualifying experience in valuation practice is also included to the eligibility criteria of a valuer.

## Review of Operations Contd...

### Investigatory Review

The Board, under its overall objective of safeguarding the interests of policyholders, is empowered to investigate into and resolve disputes between insurers and claimants relating to the settlement of insurance claims which are referred to the Board by claimants. In terms of Section 98 of the Act, all parties concerned are given an opportunity of being heard by the Board before making an order on any dispute relating to the settlement of a claim referred to it. The Board also investigates into any other complaint on malpractices or irregularities referred to it against any insurer, broker or agent.

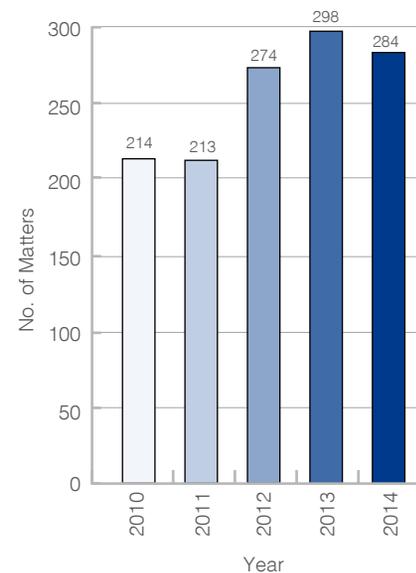
When an investigation is conducted on a matter referred to the Board, the insurers are required to establish the reasons for its decision with supporting information and documents. Where required, third party verifications and expert opinions are also obtained and considered by the Board in arriving at a conclusion on a matter.

#### Matters referred to and settled during the year 2014

During the year 2014, 284 new matters were referred to the Board and a total of 230 matters were settled/closed during the year. Out of the matters settled, 38 claims were honored by insurers upon the intervention of the Board. Aggregate value of the claims settled during the year 2014, due to the intervention of the Board, is around Rs. 33.6 Million (only with respect to 28 matters of which the settlement amounts have been reported).

**Chart 1:**

*Matters referred to the Board during last five (5) years*

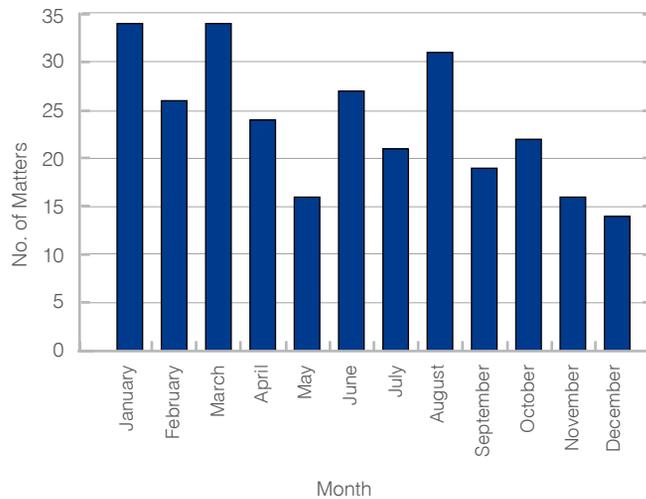


Altogether 1,283 matters have been referred to the Board during last five (5) years. As per Chart 1, there has been a gradual increase in the number of matters referred to per annum since the year 2010 despite a slight decrease recorded in 2014 when compared to 2013.

## Review of Operations Contd...

**Chart 2:**

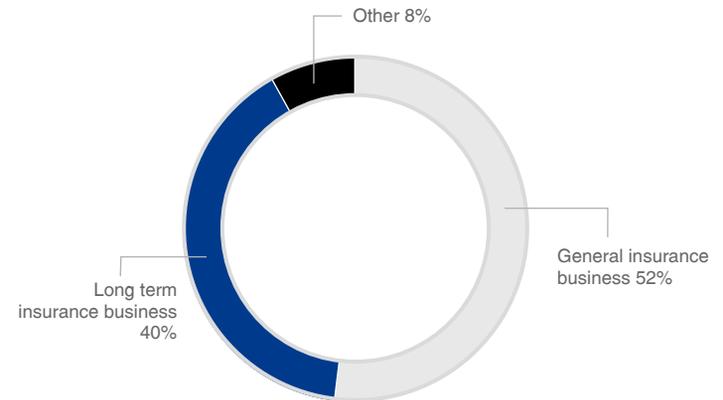
*Analysis of matters referred to the Board during the year 2014 – Month wise*



Month wise breakdown of the number of matters referred to during the year is given in the Chart 2 above. Highest number of referrals (34 each) has been recorded in the months of January and March whereas the month of December records the lowest with 14 referrals. Number of referrals per month has declined towards the latter part of the year.

**Chart 3:**

*Classification of total matters referred to in 2014*



A classification of total matters referred to in 2014 is given in Chart 3. Out of the total matters referred to during the year, 148 (52%) and 113 (40%) are with respect to general insurance business and long term insurance business, respectively.

There were 23 (8%) other matters referred to during the year which were general in nature and cannot be categorized into a line of business e.g. complaints on qualifications of insurance agents.

## Review of Operations Contd...

### Referrals on Long term Insurance Business

As per the analysis of matters referred to in Table 1 below, issue on which most number of complaints has been received (with respect to the long term insurance business) is 'non-acceptance of liability' by the insurers. More often than not the reason for such non-acceptance has been non-disclosure of material facts at the policy inception. The Board, upon investigating into the matters, was able to assist the claimants where it was revealed that the non-disclosure was not intentional and hence does not fall under fraudulent misrepresentation. It has also been decided to create awareness among the public on the importance of disclosing all material information at the proposal stage (which are required by the insurers in order to determine whether to accept the proposal and the premium to be charged) in order to prevent rejection of claims.

**Table 1**

*Matters on long term insurance business: issue wise*

Issue	#	%
Non-acceptance of liability	29	25.66
Request to refund/cancellation or revival	24	21.24
Payment/misappropriation of premia	24	21.24
Maturity /surrender value	15	13.28
Provision of information	12	10.62
Dissatisfied with the claims offered	8	7.08
Other	1	0.88
<b>TOTAL</b>	<b>113</b>	<b>100</b>

Around 21% of the matters referred to (with respect to long term insurance business) were on cancellation or revival of policies. The complainants, mainly due to unawareness of the cooling-off period (i.e. period within which a policy can be cancelled) or urgent financial needs, had wanted to cancel the insurance policies and obtain a refund of the premia paid. However, the Board was not in a position to assist the complainants where the complainants were not eligible for a refund (as per terms and conditions of the relevant insurance policy). Lack of awareness on the cooling-off period and requirements to be eligible for the surrender value has been the major cause of such complaints.

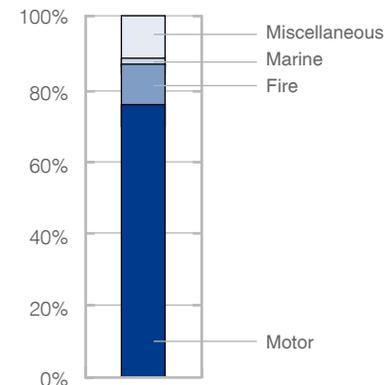
Matters relating to payment of premia also accounted for 21%. The Board was able to inquire into and provide redress to complainants where the payments of premia could be established by documentary proof. However, the issue relating to the non-issuance or delays in issuance of receipts for the payments of premia (where the payments were not directly paid to insurers) has been taken up with the industry and options are being considered to address the same. 13% of the matters were on lack of clarity and explanation on the calculation of maturity or surrender values of the policies. The Board received 12 complaints on the provision of misleading or lack of information during the pre-sale process.

### Referrals on General Insurance Business

Analysis of matters referred to on general insurance business, based on product category, is given in Chart 4. Majority of the matters referred to with respect to general insurance business i.e. 112 (75%) has been on motor vehicle insurance covers. Such matters amounts to around 40% of the total matters referred to the Board during the year. Matters on both fire and miscellaneous categories amount to around 11% each out of the total. An issue-wise analysis of matters referred to on general insurance business is shown in Table 2.

**Chart 4:**

*Matters on general insurance business: product category wise*



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**Table 2**

*Matters on general insurance business: issue wise*

Issue	#	%
Non-acceptance of liability	99	66.89
Dissatisfied with the claim offered	20	13.51
Delays in settling claims	15	10.14
Other	14	9.46
<b>TOTAL</b>	<b>148</b>	<b>100</b>

The 'non-acceptance of liability' has been the major cause (67%) with respect to the matters referred to on general insurance business. As per submissions by the insurers, the common reasons for repudiation of such claims have been: excluded usage, driver substitution and non-compliance with the claims procedure. Out of the matters referred to with respect to delays in settling claims (15 nos.), majority were resolved upon referral to the Board.

From the matters referred to the Board, it was evident that the claimants, in some cases, were not properly made aware of the reasons for repudiation of claims and the options available if they are not satisfied with the decision of the insurers. Actions to be taken by the insurers in this regard would be incorporated in the proposed guidelines to be issued to insurers on 'handling of complaints'.

### Other Engagements

- *Joint Committee on Agency Issues*

A joint committee has been appointed with the membership of the Board, Insurance Association of Sri Lanka, Sri Lanka Insurance Brokers Association and Sri Lanka Insurance Institute in order to address matters relating to insurance agents. The meetings of the Committee were held at and coordinated by

the Board. During the year, the committee was able to formulate drafts of 'Termination and Grievance Handling Procedure' and 'Code of Ethics' for insurance agents. In addition, several other matters such as: 'maintenance of a database of agents' and 'misappropriation of premiums' were discussed and attended to by the Committee.

- *Implementation of the Complaints Handling Procedure*

The Board commenced implementation of the written internal procedure for the handling of complaints. Objective of formulation and implementation of such procedure has been to make the complaints handling consistent and transparent.

- *Application of Insurance Core Principles (ICP 19: Conduct of Business)*

The Insurance Core Principles (ICPs) developed by the International Association of Insurance Supervisors (IAIS) provide a globally accepted framework for the regulation and supervision of the insurance sector. The ICP 19 on Conduct of Business specifies requirements that are outcome-focused and cover: fair treatment of customers, pre-sale process and policy servicing. The Board initiated to examine the standards under ICP 19 to identify the gaps in application of the same in the Sri Lankan insurance industry.

- *Conduct of Investigators*

Insurers conduct investigations internally as well as with the assistance of independent investigators with respect to suspicious claims in order to verify the liability. However, it was revealed that certain practices adopted by investigators in conducting investigations are not acceptable, e.g. false-identification and threatening of respondents. Actions were initiated to regularize these practices in consultation with the industry.

## Review of Operations Contd...

### Market Development and External Relations Review

The Board is entrusted with the development of insurance industry in addition to the supervision and regulation. Awareness and confidence of the public on insurance needs to be promoted in order to develop the industry. Comparatively low penetration levels in both the long term insurance business and general insurance business shows the need for public awareness on the importance of insurance and on the areas or instances to be cautious when obtaining an insurance cover. The existing and prospective policyholders being the main stakeholders in the industry need to be empowered with knowledge, in order to protect their interests and to be in a position to make an informed decision when entering into an insurance contract.

The Board utilizes direct as well as indirect communication channels in public awareness. The details of communication channels utilized and activities carried out during the year under review are as follows:

#### Awareness Programmes

These programmes were organized (in collaboration with respective Divisional Secretariats) to create awareness among the public through enhancing the knowledge of government officers attached to the Divisional Secretariats such as Grama Niladharis and Field Officers who frequently interact with the general public. Clarifications on various issues relating to insurance raised by the participants were also provided at the programmes. During the period under review, the Board conducted awareness programmes at selected Divisional Secretariats in Western, Sabaragamuwa, Central, Uva, Southern, North Western and North Central Provinces.

Two (2) awareness programmes were conducted in Colombo and Kandy District Secretariats and eight (8) awareness programmes were conducted in Thimbirigasyaya, Puttalam, Gampaha, Hingurakgoda, Rambukkana, Baddegama, Ratnapura and Siyambalaanduwa Divisional Secretariats covering approximately 456 Grama Niladari Divisions. Around 1,100 officers participated at the programmes conducted in the year 2014.



#### Participation at Exhibitions

The Board participated for the 8th consecutive year at “Deyata Kirula” national exhibition held in Wayamba (North Western) University premises at Kuliypitiya from 21st February to 01st March 2014. The Board’s stall attracted approximately 3,000 interested public out of which most were school and university students. Participation at the exhibition gave an

## Review of Operations Contd...

opportunity for the public to obtain information and clarifications relating to insurance by interacting with the officials of the Board. All visitors to the stall were made aware of the role of the Board, structure and legal/regulatory framework of the insurance industry.



### Awareness through Electronic Media

Board participated at “Business World” (ව්‍යාපාරික ලෝකය) television news programme telecasted by Sri Lanka Rupavahini Corporation on 13th August 2014. Director Finance and Administration represented the Board and made the viewers aware of “activities of the Board and important information on insurance”.

### Awareness through Print Media

The Board published the following articles, press notices and press releases during the year under review.

#### Press Releases

- Press Release on the “Performance of the insurance industry during the year 2013” - published in June 2014.

- Press Release on the “Performance of the Insurance Industry during the 1st half of 2014” - published in December 2014.
- Press Release on “Micro Insurance Workshop” organised by the Board - published in May 2014.

#### Press Notices

- Press notice titled “Better be safe than sorry” in all three (3) languages informing the list of registered insurance companies and insurance brokering companies - published in March 2014.

#### Press Articles

- An article on “Micro Insurance in Sri Lanka: where is it heading?” - published in July 2014.

#### Publications

The Board published and distributed following publications mainly at Deyata Kirula national exhibition and at awareness programmes. :

#### Posters

Posters containing educational material on insurance in all three (3) languages were printed and distributed at awareness programmes conducted by the Board. The posters were distributed to Grama Niladhari officers to be exhibited in their offices for the benefit of general public.

#### Brochures

Brochures on the following topics were printed and distributed during the year:

- “Insurance – Are you aware?”
- “Facts to be considered”
- “Insurance Proposal forms”
- “List of Insurers”
- “Importance of Insurance”
- “Insurance Board of Sri Lanka”

The above publications are also available to be viewed and downloaded through the official website of the Board, [www.ibsl.gov.lk](http://www.ibsl.gov.lk)

## Review of Operations Contd...

### Other Engagements

- *Product Gap Analysis*  
The Board examined selected Health Insurance Policies issued by Insurers and identified areas for improvements.
- *Workshop on Micro-insurance*  
Considering the low penetration level in the insurance industry compared with international developments and to facilitate access to insurance, Board organised a workshop on micro-insurance under the theme "Promoting Micro-insurance in Sri Lanka" in May 2014.



- *Public Consultation*  
During the year under review, the Board attended to numerous inquiries from general public, policyholders and from other stakeholders requesting information relating to insurance.

## Review of Operations Contd...

### 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 backbone of the success strategy of the Board.

The Board 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 those initiatives, a Director and two Executives were recruited to the permanent cadre during the year under review. Total staff strength of the Board stood at 41 as at 31st December 2014.

Academic and professional qualifications of the staff are depicted in the table below:

No. of Employees	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
41	03	02	02	11	08	04

#### Training

Focus on training and development covers the broad policy of enhancing the staff to obtain knowledge and job related skills of the staff to achieve

the goals of the organization. During the year, investments were made as depicted in the table for local as well as overseas training opportunities.

Category	2013 (Rs.)	2014 (Rs.)
Local Training	1,535,494/-	2,204,709/-
Foreign Training	6,287,452/-	7,701,049/-

#### Staff Welfare

Caring for the well-being of its employees has been an important factor in creating motivation 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 advance. 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.

## Review of Operations Contd...

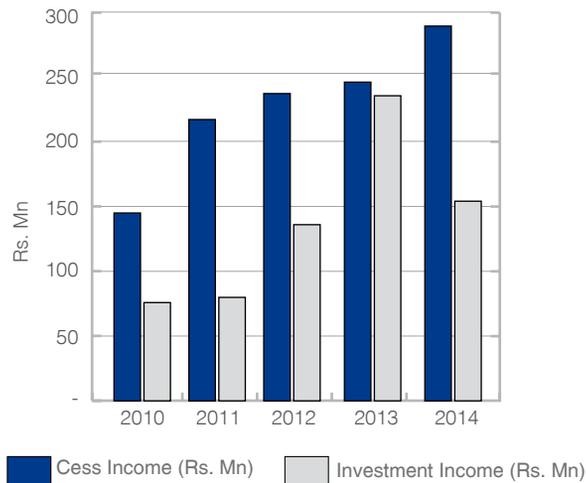
### Financial Review

#### Policyholders' Protection Fund (PPF)

According to the Act, (Cess) money collected to the Policyholders' Protection Fund which is not immediately required for the purposes referred to in the Act has to be invested by the Board in a prudent manner to yield good returns. During the year, the Board invested such funds accordingly and Chart 1 depicts the Cess collection and investment income earned.

#### Chart 1

*Cess Income and Investment Income for the period 2010-2014*



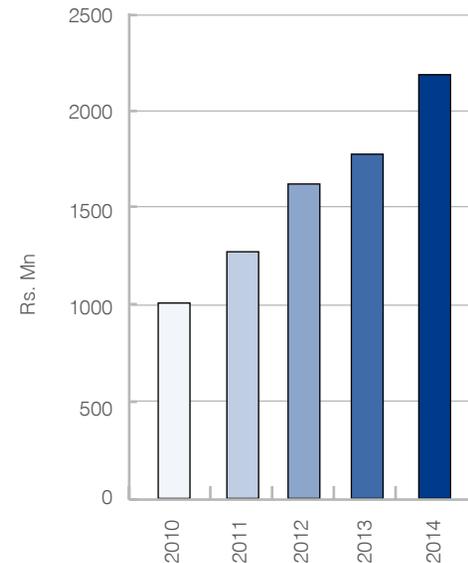
	2010	2011	2012	2013	2014
Cess Income (Rs. Mn)	145	217	237	246	274
Investment Income (Rs. Mn)	76	80	136	236	158

Chart 1 illustrates the growth of the Cess income over the last five years. The investment income has shown a significant decrease from 2013 to 2014 due to the reduction of interest rates.

Value of the PPF has increased over the last five years and Chart 2 depicts the same.

#### Chart 2

*Policyholders' Protection Fund Values for the period 2010 - 2014*



	2010	2011	2012	2013	2014
PPF Value (Rs. Mn)	1,012	1,276	1,622	1,778	2,185

## Review of Operations Contd...

The composition of assets of the PPF as at 31st December 2014 is depicted below.

**Chart 3**

**Assets Composition of Policyholders' Protection Fund as at 31 December 2014**

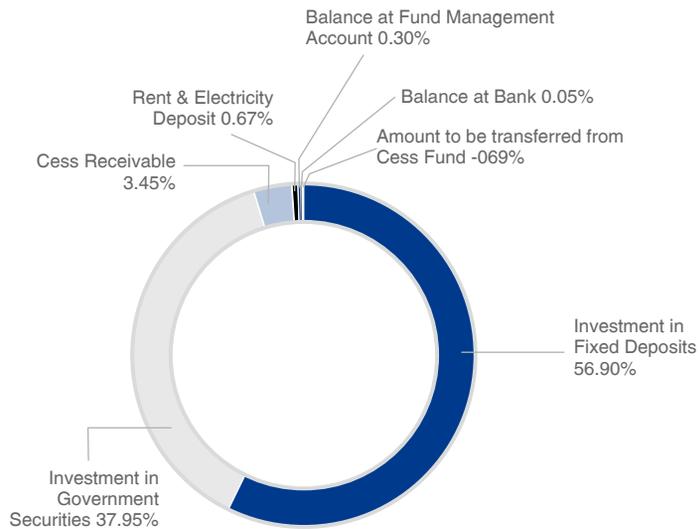
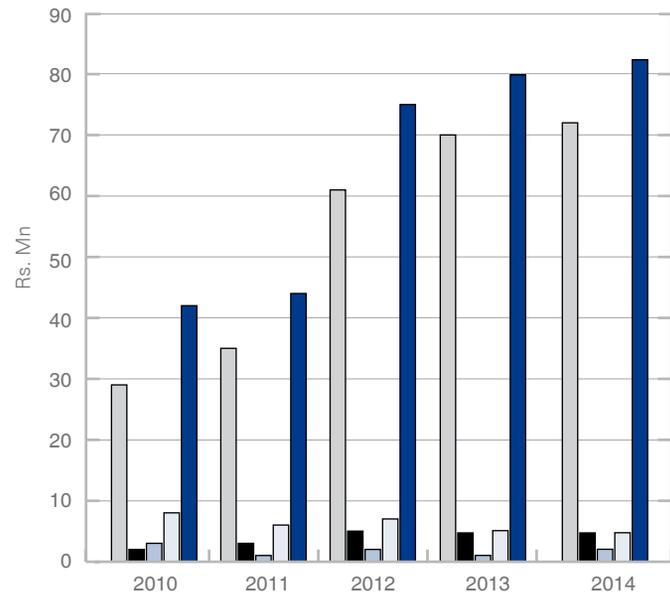


Chart 4 depicts the breakup of overall income received for the period 2010 to 2014.

**Chart 4**

**Income of the Board for the period 2010-2014**



### Income of the Board

The 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 of insurance brokering companies
- Interest income by investing surplus funds

	2010	2011	2012	2013	2014
Annual Fees (Rs. Mn)	29	35	61	70	73
Registration & Renewal Fees (Rs. Mn)	2	3	5	4	4
Other Income (Rs. Mn)	3	1	2	1	2
Recognition of Grants (Rs. Mn)	8	6	7	5	4
<b>Total Income (Rs. Mn)</b>	<b>42</b>	<b>44</b>	<b>75</b>	<b>80</b>	<b>83</b>

## Review of Operations Contd...

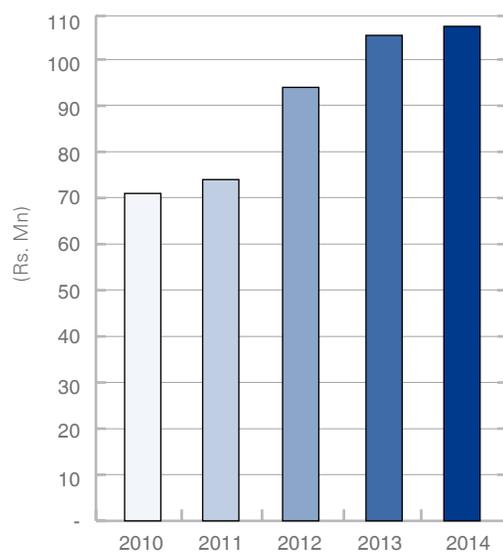
### Expenses of the Board

Total expenses of the Board have increased from 2010 to 2014. The deficit between income and the expenses has been financed from the PPF in accordance with the provisions of the Act.

Chart 5 below depicts the total expenses of the Board for the period 2010 to 2014.

#### Chart 5

*Total Expenses of the Board for the period 2010 - 2014*



	2010	2011	2012	2013	2014
Total Expenses (Rs. Mn)	71	74	94	105	107



# Financial Information

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# Statement of Financial Position

As At 31<sup>st</sup> December 2014

	Notes	As at 31.12.14 Rs.	As at 31.12.13 Rs.	As at 31.12.12 Rs.
<b>ASSETS</b>				
<b>NON CURRENT ASSETS</b>				
Property, Plant and Equipment	1	13,501,813	9,941,815	13,165,749
Policyholders' Protection Fund-Rent and Electricity Deposits	2	14,759,880	11,088,660	11,088,660
<b>CURRENT ASSETS</b>				
Inventories	3	274,845	413,051	391,138
Policyholders' Protection Fund-Financial Assets and Others	2	2,170,032,222	1,766,611,670	1,610,930,804
Other Current Assets	4	24,740,264	15,135,397	13,513,443
Cash and Cash Equivalents	5	38,313	658,301	1,530,608
<b>TOTAL ASSETS</b>		<b>2,223,347,337</b>	<b>1,803,848,894</b>	<b>1,650,620,402</b>
<b>RESERVES AND LIABILITIES</b>				
<b>RESERVES</b>				
Policyholders' Protection Fund	6	2,184,792,102	1,777,700,330	1,622,019,464
Revaluation Reserve		7,389,652	-	-
<b>LIABILITIES</b>				
<b>NON CURRENT LIABILITIES</b>				
Grant	7	6,480,560	9,941,815	13,165,749
Retirement Benefit Obligation	8	3,871,767	3,345,318	1,889,445
		10,352,327	13,287,133	15,055,194
<b>CURRENT LIABILITIES</b>				
Receipt in advance		11,726,535	4,862,417	4,727,599
Other Current Liabilities	9	9,086,721	7,999,014	8,818,145
		20,813,256	12,861,431	13,545,744
<b>TOTAL RESERVES &amp; LIABILITIES</b>		<b>2,223,347,337</b>	<b>1,803,848,894</b>	<b>1,650,620,402</b>

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

The above Statement of Financial Position is to be read in conjunction with the accounting policies and notes appearing on pages 98 to 107

For and on behalf of the Insurance Board of Sri Lanka

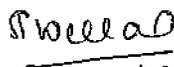


**Indrani Sugathadasa**

Chairperson

Colombo, Sri Lanka

08<sup>th</sup> July 2015



**Pushpa Wellappili**

Member

# Statement of Comprehensive Income

For the Year Ended 31<sup>st</sup> December 2014

	Notes	Year Ended 31.12.14 Rs.	Year Ended 31.12.13 Rs.
<b>INCOME</b>			
Revenue	10	77,586,076	74,278,594
Recognition of Grant	7	4,398,353	4,526,970
Interest Income		1,359,409	1,235,056
Transfer from Policyholders' Protection Fund	6	23,900,848	25,090,847
Other Income	11	151,722	167,242
<b>TOTAL INCOME</b>		<b>107,396,408</b>	<b>105,298,709</b>
<b>EXPENDITURE</b>			
Staff Costs	12	(59,006,400)	(58,804,541)
Professional Charges	13	(2,181,575)	(2,178,627)
Operational Expenses	14	(45,858,876)	(44,000,612)
Finance and Others	15	(186,428)	(166,722)
<b>TOTAL EXPENDITURE</b>		<b>(107,233,279)</b>	<b>(105,150,502)</b>
Net Surplus /(Deficit) Before Tax		163,129	148,207
Taxation		(163,129)	(148,207)
Net Surplus /(Deficit) After Tax		-	-
<b>Net Surplus for the Year</b>		<b>-</b>	<b>-</b>

The accounting policies and notes appearing on pages from 98 to 107 form an integral part of the Financial Statements.

# Statement of Cash Flows

For the Period Ended 31<sup>st</sup> December 2014

	Notes	Year Ended 31.12.14 Rs.	Year Ended 31.12.13 Rs.	Year Ended 31.12.12 Rs.
<b>Cash Flows From Operating Activities</b>				
Net Increase/(Decrease) for the Period		-	-	-
Provision for Depreciation		4,696,716	4,526,970	6,582,865
Provision for Retirement Benefit		679,287	1,698,014	55,536
Profit/( Loss) on Disposal		73,035	-	79,761
Payment made- Retirement Benefit		(152,839)	(242,141)	-
Cost on Revaluation		(6,000)	-	-
Recognition of Grant		(4,398,353)	(4,526,970)	(6,662,626)
Income Tax		163,129	148,207	238,212
Interest Income		(1,359,409)	(1,235,056)	(1,932,677)
Net Increase before Working Capital Changes		(304,433)	369,024	(1,638,928)
Change of Working Capital				
(Increase)/Decrease in Inventories		138,207	(21,914)	(208,007)
(Increase)/Decrease of Receivables		(9,634,790)	(1,643,609)	(2,656,106)
Increase/(Decrease) of Receipt in advance		6,864,118	134,817	457,580
Increase/(Decrease) of Creditors and Accruals		1,087,707	(819,130)	3,655,659
Cash Flow used in Operating Activities		(1,544,758)	(2,349,836)	1,249,126
Net Cash Flows from Operating Activities		(1,849,192)	(1,980,812)	(389,802)
<b>Cash Flows From/(Used in) Investing Activities</b>				
Interest Income		1,226,203	1,108,505	1,735,251
Proceeds from Sale of Property, Plant and Equipment		3,000	-	-
Purchase of Property Plant and Equipments		(937,098)	(1,303,036)	(7,459,488)
Net Cash used in Investing Activities		292,106	(194,531)	(5,724,237)
<b>Cash Flows From Financing Activities</b>				
Capital transfer from Policyholders' Protection Fund		937,098	1,303,036	7,459,488
Net Cash Flows from Financing Activities		937,098	1,303,036	7,459,488
Net Increase/(Decrease) in Cash and Cash Equivalents		(619,988)	(872,307)	1,345,449
Cash and Cash Equivalents at the beginning of the year		658,301	1,530,608	185,159
Cash and Cash Equivalents at the end of the year		38,313	658,301	1,530,608
Cash at Bank and in Hand	5	38,313	658,301	1,530,608

The accounting policies and notes appearing on pages 98 to 107 form an integral part of the Financial Statements.

# Policyholders' Protection Fund Statement of Cash Flows

For the Year Ended 31<sup>st</sup> December 2014

	Notes	Year Ended 31.12.14 Rs.	Year Ended 31.12.13 Restated Rs.	Year Ended 31.12.12 Restated Rs.
<b>Cash Flows From Operating Activities</b>				
Net Increase of Policyholders' Protection Fund		407,091,773	155,680,866	345,634,597
Net Increase before Working Capital changes		407,091,773	155,680,866	345,634,597
Change of Working Capital				
(Increase)/Decrease of Cess Receivable		(15,500,000)	(1,000,000)	(10,000,000)
(Increase)/Decrease of Rent Deposit		(3,671,220)	-	(2,360,070)
Increase/(Decrease) of Balance at Fund Management Account		(4,210,677)	(2,476,670)	-
Increase/(Decrease) of Amount to be transferred From PPF		9,487,946	1,193,883	702,733
		(13,893,951)	(2,282,787)	(11,657,337)
Net Cash From Operating Activities		393,197,821	153,398,078	333,977,260
<b>Cash Flows From/(Used in) Investing Activities</b>				
Investments in Government Securities		(288,557,589)	468,339,300	201,062,723
Investments in Fixed Deposits		(104,640,232)	(621,109,278)	(534,696,542)
Net Cash from Investing Activities		(393,197,821)	(152,769,978)	(333,633,818)
Net Increase/(Decrease) in Cash and Cash Equivalents		-	628,101	343,442
Cash and Cash Equivalents at the beginning of the year		1,000,000	371,899	28,457
Cash and Cash Equivalents at the end of the year		1,000,000	1,000,000	371,899
Cash at Bank	2	1,000,000	1,000,000	371,899

The accounting policies and notes appearing on pages 98 to 107 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 Lankan 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 Insurance Board of Sri Lanka have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS and SLFRS) and Sri Lanka Public Sector Accounting Standards 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 restated 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 Lankan 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 / revaluation amount 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.

Revaluation is performed on motor vehicles by a professionally qualified entity. Increases in the carrying amount arising on revaluation of motor vehicles are credited to the revaluation reserve. The Board expects to complete the revaluation process for the all fixed assets categories during the next year of operation.

#### 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

### 2.2 FINANCIAL ASSETS

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets.

# Accounting Policies Contd...

## **2.2.1 HELD-TO-MATURITY INVESTMENTS (HTM)**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Board has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate (EIR) method, less impairment. The EIR amortization is included in interest income.

## **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.

#### **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 balance sheet 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 & 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.
<b>COST</b>					
Balance as at 1 January 2014	16,317,321	13,003,206	20,510,591	141,450	49,972,568
Additions	-	1,398	935,700	-	937,098
Disposals	-	(515,418)	(59,500)	-	(574,918)
Impact on Revaluation	(6,317,321)	-	-	-	(6,317,321)
Balance as at 31 December 2014	<u>10,000,000</u>	<u>12,489,186</u>	<u>21,386,791</u>	<u>141,450</u>	<u>44,017,427</u>
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1 January 2014	12,597,363	8,916,748	18,375,192	141,450	40,030,753
Charge for the year	2,009,383	1,513,842	1,173,491	-	4,696,716
Disposals	-	(439,382)	(59,500)	-	(498,882)
Impact on Revaluation	(13,712,973)	-	-	-	(13,712,973)
Balance as at 31 December 2014	<u>893,773</u>	<u>9,991,208</u>	<u>19,489,183</u>	<u>141,450</u>	<u>30,515,614</u>
<b>WRITTEN DOWN VALUE AS AT 31 DECEMBER 2014</b>	<u>9,106,227</u>	<u>2,497,978</u>	<u>1,897,609</u>	<u>-</u>	<u>13,501,813</u>
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2013	<u>3,719,958</u>	<u>4,086,458</u>	<u>2,135,399</u>	<u>-</u>	<u>9,941,815</u>
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2012	<u>5,430,977</u>	<u>5,190,060</u>	<u>2,544,712</u>	<u>-</u>	<u>13,165,749</u>

## Notes to the Financial Statements Contd...

	As at 31.12.14 Rs.	As at 31.12.13 Restated Rs.	As at 31.12.12 Restated Rs.
<b>2 POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS</b>			
<b>NON CURRENT ASSETS</b>			
Rent and Electricity Deposits	14,759,880	11,088,660	11,088,660
<b>CURRENT ASSETS</b>			
<b>Held-to-Maturity Investments</b>			
Repo	584,463,086	552,060,730	958,381,103
Treasury Bills	256,155,233	-	62,018,927
Fixed Deposits	1,260,446,052	1,155,805,820	534,696,542
	2,101,064,371	1,707,866,550	1,555,096,572
<b>Other Current Assets</b>			
CESS Receivable	76,500,000	61,000,000	60,000,000
Balance at Fund Management Account	6,687,347	2,476,670	-
Balance at Bank	1,000,000	1,000,000	371,899
	84,187,347	64,476,670	60,371,899
Less			
Amount to be transferred from PPF	15,219,496	5,731,550	4,537,667
	2,170,032,222	1,766,611,670	1,610,930,804
Total Assets	2,184,792,102	1,777,700,330	1,622,019,464
<b>3 INVENTORIES</b>			
Printing, Stationery and Computer Accessories	261,005	367,631	303,083
Stamps	13,840	45,420	88,055
	274,845	413,051	391,138
<b>4 OTHER CURRENT ASSETS</b>			
Deposits	185,481	178,594	172,122
Other Receivables	274,334	167,233	114,597
WHT Recoverable	1,082,063	1,111,985	1,049,296
VAT Control	1,239,629	668,820	502,748
Staff Loans *	4,911,857	3,682,040	3,923,116
Advance and Pre-payments	1,441,005	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	386,400	1,161,375	-
Amount to be transferred from PPF	15,219,496	5,731,550	4,537,667
	24,740,264	15,135,397	13,513,443
*Loans Granted to Staff			
Balance as at 1st January	3,682,040	3,923,116	3,668,481
Loans Granted during the year	4,151,000	2,157,000	2,942,391
	7,833,040	6,080,116	6,610,872
Repayments during the year	(2,921,183)	(2,398,076)	(2,687,756)
Balance as at 31st December	4,911,857	3,682,040	3,923,116

## Notes to the Financial Statements Contd...

	As at 31.12.14 Rs.	As at 31.12.13 Rs.	As at 31.12.12 Rs.
<b>5 CASH &amp; CASH EQUIVALENTS</b>			
Cash at Banks			
Bank of Ceylon	38,313	658,301	1,530,608
	<b>38,313</b>	<b>658,301</b>	<b>1,530,608</b>
<b>6 POLICYHOLDERS' PROTECTION FUND</b>			
Opening Balance	1,777,700,330	1,622,019,464	1,276,384,867
Cess Received during the year	273,912,607	245,743,034	236,534,917
Interest on Treasury Bill Investment	15,155,232	665,374	47,865,987
Interest on Repo and Call Account	38,138,752	58,473,214	87,316,447
Interest on Fixed Deposits	104,682,472	177,119,438	696,541
Interest on Fund Management Account	57,070	92,109	-
	<b>2,209,646,463</b>	<b>2,104,112,633</b>	<b>1,648,798,759</b>
Less:			
Transfers for Operational Expenses	23,900,848	25,090,847	19,295,177
Transfers for Capital Expenses	937,098	1,303,036	7,459,488
Total transfers- Policyholders' Protection Fund	<b>24,837,946</b>	<b>26,393,883</b>	<b>26,754,665</b>
Contribution to the Consolidated Fund	-	300,000,000	-
Bank charges	16,415	18,420	24,630
	<b>24,854,361</b>	<b>326,412,303</b>	<b>26,779,295</b>
Closing Balance	<b>2,184,792,102</b>	<b>1,777,700,330</b>	<b>1,622,019,464</b>
<b>7 GRANT</b>			
Balance at the beginning of the year	9,941,815	13,165,749	12,368,887
Capital Expenditure from Policyholders' Protection Fund	937,098	1,303,036	7,459,488
Less: Amortized during the year	<b>(4,398,353)</b>	<b>(4,526,970)</b>	<b>(6,662,626)</b>
Balance at the end of the year	<b>6,480,560</b>	<b>9,941,815</b>	<b>13,165,749</b>

### Note - Recognition of Grant

The grants 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%

## Notes to the Financial Statements Contd...

	As at 31.12.14 Rs.	As at 31.12.13 Rs.	As at 31.12.12 Rs.
<b>8 RETIREMENT BENEFIT OBLIGATIONS</b>			
Balance at the beginning of the year	3,345,318	1,889,445	1,833,909
Provision made during the year	679,287	1,698,014	55,536
(-)Payment made during the year	(152,839)	(242,141)	-
Balance at the end of the year	<u>3,871,767</u>	<u>3,345,318</u>	<u>1,889,445</u>
<b>9 OTHER CURRENT LIABILITIES</b>			
Accrued Expenses	8,224,664	6,992,531	8,077,508
EPF Payable	568,981	571,676	489,052
ETF Payable	85,348	85,752	73,359
PAYE and WHT Payable	194,954	246,239	84,130
Others	12,775	102,816	94,096
	<u>9,086,721</u>	<u>7,999,014</u>	<u>8,818,145</u>
	<b>Year Ended 31.12.14</b>	<b>Year Ended 31.12.13</b>	
<b>10 REVENUE</b>			
Annual Fees from Insurance Companies	73,440,757	70,079,988	
Registration and Renewal Fees	4,145,319	4,198,606	
	<u>77,586,076</u>	<u>74,278,593</u>	
<b>11 OTHER INCOME</b>			
Interest on Vehicle Loan	28,862	29,751	
Interest on Distress Loan	103,325	94,025	
Sundry Income	19,535	43,467	
	<u>151,722</u>	<u>167,242</u>	

## Notes to the Financial Statements Contd...

	Year Ended 31.12.14 Rs.	Year Ended 31.12.13 Rs.
<b>12 STAFF COSTS</b>		
Staff Salaries	31,045,384	31,019,437
EPF 12%	3,833,446	3,830,332
ETF 3%	958,362	957,584
Chairperson - Allowance	900,000	900,000
Chairperson - Fuel Allowance	347,220	348,840
Board Members - Sitting Allowance	413,500	480,000
Honorarium - Contract Staff	-	32,500
Overtime	123,941	127,215
Staff Medical Expenses	1,545,903	1,363,224
Staff Medical Insurance	655,636	560,059
Insurance Fire and Personal	450,411	421,334
Staff Welfare	1,345,887	1,369,462
Staff Training Local & Subscription	2,204,709	1,535,494
Board Members and Staff - Overseas Training & Travelling	7,701,049	6,287,453
Performance Based Incentives	1,754,948	1,951,246
Advertising Recruitment	324,945	70,495
Directors Telephone Residence	166,410	164,635
Leave Encashment	764,260	599,941
Directors Vehicle Allowance	2,925,000	3,876,986
Directors Fuel Allowance	866,101	1,210,291
Staff Gratuity	679,287	1,698,014
	<u>59,006,400</u>	<u>58,804,541</u>
<b>13 PROFESSIONAL CHARGES</b>		
Consultancy Fee	2,181,575	2,178,627
	<u>2,181,575</u>	<u>2,178,627</u>

## Notes to the Financial Statements Contd...

	Year Ended 31.12.14 Rs.	Year Ended 31.12.13 Rs.
<b>14 OPERATIONAL EXPENSES</b>		
Rent	<b>23,976,701</b>	22,167,658
Parking Fees	<b>332,185</b>	365,825
Telephone Expenses & Internet	<b>1,633,011</b>	1,603,557
Electricity	<b>1,356,878</b>	1,226,881
Office Upkeep	<b>459,213</b>	442,421
Printing & Stationary	<b>2,871,798</b>	2,482,807
Public Awareness	<b>1,836,159</b>	4,399,327
Entertainment	<b>248,237</b>	213,539
Traveling - Local	<b>81,919</b>	56,158
Office Equipment Maintenance EDP & Others	<b>1,088,963</b>	1,413,830
International Membership of IAIS	<b>2,487,748</b>	2,091,794
International Membership of IIAP	<b>33,125</b>	(30,000)
Advertising - Others	<b>109,200</b>	96,419
Meeting Expenses	<b>953,295</b>	309,846
Subscription, Newspapers & Library Books	<b>139,820</b>	214,007
Postage & Courier Charges	<b>1,039,937</b>	226,448
Audit Fees-Auditor General	<b>470,000</b>	370,055
Depreciation	<b>4,696,716</b>	4,526,970
General Expenses	<b>104,244</b>	104,959
Legal Expenses	<b>166,861</b>	280,530
Investigation Expenses	<b>4,572</b>	10,560
Supervision Expenses	<b>383,293</b>	129,350
Vehicle Maintenance	<b>157,174</b>	159,587
Vehicle Insurance	<b>309,245</b>	261,217
Vehicle Running Charges	<b>270,829</b>	308,155
Nation Building Tax	<b>574,717</b>	568,712
Loss on Disposal	<b>73,035</b>	-
	<b>45,858,876</b>	44,000,612
<b>15 FINANCE AND OTHER EXPENSES</b>		
Bank Charges	<b>186,428</b>	166,422
Surcharge & Penalty	<b>-</b>	300
	<b>186,428</b>	166,722

## 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 31 December 2014.

#### 16.1 NOTIONAL CREDIT FOR WITH HOLDING 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. 122,380/17 for the year 2014 has been recognized in the Financial Statement for the year ended 31 December 2014.

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 2014.

### 18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31<sup>st</sup> December 2014.

### 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, Mr. D.N.R. Siriwardana (Ex-officio Members), Mr. Nalin Attygalle and Mr. Samantha Kumarasinghe held office of the Board during the whole year of 2014.

## Notes to the Financial Statements Contd...

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

<b>Name of the Member</b>	<b>Name of Related Institution</b>	<b>Relationship</b>
Mrs. Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd. National Development Bank	Director Director
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 Commission Member Member  Board Member
Mr. S.R. Attygalle	Superior Courts Complex Management Board National Savings Bank University Grants Commission	Member Director Member
Mr. D.N.R. Siriwardena	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting & Auditing Standard Monitoring Board The Institute of Chartered Accountants of Sri Lanka	Commission Member Ex-officio Member Ex-officio Member
Mr. Nalin Attygalle	Tertiary & Vocational Education Commission Sri Lanka Accounting & Auditing Standard Monitoring Board	Commission Member Board Member (up to June 2014)
Mr. Samantha Kumarasinghe	Nature's Beauty Creations Ltd. Multichemi International Ltd. Multichemi Exports (Pvt) Ltd. Eco Protect Engineering (Pvt) Ltd. Lanka Bio Fertilizers (Pvt) Ltd.	Chairman / Managing Director Chairman / Managing Director Chairman / Managing Director Chairman / Managing Director Chairman / Managing 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 அறிப்பதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



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எனது இல. } FR (20 / 1 / IBSL / 1 / 14  
My No. }

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உமது இல. }  
Your No. }

දිනය  
திகதி } 11 September 2015  
Date }

The Chairman  
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 2014 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 2014 comprising the statement of financial position as at 31 December 2014 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 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 Chairman of the Board on 30 June 2015.

#### **1.2 Management's Responsibility for the 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.

#### **1.3.2 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.

## Auditor General's Report Contd...

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 judgement, 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 for the effects 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Policies**

The following observation is made.

Even though the recognition of income had been made on accrual basis by the Board, identified and invoiced annual fees totaling Rs. 5,897,549 by the end of the year under review, receivable from the National Insurance Trust Fund relating to 3 preceding years and cess income totaling Rs. 32,249.024 for the years 2011 and 2012 had not been brought to account in the financial statements. The annual fees receivable from the Fund for the year 2014 and the cess receivable for the years 2013 and 2014 had not been identified and even an estimated amount thereon not been brought to account.

#### **2.2.2 Accounting Deficiencies**

Despite failure in having a liability for payment of audit fees, a sum of Rs. 1,035,000 had been shown erroneously in the financial statements as internal audit fees payable from the year 2010 up to the year 2012.

## Auditor General's Report Contd...

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

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

Reference to Laws, Rules and Regulations

Non-compliance

(a) Insurance Industry Regularization Act, No. 43 of 2000

(i) Paragraphs 79 and 82 (1)

Carrying out the business of an insurance broker is prohibited without a certificate of registration as a broker and where the application was so made and the Board is satisfied in respect of requirements thereon, the applicant should be registered as an insurance broker by the Board. Nevertheless according to the public notification made by the Chairman of the Board, acceptance of applications for such registrations had been discontinued from 27 April 2012 until further notice. However, the Chairman of the board had informed the audit thereon that the Board has power to do nay other required act in fulfilling objectives and responsibilities of the Board in terms of Section 5 (h) of the Act.

(ii) Section 103 (1)

The Board shall establish a Fund to be known as the "Policy Holders Protection Fund" to which shall be credited money realized from the cess levied and charged under Section 7 of this Act and at every instance, where adequate income had not been earned to settle the total expenditure of the Board, that Fund had been utilized to settle the deficit of the Board contrary to those purposes.

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

(i) Section 6.5.1

A draft Annual Report of the Board for the year under review had not been presented to the auditor general along with the financial statements.

(ii) Section 8.3.4

Even though the total of calling charges paid for office and domestic lines of each officer should be obtained in confirming whether the valling charges had exceeded the approved limits, expenditure for General Lines had taken a high value of Rs. 1,633,011 due to obtaining calls through General Lines without using Office Lines allocated for 6 officers.

(iii) Section 9.14.1

The approval of the Department of Public Enterprises had not been obtained for the Manual of Procedure.

# Auditor General's Report Contd...

## 2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) The Board had granted festival advances amounting to Rs. 50,000 to 82 officers each without a proper approval and out of that, a balance totaling Rs. 1,065,000 had existed by the end of the year under review. Nevertheless, according to the revisions made to the Establishments Code, the maximum amount which can be granted as festival advances had been limited to Rs. 5,000.
- (b) A sum of Rs. 250,000 each had been paid as distress loans to 5 officers, whose basic salary was less than Rs. 25,000 without a proper approval.
- (c) It had been indicted that Corporations and Statutory Boards can pay benefits only precisely approved by the Cabinet of ministers, Ministry of Public Administration or the Treasury to their employees with the approval of the Boards of Control and the approval of the Treasury should be obtained for payments of additional allowances and incentives made without such authority, in terms of Public Enterprises Circular No. 95 of 14 June 1994. Nevertheless, the Board had not taken action to prepare an incentive scheme and to obtain the approval thereon as informed by the Letter No. MF/2/4/IBSL.GEN of 29 December 2009 of the Deputy Secretary to the Treasury. However, the board had paid sums of Rs. 1,951,246 and Rs. 1,754,948 as bonus from the year 2009 to 2012 and incentives in the years 2013 and 2014 respectively.

## 3. Financial Review

### 3.1 Financial Results

Accounting to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs. 163,129 as compared with the corresponding surplus of Rs. 148,207 for the preceding year, thus indicating an increase of Rs. 14,922 or 10 per cent in the financial result of the year under review as compared with the preceding year. The increase in income by Rs. 2,097,699 as compared with the increase in expenditure by Rs. 2,082,977 had mainly attributed to this increase.

### 3.2. Analytical Financial Review

According to the financial statements, the value of current assets as at the end of the year under review amounted to Rs. 2,195,085,644 and out of that, 99 per cent or Rs. 2,170,032,222 represented the investments in the "Insurance Policy Holders Security Fund" established in terms of Section 103 of the Sri Lanka Insurance Industry Regularization Act, No. 43 of 2000. As such, the current assets ratio had been at a high level of 105:1.

## 4. Operating Review

### 4.1 Performance

The following observations are made.

- (a) The Board has the statutory powers to investigate a dispute in respect of a payment of insurance claims submitted by an insured with a view to protecting the connections of the Insurance policy Holders and the future Insurance Policy Holders and the number of complaints so received to the Board in the year under review was 284. Out of that, investigations in respect of 157 complaints and 11 complaints made in the year 2013 had not been completed even by 07 April 2015, the date of audit and there were 75 delayed instances where 3 to 10 months had been taken to complete the investigation.

## Auditor General's Report Contd...

- (b) The Market Development and External Relations Division had been established with a view to improving the confidence on insurance through the protection of Insurance Policy Holders and making public awareness. Provisions amounting to Rs. 10,100,000 had been made for the purposes planned to implement by this Division during the year under review. The progress of those purposes was as follows.
- (i) Even though 10 awareness programmes had been held in the Divisional Secretariats with a view to improving the knowledge on insurance of the Government Representatives, only persons 13 of them had participated at the programme held in the District Secretariat, Colombo.
  - (ii) Even though it had been planned to hold 3 presentations at selected places where the public gathered during the year under review, the Board had failed to complete that purpose.
  - (iii) Even though it had been planned to participate in exhibitions and street publicity activities carried out on main roads, the board had participated only at the Dayata Kirula Exhibition in the year under review.
  - (iv) No evidence was made available to ensure whether the Documentary media movement which had been planned to implement on an estimated value of Rs. 2,500,000 under the electronic media programmes, had been implemented during the year.
  - (v) Seven insurance policies introduced by 6 insurance companies in the year under review had been reviewed under the review of insurance products of companies with a view to improving the insurance policies for the well-being of insurance sector and policy holders. Even though a report with weaknesses existing in the insurance policies thereon with the proposed recommendations had been prepared and presented to the Director General of the Board on 19 November 2014, action had not been taken to notify the relevant Insurance Companies of the weaknesses shown by the report even by 08 April 2015, the date of audit.
- (c) The board had suspended a private insurance company in the year 2009 and the board had entered into a memorandum of Understanding with the company to dispose of assets of that company for settling genuine insurance claims regularly submitted to that company in terms of Orders given by the Supreme Court in the Fundamental Rights Case bearing No.SC (FR) 191/09. Accordingly, the claimants had been informed by a newspaper announcement that their claims should be submitted in writing to the Board and out of 142 genuine claims so submitted, payments had not been made for any claim.

### 4.2 Personnel Administration

The following observations are made.

- (a) Even though the approved posts of the Board as at 31 December 2014 had been 43, the actual number had been 41. As such, 03 vacancies and 01 excess post existed. Even though recruitments had been made for a post of KKS exceeding the cadre approved by the Department of Management Services, the approval obtained thereon had not been submitted to audit.
- (b) A Director had been appointed on contract basis on 26 December 2011 for the post of Director Supervision which is a permanent post and the Board had not taken action to recruit an officer permanently.
- (c) Two posts of Assistant Director had been vacant since 26 November 2007 and action had not been taken by the Board to recruit qualified officers even up to 20 May 2015, the date of audit.
- (d) Action had not been taken to prepare a scheme of recruitment relating to each post and to obtain the approval of the Department of Management Services.

## Auditor General's Report Contd...

### 4.3 Uneconomic Transactions

The Board had paid a high cost totaling Rs. 23,862,930 in the year under review for 8,741 feet at the rate of Rs. 214 per square foot of the World Trade Centre without taking action to maintain its Office with a minimum cost and a sum of Rs. 383,160 had been paid as parking charges. As such, the board had taken action to obtain money from the "Insurance Policy Holders Security Fund" as well to settle the expenditure which exceeded the income annually.

### 5 Accountability and Good Governance

#### 5.1 Budgetary control

Variances ranging from 3 per cent to 100 per cent between the budgeted and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

#### 5.2 Unresolved Audit Paragraphs

The following matters were observed in the implementation of directives given by the Committee on Public Enterprises held on 08 April 2014.

- (a) Even though it had been directed that the present Management of the Board should inform the Treasury in writing and obtain instructions in respect of payment of two salary increments to 17 officers each thereof in the year 2010 and increase of salaries of all the officers by 25 per cent from July 2012 by the Board without an approval of the Treasury, the audit had been informed that only a letter including particulars thereon had been presented to the General Treasury.
- (b) The Board had been directed that proper action should be taken in respect of obtaining an insurance coverage to 33 officers of the Board and their family members by spending Rs. 513,713 without an approval of the Treasury. Nevertheless, action had not been taken to obtain the approval of the Treasury thereon.

### 6. Systems and Controls

Deficiencies in systems and controls 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) Accounting
- (b) Personnel Administration
- (c) Staff Loan Administration



W.P.C. Wickramaratne  
Acting Auditor General

# Matters raised by the Auditor General and the Responses made by the Board for 2014

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>2.2</b>	<b>Comments on Financial Statements</b>	
<b>2.2.1</b>	<b>Accounting Policies</b>	
	<p>Eventhough the recognition of income had been made on accrual basis by the Board, identified and invoiced annual fees totaling Rs.5,897,549 by the end of the year under review, receivable from the National Insurance Trust Fund relating to 3 preceding years and cess income totaling Rs.32,249,024 for the years 2011 and 2012 had not been brought to account in the financial statements. The annual fees receivable from the Fund for the year 2014 and the cess receivable for the year 2013 and 2014 had not been identified and even an estimated amount thereon had not been brought to account.</p>	<p>Irrespective of several letters sent and few discussions held with NITF, they have not yet informed the Board about their decision on payment of the said due amounts and hence there is an uncertainty about the receipt of the same.</p> <p>Under these circumstances, we feel that it is not prudent to recognize such a large income amount in the accounts with a related asset for the same. Further, at the time of preparing the financial statements for 2013, the Board was not in the position to estimate the amount receivable from NITF as IBSL received the audited accounts of NITF for the years 2012 &amp; 2013, only on 02nd July 2015.</p>
<b>2.2.2</b>	<b>Accounting Deficiencies</b>	
	<p>Despite failure in having a liability for payment of audit fees, a sum of Rs.1,035,000 had been shown erroneously in the financial statements as internal audit fees payable from the year 2010 upto the year 2012.</p>	<p>It is not correct to treat this as an erroneous provision, as it has been provided to pay to the Department of Management Audit of the Ministry of Finance, who has carried out the internal auditing activities of the Board. Further, IBSL has not made any provision for the years 2013 and 2014 in this regard. As a response to our letter, the Department of Management Audit has informed us on 11th May 2015, that they do not expect to charge any fee for the service rendered to IBSL and hence the above provision was written off from the accounts.</p>
<b>2.3</b>	<b>Non-compliance with Laws, Rules, Regulations and Management Decisions Reference to Laws, Rules, Regulations Non Compliance</b>	
(a) (i)	<p>Insurance Industry Regularization Act No. 43 of 2000 Paragraphs 79 and 82 (i)</p> <p>Carrying out the business of an insurance borker is prohibited without a certificate of registration as a broker and where the application was so made and the Board is satisfied in respect of requirements thereon, the applicant should be registered as an insurance broker by the Board+. Nevertheless, according to the public notification made bu the Chairman of theBoard, acceptance of applications for such registrations had been discontinued from 27 April 2012 until further notice. However, the Chairman of the Board had informaed the audit thereon that the Board has power to do any other required act in fulfilling objectives and responsibilities of the Board in terms of Section 5(h) of the Act.</p>	<p>During 2011-2012, it was observed that the number of applications seeking registration as insurance brokers has been increased in a singnificant number, and such amount was more than double the number of the insurance companies in the market. Further, it has been noted that some of the registered insurance brokering companies conduct several irregularities as well.</p> <p>This matter was further discussed at the Industry Meeting (insurers and insurance brokers) held on 27th March 2012, and companies have suggested to IBSL to stop entertaining new applications for registration as an Insurance Broker.</p> <p>Accordingly, the Board of IBSL at its 114th Meeting has approved the above suggestion of the industry, and has decided to temporarily stop entertaining new applications. A press notice was issued to the public informing same.</p> <p>In terms of Section 5(h) of the Regulation of Insurance Industry Act, No. 43 of 2000 Board has the power to do all such other acts do any other required act in fulfilling objectives and responsibilities of the Board.</p>

## Matters raised by the Auditor General and the Responses made by the Board for 2014

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>2.3</b>	<b>Non-compliance with Laws, Rules, Regulations and Management Decisions Reference to Laws, Rules, Regulations Non Compliance</b>	
(a)	Insurance Industry Regularization Act No. 43 of 2000	IBSL is a self funded institution and do not receive funds from the Treasury. The Board finances its' expenses mainly by using the registration fees, annual fees that are collected from insurance companies. However, amount equivalent to cover the annual deficit of the respective financial year is transferred from the PPF to the Board's fund. As a result, transfers are only limited to annual deficit and further no accumulated fund is created in Boards' Accounts.
(i)	Section 103 (I)  The Board shall establish a Fund to be known as the "Policy Holders Protection Fund" to which shall be credited money realized from the cess levied and charged under Section 7 of this Act and at every instance, where adequate income had not been earned to settle the total expenditure of the Board, that Fund had been utilized to settle the deficit of the Board contrary to the purposes to which the monies of that Fund should be used in terms of the Act. In addition, out of this Fund, a sum of Rs.300,000,000 had been transferred to the Consolidated Fund in the year 2013 contrary to those purposes.	As the Board has being established to regulate the insurance industry, the expenses which are not in a position to cover from its revenue should be in a position to charge to PPF. This is due to fact that such expenses have incurred in carrying out the functions of the Act and it creates reasonable doubt as why such expenses cannot be funded through PPF which has been created to carry out the functions of the Act.  Further, as per the rule No. 10 of the Government notification No. 1412/30 which should read in conjunction with section 103 (2) of the RII Act, No. 43 of 2000, money lying to the credit of the PPF can be utilized for the defraying the expenditure incurred by the Board in the exercise, discharge and performance of its powers, functions and duties.  As a response to the request made by the Treasury referring to the provision of the Finance Act no. 38 of 1971, to credit Rs. 500 Mn to the Consolidated Fund, IBSL has Transferred only Rs. 300 Mn. If IBSL would not grant even this Rs. 300 Mn, the Treasury would bind to call explanations from the Board. Secretary to the Treasury would be in a position to provide further information if you require more details regarding the same.
(b)	Public Enterprises Circular No.PED/12 of 02 June 2003	
(i)	Section 6.5.1 A Draft Annual Report of the Board for the year under review had not been presented to the Auditor General along with the financial statements.	As it is not practical to collect all the required details for the Annual Report from insurance companies within 60 days after the completion of the financial year, to date the Board has not sent a draft copy of the Annual report along with the financial statements to the Auditor General within this stipulated time period.
(ii)	Section 8.3.4 Even though the total calling charges paid for office and domestic lines of each officer should be obtained in confirming whether the calling charges had exceeded the approved limits, expenditure for General lines had taken a high value of Rs.1"633"011 due to obtaining calls through General Lines without using Office Lines allocated for 6 Officers.	Instructions were already given to the relevant Directors to make use of direct lines when they are getting calls. Further direct lines have been provided to Directors with the purpose of providing them an uninterrupted service when taking outgoing calls. Since mobile phone call charges are also reimbursed, they often use mobiles for outgoing calls and all these utilizations are within the maximum limits permitted by the Government. Kindly note that Rs, 1,633,011/- is the total bill for the year which includes whole telecommunication facilities including general lines, direct lines and fax lines and out of which Rs. 119,450.16 has only paid for those direct number lines.
(iii)	Section 9.14.1 The approval of the Department of Public Enterprises had not been obtained for the Manual of Procedure	As instructed at the discussion held with Deputy Secretary to the Treasury and officers of the Ministry on 02.12.2014, steps have been taken to remove the financial values mentioned in the administrative manual. Approval for same will be sought as soon as possible.

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>2.4</b>	<b>Transactions not supported by Adequate Authority</b>	
(a)	The following observations are made. The Board had granted festival advances amounting to Rs.50,000 to 82 Officers each without a proper approval and out of that a balance totaling Rs.1,065,000 had existed by the end of the year under review. Nevertheless, according to the revisions made to the Establishments Code, the maximum amount which can be granted as festival advances had been limited to Rs.5,000.	Payment of festival advance amounting to Rs. 50,000/- is a part of the administrative manual and approval of the Board is also sought for same. However at the discussion held with Deputy Secretary to the Treasury on 02/12/2014 in relation to administrative manual and festival advance, there was no objection for the said payment since it has been continuing since 2009 and it was informed to revise the administrative manual as advised by the Deputy Secretary to the Treasury. Therefore inclusion of relevant changes/ revisions to the administrative manual has been already commenced and necessary steps will be taken to present it for approval of the Ministry. Further only 32 officers have been given festival advance in year 2014 and kindly note that mentioning of granting festival advance to 82 officers which exceeds the total number of cadre (i.e. 41) is incorrect.
(b)	A sum of Rs.250,000 each had been paid as distress loans to 5 officers, whose basic salary was less than Rs.25,000 without a proper approval.	Distress loans to officers of the IBSL are paid based on the provisions of administrative manual. All employees are eligible to get a maximum amount of distress loan i.e. Rs.250,000/-. However, it is ensured that 60% of total deductions out of salary are in place while releasing the distress loan. This is paid from the inception of IBSL.
(c)	It had been indicated that Corporations and Statutory Boards can pay benefits only precisely approved by the Cabinet of Ministers, Ministry of Public Administration or the Treasury to their employees with the approval of the Boards of Control and the approval of the Treasury should be obtained for payments of additional allowances and incentives made without such authority, in terms of Public Enterprises Circular No.95 of 14 June 1994. Nevertheless, the Board had not taken action to prepare an incentive scheme and to obtain the approval thereon as informed by the Letter No. MF/2/4/IBSL/GEN of 29 December 2009 of the Deputy Secretary to the Treasury. However, the Board had paid sums of Rs.1,951,246 and Rs.1,754,948 as bonus from the year 2009 to 2012 and incentives in the years 2013 and 2014 respectively.	The Board has prepared a performance based incentive scheme and has sent the same to Ministry of Finance on 04/11/2014.  Further, the relevant amounts have been paid based on the consent of the Board.
<b>3.</b>	<b>Financial Review</b>	
<b>3.1</b>	<b>Financial Results</b>	
	According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.163,129 as compared with the corresponding surplus of Rs.148,207 for the preceding year, thus indicating an increase of Rs.14,922 or 10 per cent in the financial result of the year under review as compared with the preceding year. The increase in income by Rs.2,097,699 as compared with the increase in expenditure by Rs.2,082,977 had mainly attributed to	

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>3.2</b>	<b>Analytical Financial Review</b>	
	According to the financial statements the value of the current assets as at the end of the year under review amounted to Rs.2,195,085,644 and out of that 99 per cent or Rs.2,170,032,222 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. As such, the current assets ratio had been at a high level of 105:1.	
<b>4.</b>	<b>Operating Review</b>	
<b>4.1</b>	<b>Performance</b>	
(a)	The Board has the statutory powers to investigate a dispute in respect of a payment of insurance claims submitted by an insured with a view to protecting the connections of the Insurance Policy Holders and the future Insurance Policy Holders and the number of complaints so received to the Board in the year under review was 284. Out of that, investigations in respect of 157 complaints and 11 complaints made in the year 2013 had not been completed even by 07 April 2015, the date of audit and there were 75 delayed instances where 3 to 10 months had been taken to complete the investigation.	<p>The post of Director-Investigation had been vacant from March 2014 till the end of August 2014 and recruitment for the post of an Executive Investigation (which had been vacant for a considerable period) was done in December 2014. Hence a delay, in general, was occurred in conducting investigations on complaints during the period under review due to the lack of required human resources.</p> <p>The present status of the complaints received in 2013 and being investigated, is as follows:</p> <ul style="list-style-type: none"> <li>● 04 complaints – related to the educational qualifications of the agents and a delay has occurred in obtaining verification of examination results from the Department of Examination. It was informed by the Department of Examination that it will take a further month to respond, when queried on the status over telephone on 27.04.2015.</li> <li>● 04 complaints – further information, clarifications, and explanations in writing and relevant documentation had to be called from parties at several instances. Also, a considerable period of time had to be spent on studying and analyzing the submitted information and to obtain advice required to proceed ahead with the same. Nevertheless, necessary action will be taken to conclude/resolve the complaints without any further delay.</li> <li>● 01 complaint – awaiting written confirmation of an eye-witness of the accident. This eye-witness, who works at the Navy Camp in Trincomalee, has informed that the required information will be furnished once he returns home for vacation.</li> <li>● 01 complaint – awaiting written confirmation of an eye-witness of the accident. This eye-witness, who works at the Navy Camp in Trincomalee, has informed that the required information will be furnished once he returns home for vacation.</li> <li>● 01 complaint – is related to the damages caused to the company due to the incident happened at Rathupaswela. As advised by IBSL, an independent loss adjuster was appointed to study and verify the loss and it took more than a year to submit his reports. The matter was reviewed in March 2015 and the National Insurance Trust Fund (NITF) has agreed to determine the liability based on the opinion to be obtained from the Attorney General's Department.</li> </ul>

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
		<p>Various types of complaints with regard to insurance claims and policies are being referred to IBSL. The time taken to investigate such complaints depends on the nature of the complaint. For an example, complaints relating to the delay in settling a claim or non-receipt of the policy document may be concluded within a relatively short period of time. However, it is not possible to specify an exact time that will take to investigate complaints such as on rejection of claims or mis-selling of a policy. In addition, when calling information/opinion from third parties i.e. Department of Examinations, Sri Lanka Police and medical consultants, IBSL has no authority to require such parties to respond before a specific deadline and several telephone calls and written reminders had to be made, to obtain responses.</p> <p>It is assured that investigation on any matter is not unduly delayed, as the progress of all pending matters is being reviewed twice a month.</p> <p>Therefore, we are of the view that it is not fair to conclude, that the investigations have been delayed, purely based on time lapsed from the date of complaint without considering the facts specific to a complaint.</p>
<b>4.</b>	<b>Operating Review</b>	
<b>4.1</b>	<b>Performance</b>	
(b)	The Market Development and External Relations Division had been established with a view to improving the confidence on insurance through the protection of Insurance Policy Holders and making public awareness. Provisions amounting to Rs. 10,100,000 had been made for the purposes planned to implement by this Division during the year under review. The progress of those purposes was as follows.'	
(i)	Even though 10 awareness programmes had been held in the Divisional Secretariats with a view to improving the knowledge on insurance of the Government Representatives, only persons 13 of them had participated at the programme held in the District Secretariat, Colombo.	<p>The objective of conducting the programme at District Secretariat was to make aware the Divisional Secretaries who participate at the meeting held at District Secretariat. No other officers participate at such meetings.</p> <p>However, it was later decided to conduct the awareness programmes at Divisional Secretariat level only, after realizing the intended message to intended recipients could not be effectively delivered by conducting programmes at District level.</p>
(ii)	Even though it had been planned to hold 3 presentations at selected places where the public gathered during the year under review, the Board had failed to complete that purpose.'	It was planned to conduct 3 programmes at regional chambers for business community and 6 requests were sent to regional chambers requesting an opportunity to conduct same. However, the programmes could not be conducted in the absence of any response from chambers.
(iii)	Even though it had been planned to participate in exhibitions and street publicity activities carried out on main roads, the Board had participated only at the Dayata Kirula Exhibition in the year under review.	Requests / invitations had to be received in order to participate at exhibitions or road shows. No request or invitation was received during the year under review.

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>4.</b>	<b>Operating Review</b>	
<b>4.1</b>	<b>Performance</b>	
(iv)	No evidence was made available to ensure whether the Documentary media movement which had been planned to implement on an estimated value of Rs. 2,500,000 under the electronic media programmes had been implemented during the year.	<p>A documentary campaign is a production of a documentary under a selected theme and broadcasting same in a selected electronic media. To produce such a documentary in an audio-visual format requires a considerable cost, effort and time. Further, such documentary has to be produced in a manner to be able to broadcast several times in future.</p> <p>However, since the required draft bill to amend to the name of IBSL as 'Insurance Regulatory Commission of Sri Lanka' has been handed over to the Ministry of Finance, it was felt advisable to produce the documentary under the present name. Therefore, the documentary was not produced within the year as planned.</p>
(v)	Seven insurance policies introduced by 6 insurance companies in the year under review had been reviewed under the review of insurance products of companies with a view to improving the insurance policies for the well-being of insurance sector and policy holders. Even though a report with weaknesses existing in the insurance policies thereon with the proposed recommendations had been prepared and presented to the Director General of the Board on 19 November 2014, action had not been taken to notify the relevant Insurance Companies of the weaknesses shown by that report even by 08 April 2015, the date of audit.	As per Action Plan, the report (containing areas for improvement and recommendations with regard to health insurance policies) prepared by MDER Unit has to be submitted to the Board for approval. The report was referred for comments and suggestions of Director General, Directors and Assistant Directors, prior to submission for Board approval. Based on such comments and suggestions the report improved further is expected to be submitted for Board approval. Further, since the recommendations contained in it affect the insurance industry, the industry participants would also need to be consulted prior to implementation.
<b>4.1</b>	<b>Performance</b>	
(a)	The Board had suspended a private insurance company in the year 2009 and the Board had entered into a Memorandum of Understanding with the company to dispose of assets of that company for settling genuine insurance claims regularly submitted to that company in terms of Orders given by the Supreme Court in the Fundamental Rights Case bearing No. SC (FR) 191/09. Accordingly, the claimants had been informed by a newspaper announcement that their claims should be submitted in writing to the Board and out of 142 genuine claims so submitted, payments had not been made for any claim.	<p>Ceylinco Takaful limited (CTL) has handed over 142 claim files including 10 case files pending in the Court and 132 claim files to IBSL at the time the company was suspended.</p> <p>Following the Supreme Court Order given on the Fundamental Rights Case No. SC (FR) 191/09, a press notice was published requesting the claimants of CTL to forward their claims to the Board in writing, in order to identify the genuine insurance claims, and only three responses were received.</p> <p>Therefore, it was decided to write to all 142 claimants as the initial step, in order to make sure that all claimants have taken note of the press notice.</p> <p>Case Files</p> <p>Out of the 10 Cases pending in the Court, the Company was not a party in 03 Cases. Therefore, until the pending cases are concluded, IBSL is not in a position to settle such claims.</p> <p>Claim Files</p> <p>Out of the 132 claim files, letters were not sent to 65 claimants, due to the availability of signed discharge receipts. Letters were sent to the balance 67 claim files and the status is as follows:</p>

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
(b)		<ul style="list-style-type: none"> <li>● Returned letters :06</li> <li>● Not responded : 55</li> <li>● Responded : 06</li> </ul> <p>Out of the 06 responded letters, one claimant confirmed that there is no pending claim and therefore, only five claims are pending. Thus, there are altogether 8 unsettled claim requests including the 3 responses received following the press notice.</p> <p>As such, we need to confirm as to the no. of genuine claimants who are entitled to receive claims and the settlement claim amount, out of the balance 08 claimants. Since the available information in the claim files is not sufficient for such purpose, we have called for further information from the claimants. Therefore, IBSL is not in a position to settle any of the claim requests, until we receive such information and verify genuine claimants.</p> <p>Furthermore, there is only one director remaining in the Board of CTL and according to their Articles of Association the quorum of the Board of CTL is two. Therefore we have informed CTL to appoint a new Director with the approval of the Board of IBSL. However, the Company has failed to do so as at date.</p> <p>As such, it may take some time to conclude the matter, as it is necessary to resolve the above mentioned issues prior to obtaining a Court Order to dispose the assets of CTL or to take any other action in this regard.</p>
<b>4.2</b>	<b>Personnel Administration</b>	
(a)	Even though the approved posts of the Board as at 31st December 2014 had been 43, the actual number had been 41. As such, 03 vacancies and 01 excess post existed. Even though recruitments had been made for a post of KKS exceeding the cadre approved by the Department of Management Services, the approval obtained thereon had not been submitted to audit.	At present there is only one office aide for the whole office. Due to the urgency arisen to create a position of office assistant, person who served on contract basis for 3 years was appointed after getting the approval of the board following scheme of recruitment. Steps have been taken to obtain approval of the Ministry.
(b)	A Director had been appointed on contract basis on 26 December 2011 for the post of Director Supervision which is a permanent post and the Board had not taken action to recruit an Officer permanently.	Interviews were held for the relevant post after calling applications through a vacancy notice. However most experienced and highly educated officers have demanded for higher salaries. Mr. Ramanayake is the only person who agreed to acknowledge the said post for the salary proposed by the Board.
		It was required to recruit him for the permanent cadre, due to maximum age limit (50 years) he was recruited for two years on contract basis and it is necessary to retain him until the completion of recently commenced RBC and RBS Projects.

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
<b>4.2</b>	<b>Personnel Administration</b>	
(c)	Two Posts of Assistant Director had been vacant since 26 November 2007 and action had not been taken by the Board to recruit qualified officers even up to 20 May 2015, the date of audit.	<p>One vacancy out of two is allocated expecting to recruit an actuary to the Supervision Division there is a difficulty of recruiting such professional due to current salary structure of the Board.</p> <p>The other assistant director position is allocated for Market Development and External Relations unit and interviews were held after calling applications. However it was unable to select a suitable person.</p> <p>We believe that appointing an inappropriate person to fill a vacancy will be a huge loss to the institution.</p>
(d)	Action had not been taken to prepare a scheme of recruitment relating to each post and to obtain the approval of the Department of Management Services.	<p>The scheme of recruitment based on the cadre of the Board is included to administrative manual and submitted to the Secretary to the Treasury for approval.</p> <p>Recruitments have been carried out for the approved cadre positions after obtaining the approval from the Ministry of Finance.</p>
<b>4.3</b>	<b>Uneconomic Transactions</b>	
	The Board had paid a high cost totaling Rs. 23,862,930 in the year under review for 8,741 feet at the rate of Rs.214 per square foot of the World Trade Centre without taking action to maintain its Office with a minimum cost and a sum of Rs.383,160 had been paid as parking charges. As such, the Board had taken action to obtain money from the "Insurance Policyholders Protection Fund" as well to settle the expenditure which exceeded the income annually.	<p>This matter has been discussed at the previous audit reports and we have also responded for the same. Even though IBSL has tried its level best to find a suitable place to establish its secretariat it was unable to find a place at a lower rate than the presently paid rate for the space. We would be grateful if Ministry could intervene to provide us a proper solution for the same.</p> <p>Although, the Auditor General has raised the query in their draft reports for the years 2010 and 2011, they have removed this observation from the final report based on our explanations given for the same. Further this matter has not been noted in the minute of the last COPE meeting.</p> <p>As the Board do not have other practical solution for the parking facility, it has become essential to use parking facilities provided by the Overseas Realty PLC.</p>
<b>5.</b>	<b>Accountability and Good Governance</b>	
<b>5.1</b>	<b>Budgetary Control</b>	
	Variances ranging from 3 per cent to 100 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 management control.	We have taken necessary measures to prepare the Budget with minimum variances in the future.
<b>5.2</b>	<b>Unresolved Audit Paragraphs</b>	
	The following matters were observed in the implementation of directiveness given by the Committee on Public Enterprises held on 08 April 2014.	

	<b>Auditor General's Report</b>	<b>IBSL Responses</b>
(a)	Even though it had been directed that the present Management of the Board should inform the Treasury in writing and obtain instructions in respect of payment of two salary increments to 17 officers each thereof in the year 2010 and increase of salaries of all the officers by 25 per cent from July 2012 by the Board without an approval of the Treasury, the audit had been informed that only a letter including particulars thereon had been presented to the General Treasury	Information in relation to granting of more than one salary increments to staff has already been informed to the Treasury. In addition, COPE has ordered to Treasury to prepare a system in this respect.  As informed several times previously, staff was given 25% salary revision with the approval of the Treasury. We wish to inform that no order has been imposed by Committee On Public Enterprises (COPE) in this respect.
(b)	The Board had been directed that proper action should be taken in respect of obtaining anj insurance coverage to 33 officers of the Board and their family members by spending Rs.513,713 without an approval of the Treasury. Nevertheless, action had not been taken to obtain the approval of the Treasury thereon.	As mentioned in the current status of the information contained in the COPE meeting held on 08.04.2014 addressed to the Ministry, indoor medical insurance cover has been obtained for staff of IBSL and their family members after getting relevant approval from the Board.  We believe that this is not an allowance or a salary revision and accordingly the Board has authority to decide the same.
<b>6.</b>	<b>Systems and Controls</b>	
	Deficiencies in systems and controls 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) Accounting (b) Personnel Administration (c) Staff Loan Administration	After considering your advices due attention would be paid to the weaknesses identified areas.

# Appendix I

Insurance Companies Licensed as at 31st December 2014

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

# Appendix II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2014

No	Name of 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) Ltd.	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 & Re Insurance Brokers (Pvt) Ltd.	General Insurance
23	George Steuart Insurance Brokers (Pvt) Ltd.	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

## Appendix II Contd...

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

## Glossary Contd...

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.

### **Net Claims Ratio or Net Loss Ratio**

A formula used by insurers to relate net claims expenses to net earned premium (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 net earned premium 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**

An Insurance Company that assumes risks in return for insurance premium and has a direct contractual relationship with the holder of the insurance policy (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 a contract of reinsurance.

### **Reinsurance outwards**

The placing of risks under a 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.

## Glossary Contd...

### **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

## **OFFICE ADDRESS**

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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



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