



growing
on the path of excellence

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growing on the path of excellence

During the past years, our journey to be the benchmark insurance regulator in South Asia has seen the organization move to greater heights year on year. In this spirit of continuous improvement we have been able to forge a deeper appreciation of our roots that are firmly embedded in the protection of policyholders' and potential policyholders' interests.

We stand firm to unwaveringly maintain the stability, safety, fairness and efficiency of the insurance market through prudential supervision.

Concurrently we facilitate the development of the Insurance Industry through enabling regulations.

We will continue to nurture an environment that promotes public confidence and provide opportunities for the industry to branch out across the island and provide total coverage geographically and with financial inclusiveness.

vision

To be the benchmark Insurance
Regulator in South Asia

mission

To protect policyholders
through prudential regulation,
supervision and facilitation of the
development of the insurance
industry



highlights of the year

- 22 Insurance Companies
- 54 Insurance brokers
- 36,801 Insurance Agents
- Commencement of Road Test for RBC
- Increase in registration fee and annual fee paid by the insurers
- Solvency Margin (General & Long-Term) Rules further amended
- Insurance awareness reached 400 Grama Niladari Divisions

Performance of Insurance Industry

	2012	2011	Change %
Gross Written Premium (Rs. billions)	87.15	78.49	11.0
Total Assets (Rs. billions)	301.92	261.41	15.5
Penetration as a % of GDP	1.15	1.20	(4.2)
Insurance Density (Rs.)	4,287.28	3,761.11	14.0

Performance of the Board

	2012	2011	Change %
Policyholders' Protection Fund (Rs. billions)	1.62	1.28	26.6
Cess Income (Rs. millions)	236.53	216.84	9.1
Annual Fees (Rs. millions)	61.04	34.58	76.5



Rs. 301.92 Bn.

Total Assets of Insurance Industry

Rs. 87.15 Bn.

GWP of Insurance Industry

chairperson's message



It is with great pleasure that I convey my message with the presentation of the Annual Report of the Insurance Board of Sri Lanka (Board), the regulatory body for the insurance industry, for the year ended 31st December 2012.

As defined by the International Association of Insurance Supervisors (IAIS), "A sound regulatory and supervisory system is necessary for maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of policyholders, beneficiaries and claimants as well as contributing to the stability of the financial system".

Accordingly, one of the strategic objectives of the Board has been to ensure that the insurance industry operates in a fair and efficient manner, retaining the confidence of all stakeholders whilst being competitive.

Performance

During 2012, there were 21 insurance companies operating in Sri Lanka which are registered with the Board. Out of this, 3 companies are engaged in only long-term (Life) insurance business and 6 companies in only Non-Life insurance business. The balance 12 Companies are engaged with both Life and Non-Life insurance

businesses. The amendments introduced to the Regulation of the Insurance Industry (RII) Act, of 2011 requires these composite insurance companies to segregate into two separate entities by 2015.

The insurance supply chain is also represented by 54 insurance brokers and approximately 37,000 agents representing insurance companies. 11 Brokers were newly registered during 2012 and a few more applications are in the pipeline.

In 2012, although the insurance penetration was 1.2%, the overall Gross Written Premium (GWP) of the insurance industry recorded a growth

“Implementation of the Risk Based Capital (RBC) model was the biggest challenge we faced in 2012”

of 11.03% compared to the previous year.

The growth momentum in the long term insurance business somewhat declined in 2011 but was gradually increasing in absolute terms in 2012, mainly due to rising insurance awareness levels through extensive awareness raising programs conducted by the Board as well as the industry.

The insurance sector, as a whole, accounted for about 3% of the total assets of the financial sector. However, in an overall sense, the upward trend in the growth trajectory of the insurance industry is satisfactory.

Challenges

There are numerous challenges before the Board in implementing certain decisions as well as legal requirements. The amendments that were introduced to the RII Act in 2011 included the requirement for composite insurance companies to segregate into two separate entities by 2015 and for insurance companies to be listed in a Stock Exchange approved by the Securities and Exchange Commission of Sri Lanka (SEC) by 2016.

Segregation and Listing are two different aspects but interconnected particularly for composite companies. A sufficient timeframe was provided for companies to follow the procedures, i.e. 4 years for segregation and 5 years for listing.

Out of the 12 composite companies, a few have found it challenging to keep the transition smooth and effective. The process of segregation may seem complex in terms of tax implications, asset transfers, asset valuation, etc. The Board has taken all necessary steps to resolve these issues and is awaiting approval from the Ministry of Finance and Planning. As the regulator, the Board is much

concerned about the transparency of the capital structure and balance sheets of the companies, which have a direct impact on policyholders.

The finalization of rules relating to the appointment of institutional agents is another matter for which the consensus of all stakeholders could not be easily obtained. By permitting institutions to act as agents, the Board formalized what was already prevailing in the industry. After much debate, the Board was able to finalize the rules, which will soon be gazetted with the concurrence of the Legal Draftsman.

Implementation of the Risk Based Capital (RBC) model was the biggest challenge we faced in 2012. As planned in the previous year, the road test commenced during 2012 and 18 insurance companies participated. It is intended to complete the road test in mid 2013 and based on the outcomes of it, the Draft Rule will be finalized.

Way Forward

The Board will be moving from a rules-based supervisory system to a risk-based supervisory system for industry supervision, allowing the local industry to be more consistent with the international best practices. In order to strengthen the capacity of the Board in this regard, a project funded by FIRST Initiative through the World Bank has been finalized.

We will continue implementing the awareness raising programs island-wide aimed at enhancing awareness on insurance among general public. From the numerous complaints we receive, it is evident that the policyholders are becoming increasingly informed and pay attention to the main conditions of the product they purchase.

We have also identified the need to increase awareness of the public on the role of the insurance regulator. Many misconceptions prevail in terms

of what the Insurance Board is, despite our numerous promotion programs through printed and electronic media and national exhibitions. The Board therefore, will take some remedial measures to give a unique identity to the insurance regulator in due course.

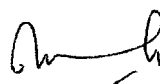
The insurance industry, like other components of the financial system, is changing in response to a wide range of socio-economic forces and global trends. In order to cope with these developments, the Regulatory systems and practices must be continuously upgraded. We are in the process of identifying new areas which are not covered by the Act and will not hesitate to bring further amendments to the RII Act.

Conclusion

Undoubtedly, there is a huge growth potential for the insurance industry in Sri Lanka. Even though the market is growing steadily, the penetration level remains low. The industry must seize this opportunity to grow the market further.

In conclusion, I wish to thank the Secretary, Ministry of Finance & Planning for his unstinted guidance and support and the Board Members for their valuable contribution. I also take this opportunity to thank the industry stakeholders for the co-operation extended to the Board.

Finally, I convey my sincere appreciation to the dedicated team led by the Director General and Directors of the Insurance Board for their commitment and strong partnership in all activities throughout the year.



Indrani Sugathadasa

Chairperson
07 August 2013

director general's review



In the pursuit of overall excellence we were able to move up yet another level, building on previous years achievements.

On our journey to be the benchmark insurance regulator in South Asia, the Board embarked on an intense process of introspection during 2012. With the objective of further improving existing culture, processes and shaping the working environment, internal cross-functional project teams, comprising all the members of staff, examined the core values he or she personally brings to his or her work and discovered a deeper more enduring purpose that goes beyond the original founding concept.

We were successful in formulating the strategic pyramid for the Board with a new Vision and Mission for the Organization. The strategic pyramid will provide focus to the Board's initiatives in furtherance of achieving immediate goals as well as launching initiatives to realize mid to long term objectives. Moreover, the strategic pyramid will also enable alignment and full line of sight of individual Key Result Areas (KRAs), functional objectives, and the IBSL Mission in order to achieve our audacious new Vision.

Human resource being the foundation of a successful organization, a winning culture and an *esprit de corps* at the

Board has been reaffirmed, and during the year under review, further steps were taken for capacity building of staff through domestic and international training, underpinned by our primary objective to have skilled motivated employees working effectively and efficiently in a winning culture.

Installation of new IT tools and systems and introduction of processes for effective work management such as the Divisional dashboards at the Board have led to increase in productivity. Introduction of a revised manual of procedure for the administration of the Board, a manual for onsite supervision of insurance companies and intermediaries and a manual for

“ Human resource being the foundation of a successful organization, a winning culture and an *esprit de corps* at the Board has been reaffirmed ”

complaints resolution are all work in progress which are expected to be completed by 2013, further enhancing the Board's efficiency and effectiveness.

A fair, safe and stable environment

It is the Board's priority to ensure an environment that promotes public confidence and the development of the insurance industry. Feedback received has indicated the lack of public awareness of the Board and insurance. During 2011, the Board analyzed the types of complaints received and prioritised 3 key areas: explanation of the salient features of a proposal form, the importance of disclosing all material facts when completing a proposal form and the fundamentals to be aware of when purchasing an insurance policy. An associated issue was the lack of public awareness to whom complaints should be directed.

Accordingly, the main focus of the Board's outreach campaign during 2012 was to enhance public awareness on the role and function of the Board, the importance of insurance and explain the nuances of insurance, through groups that interact with the rural community.

The importance of improving the confidence of policy holders and the general public in order to facilitate the growth of the insurance industry is well recognised and the Board investigated 274 complaints and resolved 262 during the year under review.

Whilst the need to safeguard the interests of policy holders and potential policy holders is paramount, the Board also has a responsibility to facilitate the development of the insurance industry, which in turn will support the growth of the economy.

Enabling regulation facilitates the growth of the industry and a few examples of such regulatory reforms during 2012 were the Amendment to the Solvency Margin Rules that recognized asset backed securities issued by a company listed on a Stock Exchange and carrying an investment grade rating to the instrument as admissible assets for the purpose of determining solvency margin, recognition of institutional agents, and expansion of the recognition of Credit Rating Agencies. The reforms introduced in 2012 have further strengthened the regulatory framework that the industry operates in with a view to providing a fair, safe, stable and efficient environment for a sustainable insurance industry in Sri Lanka.

In support of the Board's initiatives, the industry has given the assurance that innovative products will be introduced into the future and a broader product portfolio will cover critical segments, for example, pension products and health insurance policies, and policy documents will be tri-lingual, more user-friendly and not have details buried in the fine print.

The steps we have taken during the past 3 years to transform the rules-based supervisory system to a risk-based supervisory system have seen tangible results in the introduction of the framework for Risk Based Capital (RBC) in Sri Lanka issued as a Draft Rule in May 2012. Commencement of the Road Test for RBC commenced in the 3rd quarter and by year end two quarters of RBC data had been collated for analysis by the Board. This data together with the first and second quarter data for 2013 will enable the fine tuning of the Final Rule for RBC prior to its full implementation.

Industry performance

Despite the ongoing Eurozone crisis in the aftermath of the global financial crisis, and adverse weather conditions prevailing in Sri Lanka, the overall Gross Written Premium (GWP) of the industry grew by 11.03%, with General Insurance growing by 14.67% and Long Term Insurance growing by 6.56% reflecting the continued economic growth in the country during the same period (2012 saw GDP growth of 6.4% in Sri Lanka). In comparison, growth for the global primary insurance market was on average only 1% during the same period.

With reopening of commercial access to the North and East after the end of hostilities and terrorism, insurance concentration should spread from the Western Province to the other parts of the island. Almost

director general's review

40% of registered insurance agents are located in the Western Province and insurance brokers are hardly represented in any of the Provinces outside the Western Province. Out of the 54 companies registered as Insurance Brokers during the year under review, 38 registered to carry on both Life and General Insurance Business and 16 registered to carry on General Insurance Business. With the formal recognition of bancassurance and institutional agents from 2013, there is further opportunity for the industry to expand their networks to cover a larger segment of society and increase penetration. This current lack of insurance intermediaries across the country affects awareness of insurance and penetration, posing a challenge to the insurance industry to fuel growth by geographical expansion.

Although insurance density increased by almost 14% during 2012 at US\$33 was far below the average for Asian countries at US\$314. Insurance penetration remains low and an opportunity for the insurance sector to grow further. Overall insurance penetration at 1.2% is one of the lowest in the region with the average level of penetration in Asia at 5.8% indicating that there is a lot of scope for expansion.

The total assets of the insurance sector grew by 15.49% during the year under review and it is indeed noteworthy that this is almost double the value in 2008. The average growth of total assets of insurance companies for the past 5 years has been 17%. Despite this phenomenal growth year on year, when comparing the distribution of total assets of major financial institutions in Sri Lanka, the insurance sector accounts for only 3.3% of total assets recorded. This again indicates that there is a long way to go to achieve full potential and a lot

more room to grow for the insurance industry in Sri Lanka.

These opportunities have been recognized by local and foreign investors in the increase in investment activity in the equity of insurance companies during 2012 and expansion of insurance companies' branch networks across the island.

Looking forward

Macroeconomic indicators remaining the same and based on current market trends the future augurs well for the insurance industry.

In 2013 we are planning to conclude the Road Test for RBC and take further steps towards drafting a Final Rule by fine tuning the Draft Final Rule. Key deliverables of other initiatives planned for 2013 are the publication of a Handbook of Insurance Statistics, further training on RBC for staff of the Board and industry participants, a new revamped website incorporating new technology to enable online access for policyholders to submit complaints and feedback, and the submission of documents in electronic format by the industry. These developments will also result in the increase in modes of access to the Board and enable consumers and companies to provide information and disclosure with less paperwork.

Another key project which will commence in 2013 moving the Board to yet a higher level of prudential supervision will be the further enhancement of existing systems to firmly establish an effective supervisory framework to monitor the stability of the insurance industry in Sri Lanka. The aim of this project will be to strengthen the supervisory function of the Board through the implementation of a "risk-based" supervisory framework and further enhancement of the Board's supervisory capacity.

One of the major challenges that the insurance sector faces is the lack of homegrown Actuarial expertise. This is a global issue that has been discussed at many forums across the region and an area that needs to be addressed in the coming years, especially in light of the forthcoming introduction of RBC in 2016.

Insurance is largely seen as a push product, i.e., it is sold but not bought. Free health care and education systems in Sri Lanka, and a well entrenched tradition of reciprocal duty of care between parent and child extending to caring for parents until their demise, has led to insurance being given lesser priority. However, contemporary trends have shown an increasing need for health cover through insurance products and a dire need for the introduction of more retirement and pension products. An expanded and segmented product portfolio to address different income levels would also support financial inclusivity in Sri Lanka.

Another challenge for the industry is that insurance is perceived by the public only as a risk management tool. With increased confidence in the insurance sector combined with a wide portfolio of products that meet the needs of consumers and enhanced awareness of the importance of insurance, it should be possible for the industry to harness public interest in insurance as a financial tool.

Conclusion

Public awareness and understanding alone will not be sufficient to deliver sustainable growth. Public confidence in insurance coupled with affordable premiums in an environment where there is increasing disposable income will increase up-take and increase penetration. Growth in the insurance

director general's review

sector leading to increased profits for insurers should also translate to increase in payouts to participating policy holders which would theoretically increase disposable income to be ploughed back into the industry.

A fast growing industry with low-level penetration and low density in a growing economy indicates that there is vast potential to accelerate growth with a wider distribution geographically and across the social strata in furtherance of financial inclusiveness. It is up to the industry to seize these opportunities and shape the environment for a sustainable future.

I wish to thank the Chairperson and Members of the Board for their guidance and unwavering support throughout the year. The Chairperson has provided mentoring to the senior management of the Board and we are collectively and individually grateful for her insight and intuitive leadership. My appreciation is also extended to the Presidents and office bearers of the IASL, SLIBA and SLII for the cooperation extended to the Board forming an industry nucleus as the driver of sustainable growth of the insurance industry in Sri Lanka. We were able to take such bold strides during 2012 due to the commitment and *esprit de corps* that exists at the Board and I thank my team of Directors and staff for their high degree of professionalism and relentless pursuit of excellence.

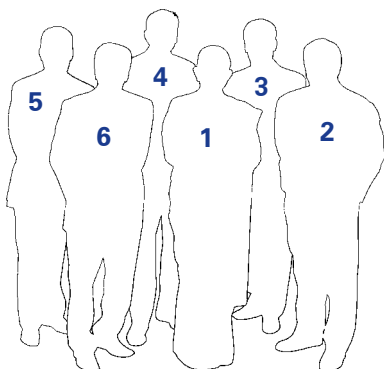


Chandri Gunawardhana

Director General

07 August 2013

members of the board



1. Mrs. Indrani Sugathadasa

Chairperson

2. Mr. G. Gunawardhana

Member

3. Mr. B.D.W. Ananda Silva

Member

4. Mr. S.R. Attygalle

Member

5. Mr. Gamini Kohona

Member

**6. Mr. Mohamed Nawaz
Rajabdeen**

Member

profiles of members of the board

Mrs. Indrani Sugathadasa has been the Chairperson of the Board since May 2010. Mrs. Sugathadasa, a product of Musaeus College, Colombo holds a Bachelor of Social Sciences degree from the University of Colombo and Masters Degree (MPA/MBA) from Monash University, Melbourne, Australia. She has also been awarded the prestigious Hubert H. Humphrey Fellowship (Fulbright) by the United States Government in 1990 and was attached to Hunter College, City University of New York during the one-year Fellowship period.

She has received professional training in Computer Science, Personnel Management and Public Service Management.

Mrs. Sugathadasa joined the Sri Lanka Administrative Service (SLAS) in 1977 and commenced her professional career as an Assistant Secretary to the Ministry of Plan Implementation and rose to the highest level in the administrative hierarchy.

During her tenure in the mainstream public sector, Mrs. Sugathadasa has held senior positions such as Director, National Youth Service Council, Director, Women's Bureau of Sri Lanka, Chairperson, National Institute of Plantation Management and Permanent Secretary to the Ministry of Child Development and Women's Empowerment.

She retired as the Permanent Secretary, Ministry of Plantation Industries in 2010 after having served the public sector for over three decades. After retirement, she was appointed as the Chairperson of both the Insurance Board of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC). She served in the SEC until December 2011.

In addition to various Seminars and Conferences that Mrs. Sugathadasa has attended nationally and internationally, she had been a Member of several Sri Lanka Delegations to foreign States and International Forums.

Mr. G. Gunawardhana was appointed to the Board in May 2010. He was the former Chairman of the Exporters Association, Sri Lanka Taiwan Friendship Association and former Director of the American Chamber of Commerce. He was also a Board Member of the Securities and Exchange Commission of Sri Lanka.

Currently he serves as the Chairman of several organizations and private companies. He was adjudged the "Entrepreneur of the Year" in 1999/2000 and was the recipient of the Gold Award for Exports for the Extra Large Category for many years.

He was also adjudged the "Best Governor in the World" at the Boston Academy Awards function in 2006.

Mr. Gunawardhana was educated at Thurstan College and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician thereafter. He subsequently served in the Police Department for 12 years. He was the founder Chairman of Hands International (Pvt) Ltd. a leading manufacturer and exporter of industrial gloves to the world.

Mr. B. D. W. Ananda Silva has been in the Central Bank for 28 years and has worked in Development Finance Department, Economic Research Department and Bank Supervision Department. In his 28 year career in the Central Bank, Mr. Silva has

acquired wide experience in the areas of monetary policy, bank supervision, financial system stability, exchange rate policy, external trade and balance of payments. He holds a B.Sc. First Class Degree from the University of Jaffna and M.A Degree from University of IOWA, USA and M.Sc. Degree from University of Illinois, USA. He has been a visiting lecturer at the University of Colombo and a resource person for several high level courses conducted by the Central Bank.

Mr. Silva currently serves as the Chairman of Credit Information Bureau of Sri Lanka, Chairman of Institute of Bankers of Sri Lanka, Director of Securities and Exchange Commission and Director of Api Venuven Api Fund.

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

He is presently a Deputy Secretary to the Treasury. He is also serving as a Director to the Board of Bank of Ceylon and Sri Lanka Ports Authority. He is a member on the Board of Postgraduate Institute of Science, University of Peradeniya and a member of Superior Courts Complex Management Board.

Mr. Attygalle holds a Bachelor of Science (B.Sc.) Degree in Mathematics from the University of Colombo and a Masters Degree in Economics from Warwick University, United Kingdom.

Profiles of Members of the Board

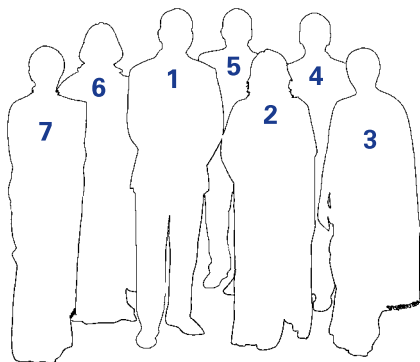
Mr. Gamini Kohona was appointed to the Board in July 2010. Mr. Kohona who was educated at St. Thomas' College, Mt. Lavinia, has had an illustrious career in plantation sector with over 30 years experience in plantation management in Tea, Rubber, Coconut and Oil Palm. He was the former Chief Executive Officer of Central Hills Plantation and currently serves as the Managing Director of Pulatisi Exports (Pvt) Ltd.

Mr. Mohamed Nawaz Rajabdeen was appointed to the Board in July 2010. Mr. Rajabdeen's expertise has been in the areas of Marketing and Customer Relations.

He has formerly held several distinguished positions such as the Chairman of Hotel Developers (Pvt) Ltd, President of Federation of Chambers of Commerce and Industry of Sri Lanka, Vice President of SAARC Chamber of Commerce, President of Chamber of Construction Industry in Sri Lanka, National Director of United Nations Industrial Development Organization and the Vice President of World Assembly of Small and Medium Enterprises.

Mr. Rajabdeen is currently a Director of Export Development Board and Chairman and Managing Director of Rajabdeen Group of Companies since 1984.

senior management team



1. Mr. Chandri Gunawardhana
(Director General)

2. Mrs. Damayanthi Fernando
(Director Legal)

3. Mrs. Chaya Vithanawasam
(Director Finance and Administration)

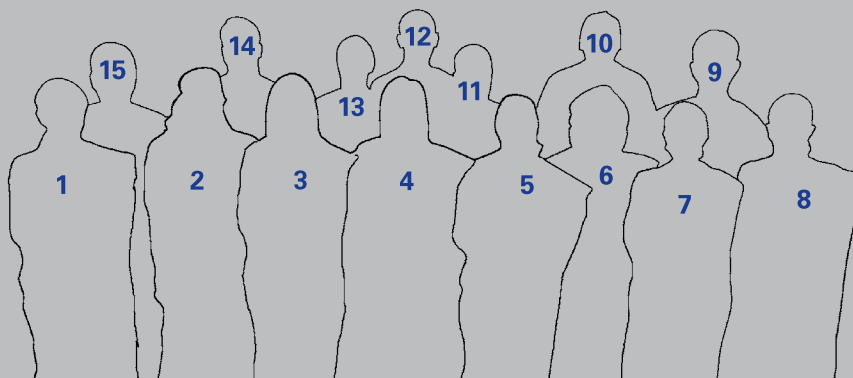
4. Mr. Nihal Ramanayake
(Director Supervision)

5. Mr. Rajan Nirubasingham
(Assistant Director Legal)

6. Mrs. Chamarie Ekanayake
(Assistant Director Supervision)

7. Mrs. Thamari Senanayake
(Director Investigation)

staff members

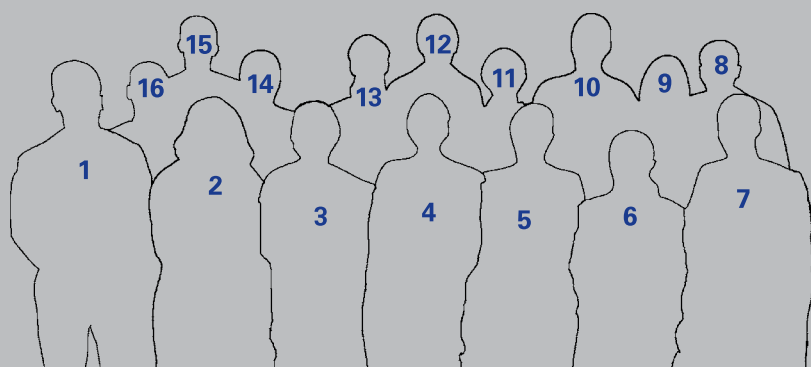


Front Row

- 1 Mrs. Thanuja Antoney
- 2 Mrs. Shyamalie Attanayake
- 3 Mrs. Lakmali Algama
- 4 Mrs. Chandima Kamburugamuwa
- 5 Mrs. Kokila Siriwardana
- 6 Mrs. Merina Dias
- 7 Miss. Priyangi de Silva
- 8 Mrs. Veena Dineka

Back Row

- 9 Mr. Kapila Thilakarathne
- 10 Mr. Ethirraj Srikanthan
- 11 Mrs. Chathuri Bandara
- 12 Mr. Bimsara Wijesinghe
- 13 Mrs. Upendra Senevirathna
- 14 Mr. H P Asanka
- 15 Mr. Harshana Wanniarachchi



Front Row

- 1 Mr. Sanath Udayanga
- 2 Mrs. Decika Rathnayake
- 3 Mrs. Pavithra Punchihewa
- 4 Miss. Thushari Wijegunawardana
- 5 Mrs. Ruvini Liyanage
- 6 Mrs. D W S S Supulee
- 7 Mrs. Lasanthi Thotahewa

Back Row

- 8 Mr. D S K Senadeera
- 9 Mrs. Kaushali Dayaratne
- 10 Mr. Charitha Wickramasinghe
- 11 Mrs. Sarika Wattuhewa
- 12 Mr. Luxman Wijesinghe
- 13 Mrs. Malhari Wickramasinghe
- 14 Mrs. Sujeewa Ranasinghe
- 15 Mr. Lakmal Kalubowila
- 16 Mr. M Chaminda Lal Kumara



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general review

Administration of the Act

Legislation

The Board was established with effect from 1st March 2001 by promulgation of the Regulation of Insurance Industry Act, No. 43 of 2000 ("Act") to regulate, supervise and develop the insurance sector in Sri Lanka. The object and responsibility of the Board is to ensure that insurance business in Sri Lanka is transacted with integrity and in a professional and prudent manner with a view to safeguarding the interests of policyholders and potential policyholders.

The Act provides the relevant legal framework for the regulation and supervision of insurers and insurance intermediaries (insurance brokers and insurance agents).

Prior to the promulgation of the Act, the insurance industry was regulated by the Controller of Insurance acting under the powers vested by the Control of Insurance Act, No. 25 of 1962. This Act was repealed with the introduction of the Act.

Several amendments were incorporated into the Act and subordinate legislation made under the Act from time to time to strengthen the insurance industry. Legal reforms during the year are described in the Regulatory Review of this report.

Market Structure

Insurers

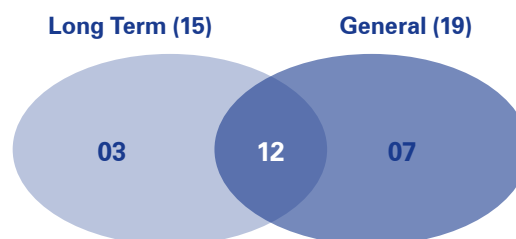
In terms of Section 13 of the Act, a person interested in engaging in insurance business in Sri Lanka should incorporate a public company under the Companies Act, No. 7 of 2007 and register as an insurer under the Act after having fulfilled all statutory requirements specified in the Act. 22 companies are registered as insurers

under the Act as at the end of the year. However, only 21 companies are in operation and the suspension of registration imposed on Ceylinco Takaful Limited continues from 2009. Chart 1 depicts the classes of insurance business companies are registered to carry on. Out of the 22 companies, 12 companies are

registered as composite insurers, carrying on both long term insurance business and general insurance business, 3 companies are registered to carry on long term insurance business and 7 companies are registered to carry on general insurance business.

Chart 1

Classes of Insurance Business Carried on by Insurers



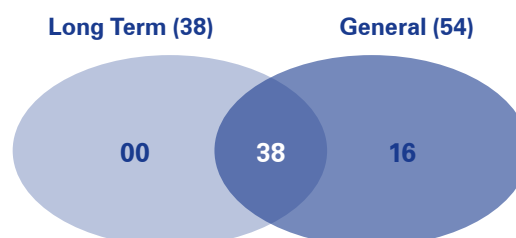
Insurance Brokers

An insurance broker is a company incorporated under the Companies Act, No. 07 of 2007 and registered under the Act in order to carry out 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 insurer or reinsurance company, in expectation of a payment by way of brokerage or commission.

At the end of the year, there were 54 companies registered as insurance brokers. Out of the said companies, 38 companies were registered in both long term and general insurance brokering business while 16 companies were registered only in general insurance brokering business. Chart 2 depicts the classes of insurance brokering business insurance brokers carry on.

Chart 2

Classes of Insurance Brokering Business Carried on by Insurance Brokers



general review

Insurance Agents

An individual registered as an insurance agent with an insurer or an insurance broker under the Act and who in consideration of a commission solicits or procures insurance business for such insurer or insurance broker. Qualifications for registration have been specified by the Board.

The Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 ("Amendment Act") permits persons other than individuals to function as insurance agents.

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

As per information given by insurers, the total number of individuals recruited as insurance agents during the year was around 12,604.

Total number of insurance agents representing insurers as at the end of year was around 36,801. Chart 3 depicts insurance agents registered with insurance companies.

Company Status and Changes in Capital

Out of the insurers, 07 companies are listed on the Colombo Stock Exchange namely, Ceylinco Insurance PLC, AIA Insurance Lanka PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC and Janashakthi Insurance PLC. Chart 4 depicts the percentage of listed and non-listed insurers.

The Amendment Act requires an existing insurer to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka

Chart 3

Insurance agents registered with insurers

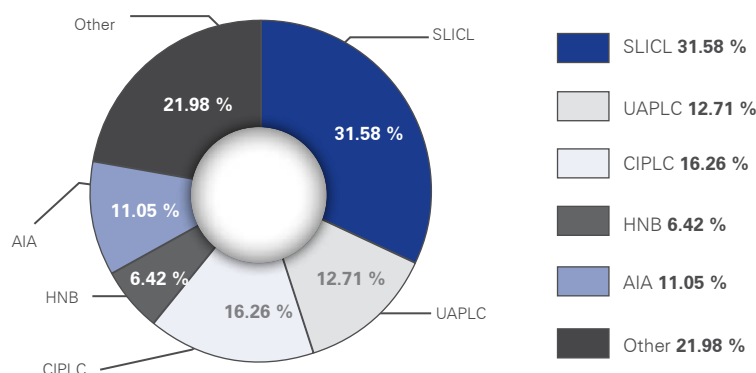
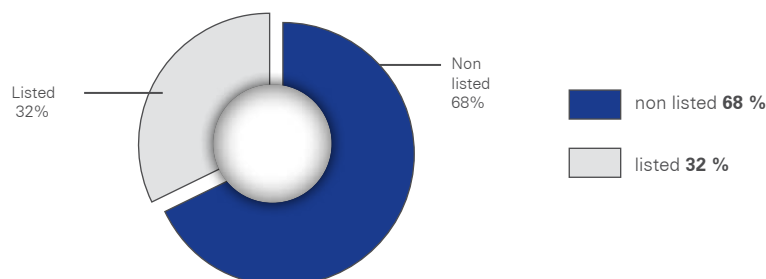


Chart 4

Status on 'listed/non listed' insurers



Act, No. 36 of 1987 within a period of five years from the date of operation of the Amendment Act. Composite insurance companies would therefore, have to segregate its business into two separate companies within a period of four years from the date of operation of the Amendment Act prior to obtaining a listing.

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

A new company registered as an insurer after the Amendment Act came into effect is required to be listed on a stock

exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 within a period of three years of being issued a licence by the Board.

The paid up share capital of a company registered as an insurer prior to June 2011 has been required to be increased by the Board to a minimum of rupees Five Hundred Million, for each class of insurance business on or before 11th February 2015.

In the case of insurance brokers, the Board has required a company registered as an insurance broker to have a paid up share capital of not less than rupees Two

general review

Million Five Hundred Thousand on or before 31st December 2014.

The Board is also in the process of introducing the Risk Based Capital Rules for insurers.

Foreign equity participation in insurance companies has been permitted up to 100% in terms of the Gazette Notification No. 1232/14 published by the Controller of Exchange in April 2002.

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 2012 was Rs. 237 mn. Table 1 depicts the movement of the Cess and the Policyholders' Protection Fund.

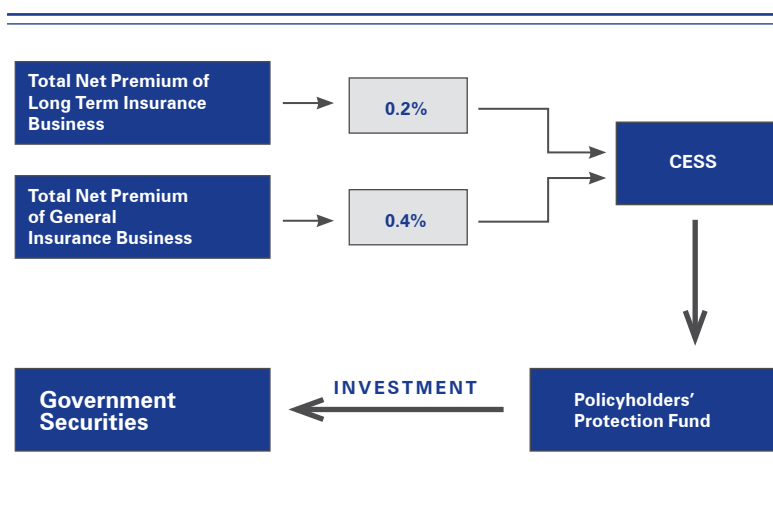
Policyholders' Protection Fund

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,

Table 1

Cess and the Policyholders' Protection Fund



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 2012 is Rs.1,622 million, a 26.81% increase from the previous year (Rs. 1,279 million).

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.

Overseas Insurance - Travel, Health and Liability Insurance

In terms of Section 101 of the Act, the Board has granted approval to any person in Sri Lanka to place directly or indirectly health and travel insurance with an insurer licensed or registered

overseas, even if such insurer is not registered in Sri Lanka under the Act. Further, approval was granted to registered insurers to obtain liability insurance cover for their directors and employees in respect of liabilities arising from the discharge of their duties from an insurer licensed or registered overseas, even if such insurer is not registered in Sri Lanka under the Act, provided that any proceeds on such covers payable to a resident party for any claim will be brought into the country in foreign currency.

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.

general review

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 said 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 was established in 1989 and every insurer registered under the Act is eligible for membership. All insurers other than NITF are members of IASL.

The Executive Committee of IASL which comprises of CEOs of all insurance companies is responsible for the overall management of Association activities, and is assisted by the following committees which make recommendations to the Executive Committee on subjects relating to their respective areas :

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

The main objectives of IASL are to:-

1. Bring together all insurers in order to afford opportunities for consultation and co-operation in matters affecting the common interests and welfare of its members and the insuring public.
2. Promote and maintain uniform / sound practices and high ethical standards so as to develop confidence among the insuring public.
3. Build awareness regarding the need and value of insurance among the public.

4. Monitor legislative / regulatory requirements and make representations to the relevant authorities in order to ensure stability and growth in the industry.
5. Review and examine insurance practices and techniques in other countries and adopt best practices as applicable to the Sri Lankan market.
6. Encourage, actively assist and promote professionalism in the insurance industry through education and training by organizing and conducting classes, conferences, seminars, forums, consultations, workshops and meetings.

Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association 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.

general review

Sri Lanka Insurance Institute (SLII)

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

The main objectives of SLII are :-

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

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

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

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

SLII is affiliated to the Chartered Insurance Institute of London and administers the examinations of professional bodies

such as the Chartered Insurance Institute in London, Insurance Institute in India and the Actuarial Society of India. The Institute conducts short term diploma courses in insurance for persons employed in the insurance industry.

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

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors, 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

Overall Performance of the Insurance Industry

Year 2012 was another positive year for the Sri Lankan insurance industry which recorded growth in Gross Written Premium (GWP) of both long term and general insurance business sectors. As reflected in Table 1, total composite GWP of the insurance industry for 2012 was Rs. 87,152 million (2011: Rs. 78,491 million) which posted a growth rate of 11.03% compared to the previous year. Although grown at a reduced pace compared to 2011, the increase in premium income during 2012 was supported by the overall improvement in macroeconomic conditions, increased disposable income and increasing awareness of the general public on insurance products which propelled demand for both long term and general insurance products. Adverse weather conditions such as drought and floods hindered the agricultural production of the country whilst the

global economy remained challenging during 2012 especially due to Euro Zone crisis and sanctions imposed on Iran. Despite all these factors the Sri Lankan Insurance Industry has grown during 2012.

GWP generated from long term insurance business in 2012 amounted to Rs. 37,469 million (2011: Rs. 35,162 million) posting a growth rate of 6.56% over 2011. GWP of general insurance business amounted Rs. 49,683 million in 2012 (2011: Rs. 43,329 million) and recorded a significant growth rate of 14.67% when compared to 2011. In 2012, GWP of long term insurance business accounted for 42.99% of total GWP (2011: 44.8%) whilst general insurance business accounted for 57.01% (2011: 55.20%) of total GWP. As confirmed by insurance companies, SRCC & TC premium in respect of general insurance business in 2012 amounted to Rs. 2,250 million (2011: Rs. 1,950 million) and therefore GWP inclusive of SRCC & TC amounted to Rs. 51,933 million (2011: Rs. 45,279 million).

Insurance density which represents the premium income per person of the population has increased to Rs. 4,287.28 in 2012 from Rs. 3,761.11 recorded in 2011, growing by 13.99% mainly due to increased premium income and marginal decline in mid-year population recorded in 2012. Penetration of total insurance premium as a percentage of Gross Domestic Product (GDP) was 1.15% in 2012 indicating a decrease when compared to the penetration level of 1.20% recorded for 2011. Penetration levels recorded for long term and general insurance businesses in 2012 had amounted to 0.49% (2011: 0.54%) and 0.66% (2011: 0.66%) respectively reflecting a lower penetration level for long term insurance business when compared to 2011. However general insurance business has continued to maintain the same penetration level that was recorded in 2011. Lower growth rate of GWP vs. higher growth rate of GDP witnessed during 2012 was the main contributor to the decline in the penetration level.

Table 1
Premium Income and Penetration

	2008	2009	2010	2011(a)	2012(b)
Long Term Insurance (Rs. millions)	23,613	24,005	31,152	35,162	37,469
General Insurance (Rs. millions)	34,558	33,548	35,101	43,329	49,683
Total Premium Income (Rs. millions)	58,171	57,553	66,253	78,491	87,152
Growth Rate in Total Premium (%)	12.10	(1.06)	15.12	18.47	11.03
Gross Domestic Product (Rs. billions)*	4,411	4,835	5,604	6,544	7,582
GDP Growth Rate (%)*	6.0	3.5	8.0	8.2	6.4
Penetration % (Total Industry Premium as % of GDP)	1.32	1.19	1.18	1.20	1.15
Penetration % (Premium of Long Term Insurance Business as % of GDP)	0.54	0.50	0.56	0.54	0.49
Penetration % (Premium of General Insurance Business as % of GDP)	0.78	0.69	0.63	0.66	0.66
Insurance Density (Total Industry Premium Income/Population) (Rs.)	2,877.33	2,814.33	3,207.91	3,761.11	4,287.28
Mid Year Population ('000)*	20,217	20,450	20,653	20,869	20,328

* Source: Central Bank of Sri Lanka Annual Report - 2012

(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 2012.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials from year 2010 and relevant information for the year ended 31st December 2012.

statistical review

Total Assets of Insurance Companies

Similar to previous years, the total assets of insurance companies continued to grow during 2012 and were recorded as Rs. 301,917 million as at 31st December 2012 (2011: Rs. 261,412 million). This was an increase of 15.49% compared

to the previous year. It is noteworthy that total assets belonging to insurance companies have almost doubled during the past five years as depicted in Table 2.

As reflected in Table 2, assets of long term insurance business were Rs. 182,826 million as at 31st December

2012 (2011: Rs. 165,519 million) recording a growth of 10.46%. Assets pertaining to general insurance business and shareholders were recorded as Rs. 124,209 million as at 31st December 2012 (2011: Rs. 100,192 million) growing by a significantly high rate of 23.97% during 2012 when compared to 2011.

Table 2
Assets of Insurance Companies

	2008	2009	2010	2011(a)	2012(b)
Long Term Insurance (Rs. millions)	97,730	118,305	139,647	165,519	182,826
General Insurance & Shareholders (Rs. millions)	58,263	62,740	82,450	100,192	124,209
Total	155,993	181,045	*219,102	*261,412	*301,917

**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:

1. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
2. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.
3. Assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business.

Distribution of Assets

Table 3 analyses the distribution of assets among insurance companies as at 31st December 2012 under long term insurance and general insurance/ shareholders segments. Total assets of insurance companies as at 31st December 2012 amounted to Rs. 301,917 million (2011: Rs. 261,412 million) after eliminating inter-segment asset balance of Rs. 5,118 million. SLIC owned 39.79%

of total assets of insurance companies by recording assets worth of Rs. 120,143 million (2011: Rs. 102,179 million) and became the largest owner of assets among insurance companies similar to 2011. Ceylinco and AIA became the second and third largest owners of assets by recording assets worth of Rs. 66,953 million (22.18%) and Rs. 40,947 million (13.56%) respectively. UAL and Janashakthi accounted for 8.50% and

5.25% of total assets and claimed fourth and fifth places in terms of asset ownership in the insurance industry. It is interesting to note that 89.28% (2011: 89.88%) of total assets of insurance companies are concentrated among top five companies while the balance 10.72% of assets is owned by the other fifteen companies. Chart 1 depicts the company wise analysis of concentration of assets as at 31st December 2012.

statistical review

Table 3
Company-wise analysis of Total Assets

Insurer	Distribution of Assets									
	2011(a)					2012(b)				
	Long Term Insurance (Rs.'000)	General Insurance/ Shareholders (Rs.'000)	Intersegment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%	Long Term Insurance (Rs.'000)	General Insurance/ Shareholders (Rs.'000)	Intersegment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%
AIA	30,037,867	7,073,863	-	37,111,730	14.20	33,250,987	7,695,830	189	40,946,628	13.56
AIG	-	888,565	-	888,565	0.34	-	877,850	-	877,850	0.29
Allianz Gen.	-	1,799,715	-	1,799,715	0.69	-	2,042,415	-	2,042,415	0.68
Allianz Life	486,094	-	-	486,094	0.19	621,508	-	-	621,508	0.21
Amana	555,382	1,431,698	55,823	1,931,257	0.74	778,592	1,421,675	62,580	2,137,687	0.71
Takaful	-	-	-	-	-	-	-	-	-	-
Arpico	515,131	-	-	515,131	0.20	561,970	-	-	561,970	0.19
Asian Alliance	2,353,009	2,365,947	-	4,718,956	1.81	3,396,594	2,309,537	-	5,706,131	1.89
Ceylinco	44,670,240	19,519,196	3,255,409	60,934,027	23.31	47,987,326	23,133,596	4,167,527	66,953,395	22.18
Continental	-	1,230,942	-	1,230,942	0.47	-	1,316,043	-	1,316,043	0.44
Cooperative	585,041	1,398,203	11,862	1,971,382	0.75	714,785	1,703,521	30,655	2,387,651	0.79
HNBA	3,201,601	2,843,252	-	6,044,853	2.31	3,875,310	3,143,968	-	7,019,278	2.32
Janashakthi	5,147,108	7,825,564	-	12,972,672	4.96	6,263,405	9,580,533	-	15,843,938	5.25
LIC	1,179,054	-	-	1,179,054	0.45	1,441,424	-	-	1,441,424	0.47
LOLC	64,320	598,610	13,305	649,625	0.25	125,900	1,753,956	3,814	1,876,042	0.62
MBSL	131,684	872,558	-	1,004,242	0.38	191,718	1,116,643	-	1,308,361	0.43
Orient	-	776,924	-	776,924	0.30	-	928,425	-	928,425	0.31
People's	-	2,422,827	-	2,422,827	0.93	-	3,163,419	-	3,163,419	1.05
Sanasa	232,413	566,133	-	798,546	0.31	361,629	612,633	-	974,262	0.32
SLIC	61,069,553	41,608,056	498,630	102,178,979	39.08	65,205,480	54,937,824	-	120,143,304	39.79
UAL	15,290,943	6,970,169	464,977	21,796,135	8.33	18,048,978	8,471,496	853,645	25,666,829	8.50
Total	165,519,440	100,192,223	4,300,007	261,411,656	100	182,825,606	124,209,364	5,118,410	301,916,560	100

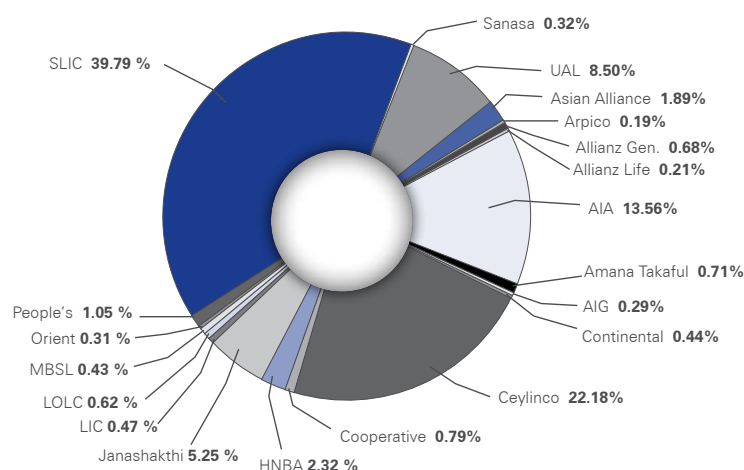
(a) Reinstated audited figures
(b) Provisional figures

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.
4. Assets of Janashakthi and National Insurance Cooperation are reported together.
5. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

Chart 1

Company-wise Analysis of Concentration of Assets - 31st December 2012



statistical review

Shareholders' Funds of Insurance Companies

As depicted in Table 4, total shareholders' funds of insurance companies increased to Rs. 68,832 million as at 31st December 2012 from Rs. 51,973 million recorded as at 31st December 2011 growing significantly by 32.44%.

Total shareholders' funds as at 31st December 2012 comprised of share capital amounting to Rs. 20,231 million and reserves worth of Rs. 48,602 million. SLIC accounted for more than half of the entire shareholders' funds as at 31st December 2012 by recording 53.47% which is a significant increase over 47.59% recorded in 2011. Ceylinco and UAL owned 14.53% and 5.91% of

total shareholders' funds respectively claiming the second and third largest share of the total shareholders' funds. AIA and Janashakthi held 5.84% and 4.91% of total shareholders' funds and these five companies collectively held 84.66% (2011: 82.28%) of the total shareholders' funds belonged to all insurance companies.

Table 4
Shareholders' Funds of Insurance Companies

Insurer	2011(a)		2012(b)			
	Total Shareholders' Funds (Rs.'000)	%	Share Capital (Rs.'000)	Total Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA	3,547,019	6.82	300,000	3,717,462	4,017,462	5.84
AIG	233,964	0.45	536,265	(306,926)	229,339	0.33
Allianz Gen.	680,780	1.31	250,000	545,430	795,430	1.16
Allianz Life	222,543	0.43	492,499	(337,624)	154,874	0.23
Amana Takaful	775,144	1.49	1,250,001	(429,266)	820,735	1.19
Arpico	511,703	0.98	503,000	(34,004)	468,996	0.68
Asian Alliance	1,245,631	2.40	1,062,500	362,451	1,424,951	2.07
Ceylinco	8,524,906	16.40	1,424,822	8,579,237	10,004,059	14.53
Continental	454,866	0.88	500,000	6,953	506,953	0.74
Cooperative	722,319	1.39	561,527	274,622	836,149	1.21
HNBA	1,615,932	3.11	1,171,875	696,406	1,868,281	2.71
Janashakthi	2,975,041	5.72	1,496,000	1,880,380	3,376,380	4.91
LIC	408,343	0.79	500,000	38,001	538,001	0.78
LOLC	237,695	0.46	600,000	(21,853)	578,147	0.84
MBSL	395,350	0.76	779,487	(375,211)	404,276	0.59
Orient	733,739	1.41	750,000	(76,439)	673,561	0.98
People's	594,534	1.14	600,000	263,002	863,002	1.25
Sanasa	369,956	0.71	332,686	69,489	402,175	0.58
SLIC	24,734,068	47.59	6,000,000	30,805,018	36,805,018	53.47
UAL	2,989,668	5.75	1,119,873	2,944,804	4,064,677	5.91
Total	51,973,202	100	20,230,534	48,601,931	68,832,465	100

(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. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

statistical review

Distribution of Total Assets of Major Financial Sectors

Total assets of major financial sectors of the economy increased to Rs. 9,032.9 billion as at 31st December 2012 from Rs. 7,708.3 billion recorded as at 31st December 2011 by 17.18% as depicted in Table 5. Banking sector accounted for 70.6% of total assets

with assets amounted to Rs. 6,381.4 billion. Contractual savings institutions and other deposit taking institutions accounted for 16% and 6.9% of total assets respectively. Insurance sector owned assets worth Rs. 301.9 billion as at 31st December 2012 and accounted for 3.3% of total assets though a slight decrease is observed when compared to 3.4% of total assets recorded in

2011. It is notable that the share of assets owned by the banking sector had increased gradually year on year from 2008 to 2012 and assets of other deposit taking financial institutions had steadily increased from 2010 to 2012. Chart 2 depicts the distribution of assets of major financial sectors as at 31st December 2012.

Table 5
Distribution of Total Assets of Major Financial Sectors

Financial Sectors	Distribution of Assets									
	2008		2009		2010		2011		2012	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	3,294.6	68.1	3,832.0	68.2	4,527.3	68.9	5,375.6	69.7	6,381.4	70.6
Other Deposit Taking Financial Institutions	285.9	5.9	315.1	5.6	295.0	4.5	427.1	5.5	621.2	6.9
Other Specialized Financial Institutions	239.7	5.0	265.3	4.7	354.3	5.4	338.8	4.4	282.8	3.1
Contractual Savings Institutions	863.8	17.8	1,022.6	18.3	1,178.7	17.9	1,305.4	16.9	1,445.6	16.0
Insurance Companies	156.0	3.2	181.0	3.2	219.10	3.3	261.4(a)	3.4	301.9(b)	3.3
Total	4,840.0	100	5,616.0	100	6,574.4	100	7,708.3	100	9,032.9	100

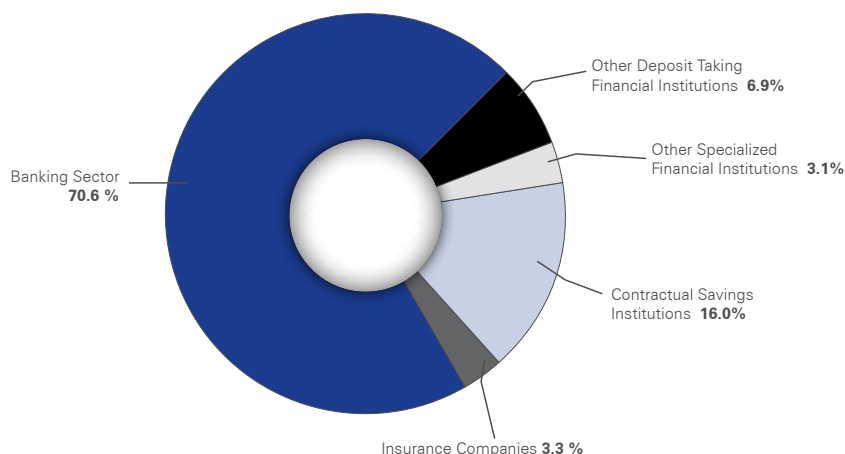
Source:

Central Bank of Sri Lanka Annual Report - 2012 (Assets of insurance companies and contractual savings institutions are reinstated based on data received by the Board).

(a) Reinstated audited figures

(b) Provisional figures

Chart 2
Distribution of Assets of Major Financial Sectors – 31st December 2012



statistical review

Branch Network, Employees and Agents as at 31st December 2012

Table 6 illustrates the branch network, employees and agents of insurance companies operated in the island as at 31st December 2012.

The island-wide branch network of all the insurance companies as at 31st December 2012 amounted to 1,184 branches. Highest number of branches was situated in the Western province amounting to 390 while Southern and North Western provinces had the second and third largest branch network with 143 and 116 branches respectively. Eastern province had the least number

of branches and 71 branches were in operation as at 31st December 2012.

Insurance companies collectively employed 12,471 employees in all nine provinces of the country with 7,704 employees located in the Western province representing 61.77% of total employees of all insurance companies. Southern and Central provinces stationed the second and third highest number of employees with 948 and 800 employees respectively. Lowest number of employees was located in the Eastern province amounting to 343 which represented 2.75% of the total employees of insurance companies.

Total number of agents attached to insurance companies amounted to 36,801 with 14,351 located in the Western province representing 39% of the total agents of insurance companies. Eastern province accounted for the lowest number of agents with 1,916 agents. The notable fact illustrated through 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. Chart 3 depicts the branch network, number of employees and agents located in each of the 9 provinces of the island as at 31st December 2012.

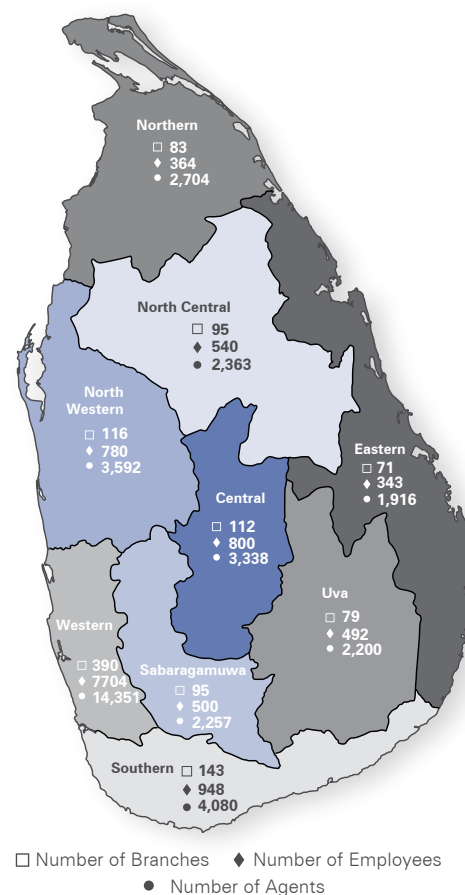
Table 6

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

Province	No. of Branches	No. of Employees	No. of Agents
Central Province	112	800	3,338
Eastern Province	71	343	1,916
North Central Province	95	540	2,363
North Western Province	116	780	3,592
Northern Province	83	364	2,704
Sabarakgamuwa Province	95	500	2,257
Southern Province	143	948	4,080
Uva Province	79	492	2,200
Western Province	390	7,704	14,351
Total	1,184	12,471	36,801

Chart 3

Branch Network, Employees and Agents as at 31st December 2012



statistical review

Long Term Insurance Business

Gross Written Premium

In 2012, long term insurance business had generated GWP worth of Rs. 37,469 million (2011: Rs. 35,162 million) growing by 6.56% (2011: 12.87%) as reflected in Table 7.

Ceylinco has continued to maintain its dominance in the long term insurance market by generating GWP of Rs. 10,829 million in 2012 (2011: Rs. 9,816 million) and accounted for 28.90% of the total

GWP. SLIC and AIA claimed the second and third positions in the market in 2012 by recording GWP worth of Rs. 7,369 million (2011: Rs. 6,743 million) and Rs. 6,496 million (2011: Rs. 7,846 million) with market shares of 19.67% and 17.34% respectively. SLIC had been able to move to the second position in the long term insurance market in 2012 from the third position recorded in 2011 while AIA had moved down to the third position from the second position achieved in 2011. UAL and Asian Alliance had earned GWP worth of Rs. 5,106 million (2011: Rs. 4,472 million) and Rs.

2,034 million (2011: Rs. 1,579 million) respectively to become the fourth and fifth largest GWP generators in the long term insurance sector by achieving market shares of 13.63% and 5.43%. Janashakthi Insurance which was the fifth largest GWP generator in 2011 dropped to sixth place in 2012 although increasing its market share to 5.40%. The top five GWP generators have collectively accounted for 84.97% of the total long term insurance GWP in 2012. Chart 4 analyses the company-wise market share of GWP pertaining to long term insurance business.

Table 7

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

Insurer	2008		2009		2010		2011(a)		2012(b)	
	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)
AIA	4,342,218	18.39	4,632,490	19.30	7,783,925	24.99	7,846,447	22.32	6,495,863	17.34
Allianz Life	4,013	0.02	101,816	0.42	204,814	0.66	351,299	1.00	532,142	1.42
Amana Takaful	188,676	0.80	207,097	0.86	240,156	0.77	303,786	0.86	359,919	0.96
Arpico	-	-	-	-	-	-	-	-	100,280	0.27
Asian Alliance	970,077	4.11	1,009,031	4.20	1,242,608	3.99	1,579,191	4.49	2,034,084	5.43
Ceylinco	8,257,279	34.97	7,522,328	31.34	8,786,120	28.21	9,815,943	27.91	10,829,470	28.90
Cooperative	131,004	0.55	149,401	0.62	233,540	0.75	269,579	0.77	312,056	0.83
HNBA	914,170	3.87	984,866	4.10	1,084,480	3.48	1,290,367	3.67	1,500,028	4.00
Janashakthi	1,426,160	6.05	1,431,628	5.96	1,685,409	5.42	1,871,986	5.32	2,025,075	5.40
LIC	255,099	1.08	251,150	1.05	252,656	0.81	295,859	0.84	301,721	0.81
LOLC	-	-	-	-	-	-	51,427	0.15	106,238	0.28
MBSL	52,637	0.22	55,606	0.24	89,984	0.28	143,156	0.41	192,780	0.52
Sanasa	69,617	0.29	61,563	0.26	73,030	0.23	128,113	0.36	203,616	0.54
SLIC	4,497,919	19.05	4,819,860	20.08	6,009,859	19.29	6,743,073	19.18	7,369,027	19.67
UAL	2,503,887	10.60	2,778,184	11.57	3,465,505	11.12	4,471,627	12.72	5,106,323	13.63
Total	23,612,756	100	24,005,020	100	31,152,086	100	35,161,853	100	37,468,622	100
Growth Rate (%)	14.04		1.66		29.77		12.87		6.56	

(a) Reinstated audited figures

(b) Provisional figures

statistical review

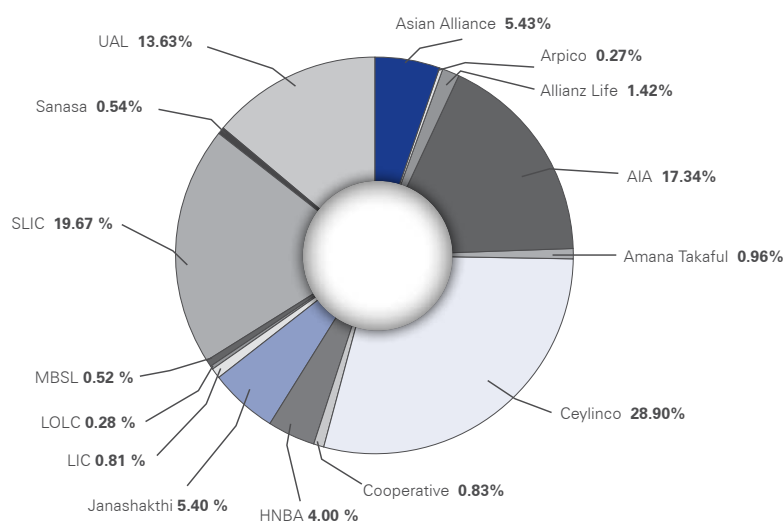
Chart 4**Company-wise Market Share of Gross Written Premium - Long Term Insurance Business - 2012****Top Five Gross Written Premium Generators - Long Term Insurance Business**

Chart 5 illustrates the 2012 top five GWP generators' market share for the last five years (2008 – 2012) in respect of long term insurance business.

Although a continuous decline in market share is witnessed for Ceylinco from 2008 to 2011, the Company had been able to increase its market share in 2012 over 2011 and continue to hold onto market leadership in long term insurance business recording a market share of 28.90% in 2012 (2011: 27.91%).

SLIC had improved its market share in 2012 to achieve the second position in

the market in terms of GWP. It is also noted that SLIC had maintained its market share around 19% - 20% during the past five years without significant increases or decreases.

AIA had lost its second position in the long term insurance market maintained during 2010 and 2011 due to the significant drop in market share in 2012. The Company's market share has dropped to 17.34% in 2012 from 22.32% recorded in 2011. Furthermore the market share of 17.34% recorded in 2012 had been the lowest market share recorded since 2008.

UAL had maintained the forth position in the market continuously from 2008 to 2012 and their market share has steadily

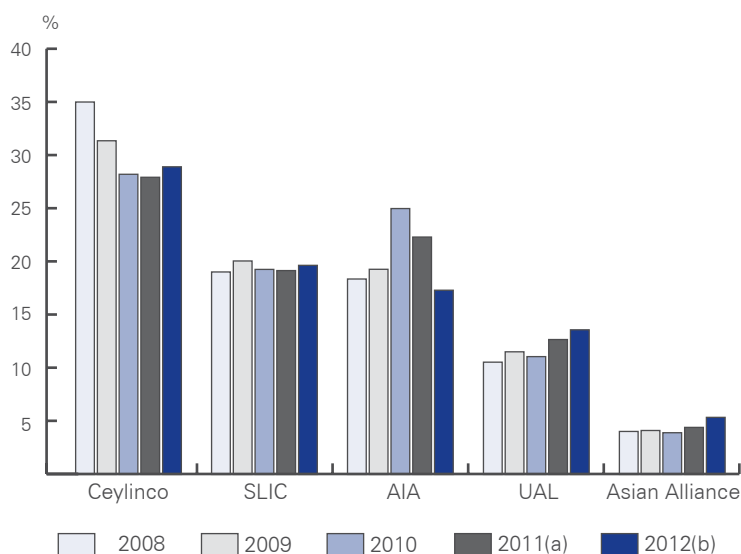
grown during the last three years, from 2010 to 2012. UAL achieved a market share of 13.63% in 2012 (2011: 12.72%).

The most significant change observed in GWP of long term insurance sector in 2012 is the increase of market share of Asian Alliance to achieve the fifth position of the market by taking over the position held by Janashakthi from 2008 to 2011. The Company had been able to increase its market share to 5.43% in 2012 (2011: 4.49%), recording a marginally higher market share than 5.40% recorded by Janashakthi.

statistical review

Chart 5

Market Share of Top Five GWP Generators in 2012 – Long Term Insurance Business



	Ceylinco	SLIC	AIA	UAL	Asian Alliance
2008	34.97	19.05	18.39	10.60	4.11
2009	31.34	20.08	19.30	11.57	4.20
2010	28.21	19.29	24.99	11.12	3.99
2011(a)	27.91	19.18	22.32	12.72	4.49
2012(b)	28.90	19.67	17.34	13.63	5.43

(a) Reinstated audited figures
(b) Provisional figures

Insurance Policies of Long Term Insurance Business

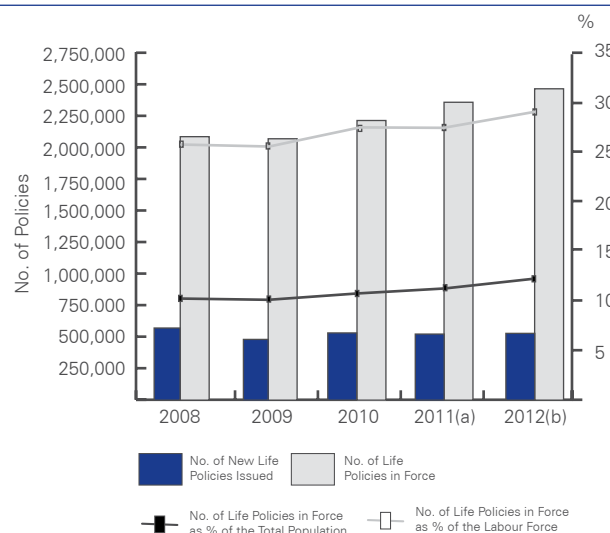
During 2012, insurance companies have issued 514,472 new life insurance policies (2011: 526,023) as indicated by

Chart 6. At the end of 2012 there were 2,461,573 effective life insurance policies against the 2,355,449 recorded at the end of 2011. Life insurance policies in force as a percentage of total population

was 12.1% in 2012 when compared to 11.3% recorded in 2011, increasing by 0.8%. Life insurance policies in force represented 29.1% of the labour force in 2012 (2011: 27.5%).

Chart 6

Number of Life Insurance Policies Issued and Policies in Force



	2008	2009	2010	2011(a)	2012 (b)
No. of New Life Policies Issued	567,621	468,317	516,139	526,023	514,472
No. of Life Policies in Force	2,082,358	2,068,548	2,214,976	2,355,449	2,461,573
No. of Life Policies in Force as % of the Total Population	10.3	10.1	10.7	11.3	12.1
No. of Life Policies in Force as % of the Labour Force	25.8	25.6	27.3	27.5	29.1

Source: Central Bank of Sri Lanka Annual Report - 2012 (Total population and labour force figures)

(a) As reported in Actuarial Returns submitted to the Board
(b) Provisional figures

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Assets of Long Term Insurance Business

Concentration of assets of long term insurance business among different asset categories as at 31st December 2012 is reflected in Table 8 and Chart 7.

Rs. 97,876 million (2011: Rs. 84,744 million) was invested in government securities out of the total assets worth of Rs. 182,826 million (2011: Rs.165,519 million). This accounted for 53.54% (2011: 51.20%) of the total assets of long term insurance business. Throughout the

year, the Board ensured that investments in government securities comply with the minimum statutory investment of 30% of Long Term Insurance Fund of each insurance company as required under the Act. Furthermore insurance companies are required to invest remaining assets of long term insurance business in accordance with Determination No. 1 of 2011 and the Board ensured compliance with same during the year under review. Investments in deposits amounted to Rs. 31,805 million (2011: Rs. 25,841 million) and accounted for 17.40% (2011: 15.61%) of total assets becoming the

second largest investment instrument of long term insurance business. Equity investments amounted to Rs. 19,142 million (2011: Rs. 23,113 million) and accounted for 10.47% (2011: 13.96%) of total assets.

Government securities, deposits and equities collectively accounted for 81.41% (2011: 80.77%) of the entire assets of long term insurance business and the balance 18.59% (2011: 19.23%) of assets were held in corporate debt, land and building, unit trusts, gold, etc.

Table 8

Concentration of Assets of Long Term Insurance Business

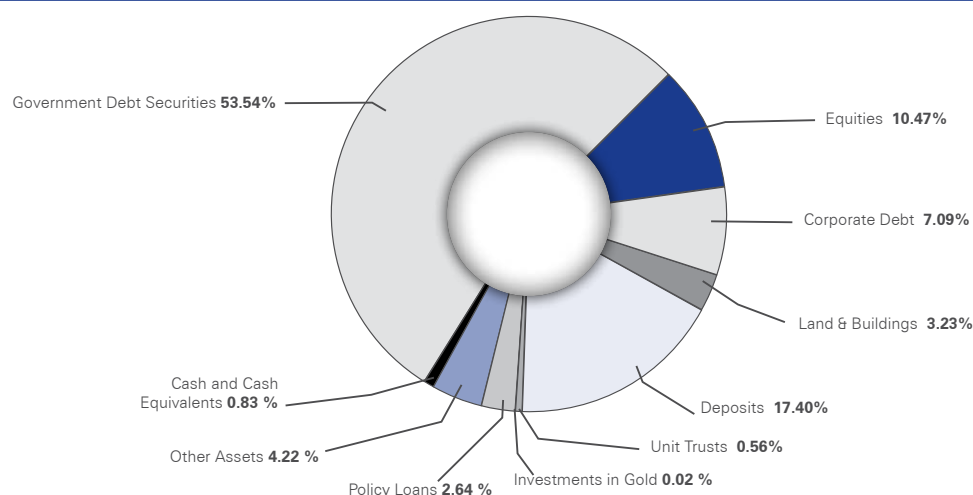
Type of Asset	2011(a)		2012(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	84,743,648	51.20	97,876,440	53.54
Equities	23,113,400	13.96	19,141,823	10.47
Corporate Debt	10,687,124	6.46	12,967,889	7.09
Land & Buildings	5,880,476	3.55	5,912,017	3.23
Deposits	25,841,259	15.61	31,805,243	17.40
Unit Trusts	1,292,291	0.78	1,019,741	0.56
Investments in Gold	110,916	0.07	31,832	0.02
Policy Loans	4,247,196	2.57	4,833,303	2.64
Other Assets	7,954,503	4.80	7,721,484	4.22
Cash and Cash Equivalents	1,648,626	1.00	1,515,834	0.83
Total	165,519,439	100	182,825,606	100

(a) Reinstated audited figures

(b) Provisional figures

Chart 7

Concentration of Assets of Long Term Insurance Business - 31st December 2012



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Investment Income of Long Term Insurance Business

As depicted in Table 9, total investment income generated from investments of long term insurance business amounted to Rs. 17,013 million in 2012 (2011: Rs. 16,814 million). Average investments of long term insurance business in 2012 amounted to Rs. 165,748 million (2011: Rs. 141,220 million).

In 2012, investment in government debt securities which represented the largest portion of investments amounted to Rs. 91,310 million (2011: Rs. 77,391 million) and generated an investment yield of 11.92% (2011: 13.57%) which represented a decline in investment yield compared to 2011. Investment income

generated from equities aggregated to Rs. 331 million (2011: Rs. 2,578 million) in 2012 with capital losses of Rs. 576 million (2011: Rs. 1,743 million capital gains) and dividend income of Rs. 907 million (2011: Rs. 834 million). Investment income of corporate debts amounted to Rs. 1,634 million in 2012 (2011: Rs. 1,320 million) with an investment yield of 13.82% which had slightly increased compared to the yield of 13.69% recorded in 2011. Investments in gold yielded the highest return during 2012 among all the investment instruments with an investment yield of 37.14% (2011: 12.41%) due to significant increase in market value. Investment yield generated from land and buildings had significantly decreased in 2012 compared to 2011 by

dropping to 0.92% from 5.76%. Deposits generated an investment income of Rs. 3,908 million (2011: Rs. 2,143 million) including interest income of Rs. 3,784 million from bank deposits (2011: Rs. 2,110 million) and Rs. 124 million from finance companies (2011: Rs. 33 million). Interest income from average investment in deposits generated an investment yield of 13.56% to insurance companies in 2012 compared to 9.53% earned in 2011 which reflects the increased interest rates during 2012. Unit trusts and policy loans generated relatively low investment returns in 2012 with investment yield ratios of 0.85% (2011: 0.10%) and 1.83% (2011: 1.80%) respectively.

Table 9

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

Category	2011(a)			2012(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
Government Debt Securities	10,498,652	77,390,998	13.57	10,882,660	91,310,044	11.92
- Treasury Bonds	9,915,052			9,148,241		
- Treasury Bills	216,852			171,757		
- Others (REPO)	366,748			1,562,662		
Equity	2,577,888	22,442,235	11.49	330,634	21,127,612	1.56
- Capital Gain/Losses	1,743,484			(576,202)		
- Dividend	834,404			906,836		
Corporate Debts	1,320,450	9,646,911	13.69	1,634,076	11,827,507	13.82
- Debentures	1,289,580			1,495,343		
- Commercial Papers	18,365			132,990		
- Asset Backed Securities	-			1,836		
- Other Similar Financial Instruments	12,505			3,907		
Land and Buildings	183,310	3,181,262	5.76	54,127	5,896,246	0.92
Deposits	2,142,848	22,496,627	9.53	3,907,852	28,823,251	13.56
- Bank	2,110,036			3,784,069		
- Finance Companies	32,812			123,783		
Unit Trust	(1,326)	1,269,393	(0.10)	9,844	1,156,016	0.85
Gold	6,880	55,458	12.41	26,509	71,374	37.14
Policy Loans	75,942	4,219,003	1.80	83,169	4,540,250	1.83
Others	8,883	517,753	1.72	84,137	995,439	8.45
Total	16,813,527	141,219,640	11.91	17,013,008	165,747,739	10.26

(a) Reinstated audited figures

(b) Provisional figures

Note:

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

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Insurance Policy Lapses in Long Term Insurance Business

Total insurance policies lapsed in 2012 decreased to 359,812 policies from 371,196 policies recorded in 2011 which represents a decline of 3.07%. Total insurance policy lapses as a percentage

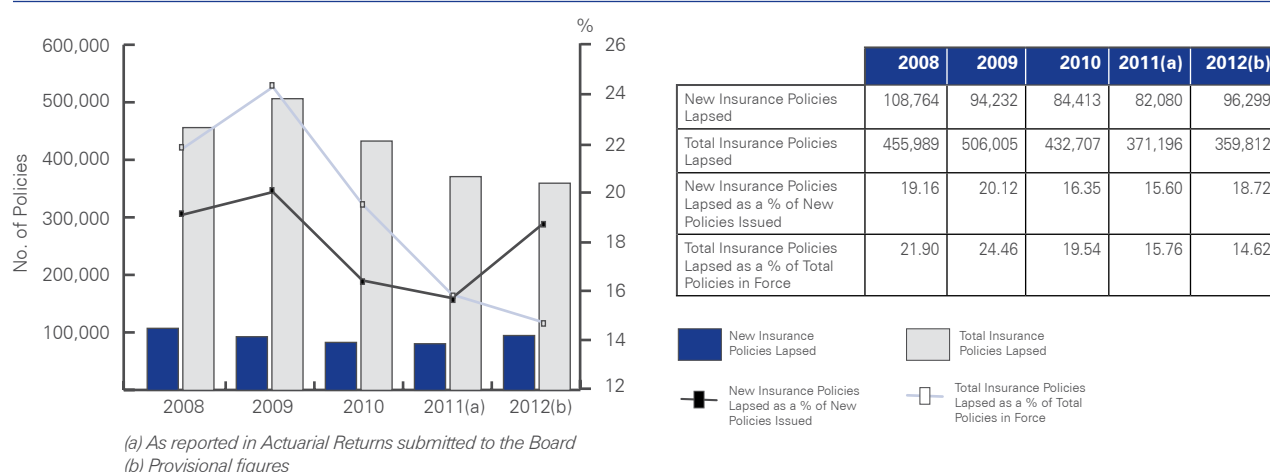
of total insurance policies in force had decreased to 14.62% in 2012 compared to 15.76% recorded in 2011.

As depicted by Chart 8, new long term insurance policies lapsed during 2012 amounted to 96,299 increasing by 17.32% compared to 82,080 lapsed

policies reported in 2011. A declining trend is observed in new policy lapses from 2008 to 2011, although new policy lapses had increased in 2012. New insurance policy lapses as a percentage of new policies issued had increased to 18.72% in 2012 compared to 15.6% recorded in 2011.

Chart 8

Lapse Ratios - Long Term Insurance Business from 2008 to 2012



Solvency Position of Insurance Companies - Long Term Insurance Business

Table 10 depicts the available solvency margin, required solvency margin, solvency ratios and policy liabilities recorded by individual insurance companies as at 31st December 2012.

Table 10

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

Insurer	Long Term Insurance Business(a)			Value of Policy Liabilities(a) (Rs. '000)
	Available Solvency Margin (ASM) (Rs. '000)	Required Solvency Margin (RSM) (5% * Policy Liabilities) (Rs. '000)	Solvency Ratio (ASM/RSM)	
AIA	2,830,968	1,119,992	2.53	22,399,842
Allianz Life	85,512	18,545	4.61	370,898
Amana Takaful	66,297	28,044	2.36	560,880
Arpico	100,937	2,712	37.22	54,243
Asian Alliance	268,979	142,881	1.88	2,857,628
Ceylinco	15,397,387	1,492,705	10.32	29,854,100
Cooperative	69,652	30,117	2.31	602,337
HNBA	379,706	166,611	2.28	3,332,214
Janashakthi	1,037,592	254,354	4.08	5,087,080
LIC	373,851	36,250	10.31	725,000
LOLC	91,883	5,782	15.89	115,642
MBSL	20,587	6,921	2.97	138,424
Sanasa	39,956	18,081	2.21	361,629
SLIC	21,127,655	1,918,571	11.01	38,371,425
UAL	2,010,982	678,640	2.96	13,572,802
Total	43,901,944	5,920,206	7.42	118,404,144

(a) Provisional figures

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General Insurance Business

Gross Written Premium

All the insurance companies engaged in general insurance business generated GWP worth Rs. 49,683 million in 2012 compared to Rs. 43,329 million posted for 2011, up by 14.67% as depicted in Table 11. As confirmed by insurance companies, SRCC & TC premium in respect of general insurance business in 2012 amounted to Rs. 2,250 million (2011: Rs. 1,950 million) and therefore GWP inclusive of SRCC & TC amounted to Rs. 51,933 million (2011: Rs. 45,279 million).

Similar to previous year, SLIC continued to be the leader of the general insurance market by accounting for 24.88% of the total GWP (2011: 25.70%) and generating GWP worth of Rs. 12,359 million (2011: 11,135 million). Ceylinco and Janashakthi earned GWP of Rs. 10,435 million (2011: Rs. 9,559 million) and Rs. 5,773 million (2011: Rs. 5,086 million) respectively achieving the second and the third largest market shares of 21% (2011: 22.06 %) and 11.62% (2011: 11.74 %) respectively. UAL and People's by generating GWP worth of Rs. 4,436 million (2011: Rs. 4,055 million) and Rs. 2,795 million (2011: Rs. 2,285 million) respectively achieved the fourth and fifth positions in the general insurance market. Market

share of UAL and People's accounted for 8.93% (2011: 9.36%) and 5.63% (2011: 5.27%) respectively. In 2012, the top five insurance companies in respect of market share collectively accounted for 72.06% of the total GWP of general insurance segment and the balance 27.94% was shared among the other twelve players of the market. However, the concentration of market share in the top five market players had slightly diluted in 2012 when compared to the market share of 74.53% collectively recorded by them in 2011.

Chart 9 illustrates the company-wise market share of GWP achieved by insurance companies in 2012.

Table 11

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

Insurer	2008		2009		2010		2011(a)		2012(b)	
	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)	Premium (Rs. '000)	Market Share (%)
AIA	2,045,252	5.92	2,503,628	7.46	2,490,843	7.10	2,456,347	5.67	2,143,253	4.31
AIG	932,730	2.70	879,285	2.62	890,387	2.54	942,901	2.18	819,448	1.65
Allianz Gen.	601,103	1.74	1,174,822	3.50	1,356,660	3.86	1,379,406	3.18	1,397,128	2.81
Amana Takaful	835,188	2.42	953,798	2.84	908,756	2.59	916,754	2.12	1,125,837	2.27
Asian Alliance	459,771	1.33	496,749	1.48	397,789	1.13	582,257	1.34	1,133,240	2.28
Ceylinco	11,287,233	32.66	9,081,297	27.07	8,724,292	24.85	9,558,942	22.06	10,434,917	21.00
Ceylinco Takaful	178,734	0.52	28,324	0.08	-	-	-	-	-	-
Continental	-	-	-	-	359,105	1.02	1,149,121	2.65	1,545,226	3.11
Cooperative	522,449	1.51	596,183	1.78	644,814	1.84	922,859	2.13	1,135,015	2.28
HNBA	924,709	2.68	1,130,781	3.37	1,255,190	3.58	1,623,830	3.75	1,635,305	3.29
Janashakthi	3,937,285	11.39	4,272,926	12.74	4,324,170	12.32	5,086,207	11.74	5,773,429	11.62
LOLC	-	-	-	-	-	-	364,735	0.84	1,295,133	2.61
MBSL	294,317	0.85	271,309	0.81	467,606	1.33	636,738	1.47	1,049,147	2.11
Orient	-	-	-	-	-	-	1,749	0.00	308,546	0.62
People's	-	-	-	-	847,064	2.42	2,284,578	5.27	2,795,448	5.63
Sanasa	216,412	0.63	184,409	0.55	234,914	0.67	232,374	0.54	297,025	0.60
SLIC	9,140,845	26.45	8,764,539	26.13	8,766,027	24.97	11,134,583	25.70	12,359,087	24.88
UAL	3,182,236	9.21	3,210,217	9.57	3,433,830	9.78	4,055,443	9.36	4,436,052	8.93
Total	34,558,264	100	33,548,267	100	35,101,447	100	43,328,824	100	49,683,236	100
Growth Rate (%)	10.82		(2.92)		4.63		23.44		14.67	

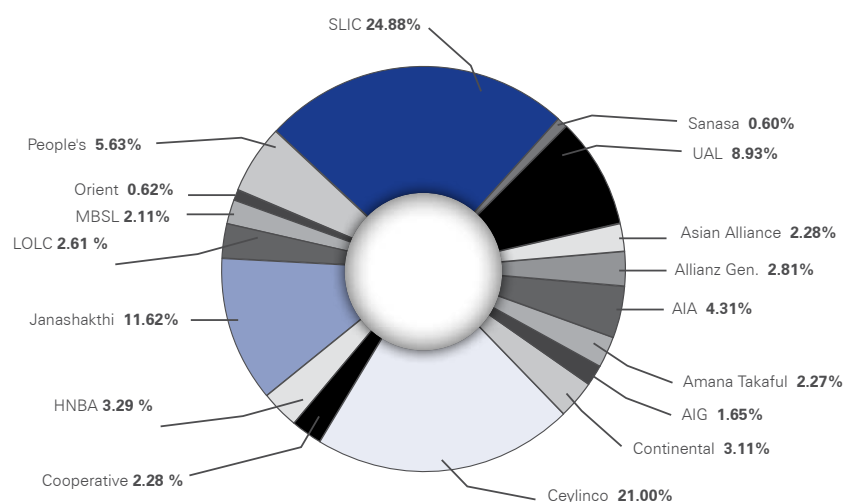
(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

statistical review

Chart 9**Company-wise Market Share of Gross Written Premium – General Insurance Business - 2012***Notes:*

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

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Top Five Gross Written Premium Generators - General Insurance Business

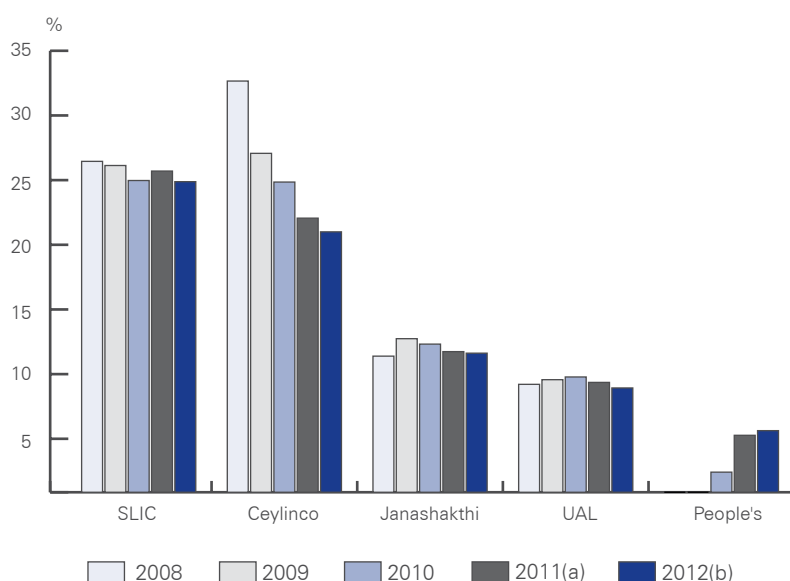
Chart 10 depicts the market share recorded by the top five GWP generators of 2012 in the general insurance market. SLIC had continued to be the market leader since 2010 and had achieved a market share of 24.88% in 2012. Ceylinco

had achieved the second position in the market in 2012 with a market share of 21% although it is notable that market share in the general insurance business had decreased gradually year on year from 2008 to 2012. Janashakthi had secured the third position in the market since 2008 and its market share accounted for 11.62% in 2012. Market share of UAL had remained in the fourth

position since 2008 though had slightly declined in 2012 to 8.93%. Although People's started its operations in 2010, the Company had achieved the fifth position in the general insurance market in 2012 surpassing AIA. People's had increased its market share to 5.63% in 2012 from 5.27% recorded in 2011.

Chart 10

Market Share of Top Five GWP Generators in 2012 – General Insurance Business



	SLIC	Ceylinco	Janashakthi	UAL	People's
2008	26.45	32.66	11.39	9.21	-
2009	26.13	27.07	12.74	9.57	-
2010	24.97	24.85	12.32	9.78	2.42
2011(a)	25.70	22.06	11.74	9.36	5.27
2012(b)	24.88	21.00	11.62	8.93	5.63

(a) Reinstated audited figures

(b) Provisional figures

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

Table 12 and Chart 11 depict the class-wise analysis of gross written premium generated from different classes of general insurance business during the period 2008 to 2012.

Similar to previous years, motor insurance continued its dominance in the general insurance segment by recording GWP

of Rs. 31,616 million (2011: Rs. 27,141 million) which represented 63.64% of the total GWP of general insurance business. Motor insurance had grown by 16.49% over 2011 and its share of total GWP had continuously increased from 2009. In 2012, miscellaneous insurance sector accounted for 21.60% of the total GWP of general insurance business by posting GWP worth of Rs. 10,733 million (2011: Rs. 9,134 million) and growing by 17.51% compared to 2011. GWP of fire insurance

amounted to Rs. 5,422 million (2011: Rs. 5,376 million) and accounted for 10.91% of the total GWP (2011: 12.41%). The growth rate of GWP of fire insurance had been 0.85% in 2012 due to the slight increase in premium income compared to 2011. Marine insurance generated GWP of Rs. 1,913 million in 2012 (2011: Rs. 1,678 million) accounting for 3.85% of the total GWP growing by 13.98% when compared to 2011.

Table 12**Class-wise Analysis of Gross Written Premium - General Insurance Business**

Class	Gross Written Premium (Rs.'000)				
	2008	2009	2010	2011(a)	2012(b)
Fire	6,826,563	7,049,399	5,012,443	5,376,094	5,421,688
Marine	1,826,549	1,442,729	1,498,832	1,678,027	1,912,657
Motor	18,717,735	17,897,763	20,948,782	27,141,119	31,616,009
Miscellaneous	7,187,417	7,158,375	7,641,390	9,133,584	10,732,881
Total	34,558,264	33,548,266	35,101,447	43,328,824	49,683,236

Class	Growth (%)				
	2008	2009	2010	2011	2012
Fire	9.02	3.26	(28.90)	7.25	0.85
Marine	11.62	(21.01)	3.89	11.96	13.98
Motor	9.78	(4.38)	17.05	29.56	16.49
Miscellaneous	15.25	(0.40)	6.75	19.53	17.51
Total	10.82	(2.92)	4.63	23.44	14.67

Class	Percentage Share (%)				
	2008	2009	2010	2011	2012
Fire	19.75	21.01	14.28	12.41	10.91
Marine	5.29	4.30	4.27	3.87	3.85
Motor	54.16	53.35	59.68	62.64	63.64
Miscellaneous	20.80	21.34	21.77	21.08	21.60
Total	100	100	100	100	100

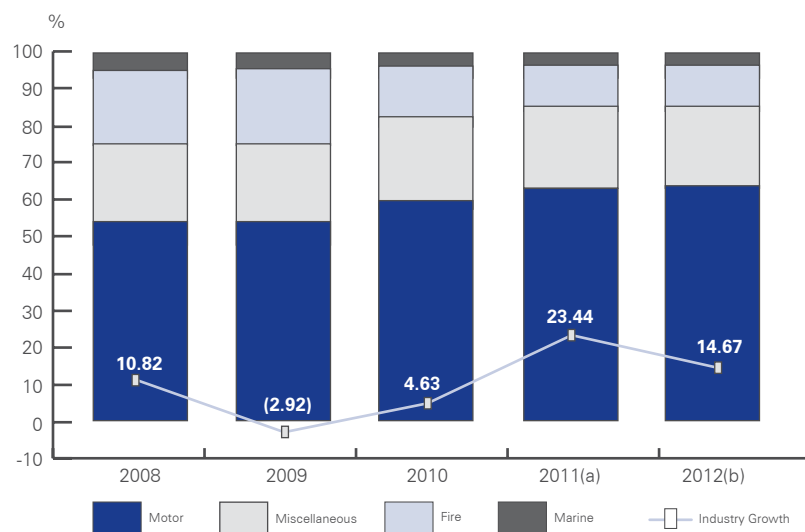
(a) Reinstated Audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

statistical review

Chart 11**Class-wise Analysis of GWP – General Insurance Business**

(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

statistical review

Net Earned Premium and Net Claims Incurred - General Insurance Business

As depicted in Table 13, net earned premium of different classes of general insurance business amounted to Rs. 38,418 million in 2012 (2011: Rs. 31,817 million). In 2012, net claims incurred from different classes of general insurance amounted to Rs. 23,269 million (2011: Rs. 20,292 million) representing an overall net claims ratio of 60.57% compared to 63.78% recorded for 2011.

Miscellaneous insurance represented the highest net claims ratio among different

classes of general insurance by recording a ratio of 63.96% lower than the ratio of 66.05% recorded in 2011. Marine and motor insurance businesses recorded relatively higher net claims ratios amounting to 62.79% (2011: 28.93%) and 61.33% (2011: 65.39%) respectively in 2012. The significant increase in claims ratio of marine insurance is due to the lower net earned premium and higher net claims incurred during 2012 when compared to 2011. Fire insurance recorded the lowest net claims ratio of 26.82% in 2012 (2011: 42.28%) due to the reduction in net claims incurred during 2012.

Net expenses incurred by general insurance sector amounted to Rs. 14,662 million in 2012 (2011: Rs. 12,105 million) with an expense ratio of 38.16% (2011: 38.04%).

Net combined ratio which reflects the aggregate of net claims ratio and net expense ratio had decreased in 2012 to 98.73% from 101.82% recorded in 2011. A net combined ratio of 98.73% indicates that in 2012, the total claims and expenses incurred by general insurers had been lower than their net earned premium. It is noteworthy that the net claims ratio and the net combined ratio recorded in 2012 have been the lowest ratios recorded during the past five years.

Table 13

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

Class	Net Earned Premium (Rs.'000)				
	2008	2009	2010	2011(a)	2012(b)
Fire	1,068,721	1,199,158	1,098,186	1,141,591	1,413,296
Marine	692,776	580,333	674,476	802,677	546,600
Motor	16,596,674	17,593,582	18,356,887	23,575,071	29,291,164
Miscellaneous	5,486,205	5,200,212	5,282,148	6,298,058	7,166,796
Total	23,844,376	24,573,285	25,411,697	31,817,397	38,417,856

Class	Net Claims Incurred (Rs.'000)				
	2008	2009	2010	2011(a)	2012(b)
Fire	879,742	953,478	529,448	482,646	379,091
Marine	250,938	221,210	216,143	232,189	343,195
Motor	11,240,430	11,680,229	11,733,879	15,416,753	17,963,038
Miscellaneous	3,372,917	4,166,757	3,091,110	4,160,145	4,583,943
Total	15,744,027	17,021,674	15,570,580	20,291,734	23,269,267

Class	Net Claims Ratio (%)				
	2008	2009	2010	2011	2012
Fire	82.32	79.51	48.21	42.28	26.82
Marine	36.22	38.12	32.05	28.93	62.79
Motor	67.73	66.39	63.92	65.39	61.33
Miscellaneous	61.48	80.13	58.52	66.05	63.96
Total	66.03	69.27	61.27	63.78	60.57

	2008	2009	2010	2011(a)	2012(b)
Net Expenses (Rs.'000)	12,766,838	12,907,013	10,058,322	12,105,102	14,662,230
Net Expense Ratio (%)	53.54	52.52	39.58	38.04	38.16
Net Combined Ratio (%)	119.57	121.79	100.85	101.82	98.73

(a) Reinstated audited figures

(b) Provisional figures

Notes:

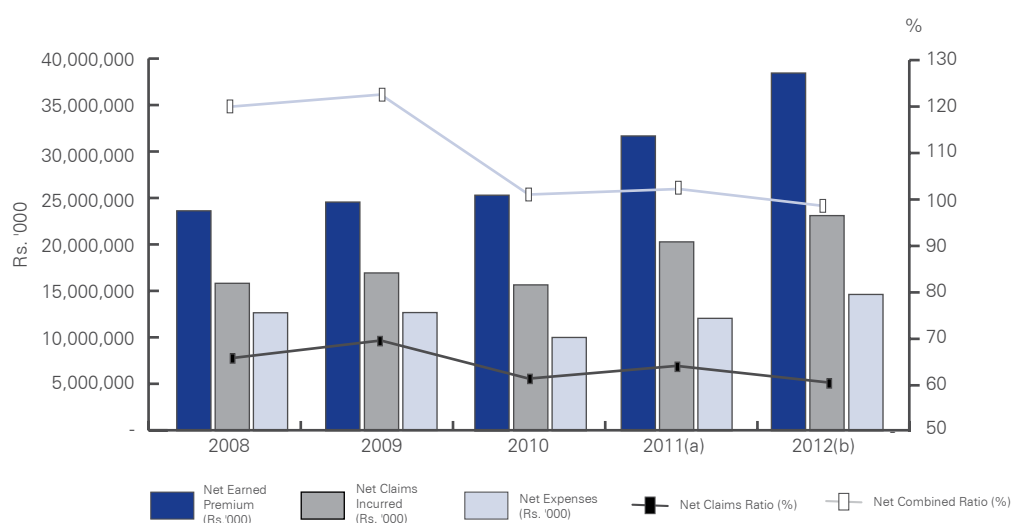
1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
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Chart 12 depicts the net earned premium, net claims incurred, net expenses, net claims ratio and net combined ratio recorded by insurers from 2008 to 2012.

Chart 12

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

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
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statistical review

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

Table 14 depicts the GWP generated by insurers, reinsurance premium ceded to reinsurers and the retention level of each class of general insurance business.

In 2012, out of the total GWP of Rs. 49,683 million (2011: Rs. 43,329 million) generated by general insurance business, Rs. 8,706 million (2011: Rs. 7,628 million) had been ceded to reinsurers as

reinsurance premium which had resulted in an overall retention ratio of 82.48% (2011: 82.40%).

Similar to previous years, the highest retention ratio was recorded in respect of motor insurance which amounted to 98.49% in 2012 (2011: 98.57%) reflecting the lower reliance on reinsurance and higher level of risk borne by insurance companies.

The retention ratio of miscellaneous insurance was sustained at 74.25% in 2012 (2011: 74.79%) whilst the retention

ratio of marine insurance, which amounted to 30.86% in 2012 (2011: 49.50%) reflected a sharp decrease in retention level due to increase in reinsurance during 2012 when compared to 2011.

In 2012, fire insurance continued to record the lowest retention level by recording a retention ratio of 23.62% (2011: 23.92%).

Chart 13 depicts the reinsurance premium and retention of general insurance business.

Table 14

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

Class	Gross Written Premium (Rs.'000)				
	2008	2009	2010	2011(a)	2012(b)
Fire	6,826,563	7,049,399	5,012,443	5,376,094	5,421,688
Marine	1,826,549	1,442,729	1,498,832	1,678,027	1,912,657
Motor	18,717,735	17,897,763	20,948,782	27,141,119	31,616,009
Miscellaneous	7,187,417	7,158,375	7,641,390	9,133,584	10,732,881
Total Gross Written Premium	34,558,264	33,548,266	35,101,447	43,328,824	49,683,236

Class	Reinsurance Premium (Rs.'000)				
	2008	2009	2010	2011(a)	2012(b)
Fire	5,861,973	5,904,806	4,233,236	4,090,136	4,140,881
Marine	1,174,809	892,411	813,665	847,392	1,322,355
Motor	655,220	533,720	316,594	387,211	478,481
Miscellaneous	2,482,405	1,918,389	2,020,031	2,302,942	2,764,139
Total Reinsurance Premium	10,174,407	9,249,326	7,383,526	7,627,681	8,705,856

Class	Retention (Rs.'000)				
	2008	2009	2010	2011	2012
Fire	964,590	1,144,593	779,208	1,285,958	1,280,807
Marine	651,740	550,318	685,167	830,635	590,302
Motor	18,062,516	17,364,043	20,632,188	26,753,908	31,137,528
Miscellaneous	4,705,012	5,239,986	5,621,359	6,830,643	7,968,742
Total Net Written Premium	24,383,858	24,298,940	27,717,922	35,701,143	40,977,380

Class	Retention as a Percentage of Gross Written Premium (%)				
	2008	2009	2010	2011	2012
Fire	14.13	16.24	15.55	23.92	23.62
Marine	35.68	38.14	45.71	49.50	30.86
Motor	96.50	97.02	98.49	98.57	98.49
Miscellaneous	65.46	73.20	73.56	74.79	74.25
Overall Retention Ratio	70.56	72.43	78.97	82.40	82.48

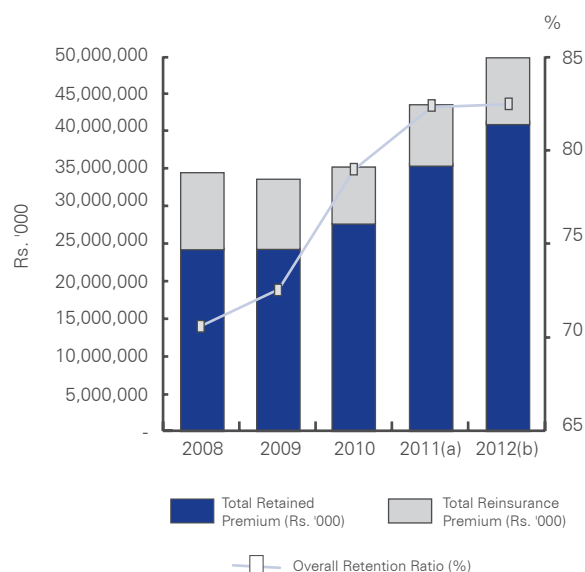
(a) Reinstated audited figures

(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 from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
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statistical review

Chart 13**Reinsurance Premium and Retention by Insurers - General Insurance Business**

(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP from years 2010 to 2012.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.

Assets of General Insurance Business and Shareholders

Total assets of general insurance business including shareholders' assets amounted to Rs. 124,209 million as at 31st December 2012 as depicted in Table 15. Total assets increased by 23.97% in 2012 compared to assets of Rs. 100,192 million recorded as at 31st December 2011.

Investment in government securities amounted to Rs. 28,776 million as at 31st

December 2012 (2011: Rs. 24,686 million) and represented the largest portion of assets by accounting for 23.17% of the entire asset portfolio. 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.

Investments in equities including investments made in subsidiaries and associates amounted to Rs. 28,761

million as at 31st December 2012 (2011: Rs. 27,438 million) and represented 23.15% of the total asset portfolio. Deposits, land and buildings and other assets were the other substantial asset categories in the general insurance business.

Chart 14 depicts the concentration of assets of general insurance business and shareholders as at 31st December 2012.

statistical review

Table 15

Concentration of Assets of General Insurance Business and Shareholders – 31st December 2012

Type of Asset	2011(a)		2012(b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	24,685,973	24.64	28,775,983	23.17
Equities	27,438,223	27.39	28,760,828	23.15
Corporate Debt	3,687,683	3.68	3,929,208	3.16
Land & Buildings	7,866,583	7.85	11,872,473	9.56
Deposits	6,773,175	6.76	12,511,581	10.07
Unit Trusts	1,011,658	1.02	1,277,123	1.03
Investments in Gold	344,224	0.34	7,130	0.01
Reinsurance Receivable	5,475,110	5.46	5,862,208	4.72
Premium Receivable from Policyholders and Intermediaries	8,470,381	8.45	11,054,128	8.90
Property Plant and Equipment	2,091,000	2.09	3,150,112	2.54
Other Assets	11,203,447	11.18	15,628,623	12.58
Cash and Cash Equivalents	1,144,766	1.14	1,379,967	1.11
Total	100,192,223	100	124,209,364	100

(a) Reinstated audited figures

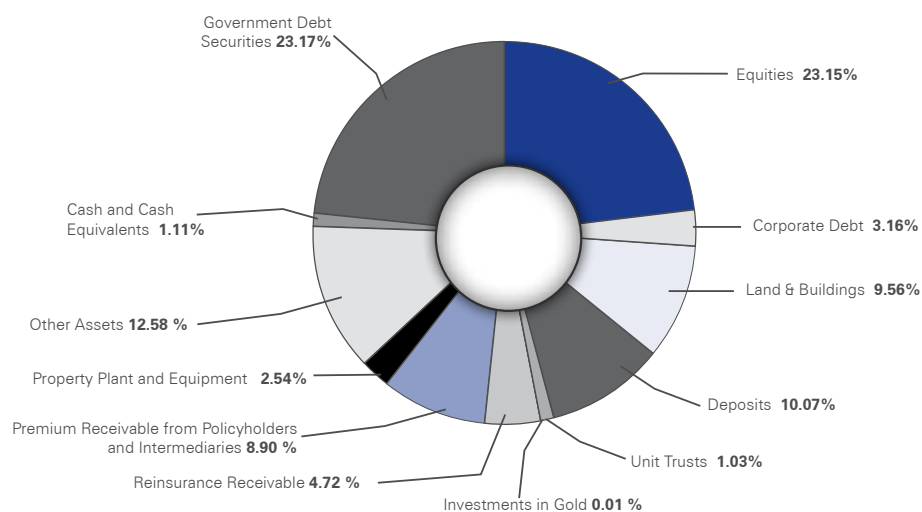
(b) Provisional figures

Notes:

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2. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.
3. The assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business.

Chart 14

Concentration of Assets of General Insurance Business and Shareholders – 31st December 2012



Notes:

1. Above analysis does not include NITF information since required complete information was not submitted to the Board.
2. Ceylinco Takaful Ltd. is prohibited from engaging in insurance business since 5th August 2009. The company had not submitted audited financials from year 2010 and relevant information for the year ended 31st December 2012.
3. The assets belonging to shareholders of Allianz Life, Arpico and LIC have been reported under long term insurance business.

statistical review

Investment Income of General Insurance Business and Shareholders

Table 16 reflects the average investments, investment income and investment yield ratios of different asset categories of general insurance business and shareholders' assets.

Investments of general insurance business and shareholders' amounted to Rs. 80,407 million in 2012 (2011: Rs. 61,891 million) which generated investment income of Rs. 9,050 million (2011: Rs. 5,885 million). This represented an overall investment yield of 11.25% higher than the 9.51% recorded in 2011.

In 2012, average government security investments amounted to Rs. 26,731 million (2011: Rs. 22,110 million) generating an investment income of Rs. 2,929

million (2011: Rs. 2,178 million) which represented an investment yield of 10.96% (2011: 9.85%).

Investments in equities amounted to Rs. 28,100 million in 2012 (2011: Rs. 24,417 million) generating dividend income of Rs. 1,335 million and capital gains of Rs. 2,878 million representing an investment yield of 14.99% (2011: 11.71%). Investment yield of equities had increased in 2012 mainly due to the significant increase in capital gains.

Investment income from different types of corporate debts amounted to Rs. 507 million in 2012 for an average investment of Rs. 3,808 million. This represented an investment yield of 13.31%, higher than the 11.80% recorded for 2011.

Deposits generated an investment income of Rs. 1,105 million (2011: Rs.

332 million) including interest income of Rs. 969 million from bank deposits (2011: Rs. 301 million) and Rs. 136 million from finance companies (2011: Rs. 31 million). The investment yield of 11.46% generated from deposits in 2012 was significantly higher than the 6.31% earned in 2011 due to increased interest rates.

Gold generated the highest investment yield of 36.38% (2011: 3.67%) due to the significant increase in value during 2012 although the average investment in gold had not significantly increased in 2012 compared to 2011.

Income generated from unit trusts amounted to Rs. 91 million in respect of the average investment of Rs. 1,144 million with an investment yield of 7.94% in 2012 (2011: 5.07%).

Table 16

Breakup of Investment Income and Average Investments - General Insurance Business

Category	2011(a)			2012(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
Government Debt Securities	2,177,556	22,109,889	9.85	2,928,938	26,730,978	10.96
- Treasury Bonds	1,395,074			1,539,102		
- Treasury Bills	459,160			465,303		
- Others (REPO)	323,322			924,533		
Equity	2,860,225	24,417,443	11.71	4,213,149	28,099,526	14.99
- Capital Gain/Losses	1,927,588			2,877,721		
- Dividend	932,637			1,335,428		
Corporate Debts	346,125	2,934,122	11.80	506,779	3,808,445	13.31
- Debentures	275,141			371,262		
- Commercial Papers	37,809			126,050		
- Other Similar Financial Instruments	33,175			9,467		
Land and Buildings	420	5,801,888	0.01	297	9,869,528	0.00
Deposits	332,399	5,268,606	6.31	1,104,827	9,642,378	11.46
- Bank	301,234			968,611		
- Finance Companies	31,165			136,216		
Unit Trust	31,487	621,502	5.07	90,869	1,144,391	7.94
Gold	6,369	173,575	3.67	63,911	175,677	36.38
Others	130,242	563,644	23.11	141,484	936,494	15.11
Total	5,884,823	61,890,669	9.51	9,050,254	80,407,417	11.25

(a) Reinstated audited figures

(b) Provisional figures

Notes:

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statistical review

Solvency Position of Insurance Companies - General Insurance Business

Table 17 depicts the available solvency margin, required solvency margin, solvency ratios and Technical Reserves recorded by individual insurance companies as at 31st December 2012.

Table 17

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

Insurer	General Insurance Business(a)			Technical Reserves(a) (Rs. '000)
	Available Solvency Margin (ASM) (Rs. '000)	Required Solvency Margin (RSM) (Rs. '000)	Solvency Ratio (ASM/RSM)	
AIA	1,364,325	361,071	3.78	1,515,737
AIG	144,519	80,553	1.79	304,886
Allianz Gen.	633,271	104,957	6.03	486,330
Amana Takaful	377,592	204,437	1.85	476,721
Asian Alliance	452,750	191,160	2.37	592,088
Ceylinco	2,004,353	1,769,616	1.13	5,283,307
Continental	342,110	210,849	1.62	619,195
Cooperative	488,475	216,330	2.26	634,588
HNBA	918,382	263,914	3.48	855,641
Janashakthi	2,320,097	1,034,816	2.24	3,510,174
LOLC	295,071	240,374	1.23	883,883
MBSL	199,440	187,716	1.06	518,511
Orient	576,189	50,665	11.37	165,938
People's	798,605	527,566	1.51	1,878,856
Sanasa	74,906	50,000	1.50	133,417
SLIC	9,785,301	2,857,512	3.42	12,614,203
UAL	1,559,525	742,831	2.10	2,872,507
Total	22,334,911	9,094,367	2.46	33,345,982

(a) Provisional figures

Notes:

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statistical review

Insurance Brokering Companies

Performance of Insurance Brokering Companies

Fifty five insurance brokers operated in the insurance market during 2012 compared to forty six in 2011. As depicted in Table 18, total GWP generated through insurance brokers for both long term and general insurance businesses amounted to Rs. 12,727 million in 2012 increasing by 21.33% when compared to Rs. 10,489 million generated in 2011. GWP generated from insurance brokers represented 14.60% of the total insurance industry GWP which amounted to Rs. 87,152 million in 2012.

GWP generated through insurance brokers in respect of long term insurance business amounted to Rs. 195 million while Rs. 12,532 million was generated from general insurance business. GWP of general insurance business represented 98.47% of total GWP generated through insurance brokers and only 1.53% was generated from long term insurance business.

As similar to previous years, insurance brokers' contribution towards long term insurance business was insignificant in 2012 since only 0.52% of the total GWP of long term insurance business was generated from brokers. However 25.22% of total GWP of general

insurance business was generated through insurance brokers indicating the importance of brokers as an intermediary in the general insurance market.

In 2012, twenty one insurance brokers procured GWP exceeding Rs.100 million each and such insurance brokers collectively generated GWP amounted to Rs. 12,051 million. The remaining 34 insurance brokers generated Rs. 675 million as depicted in Table 18.

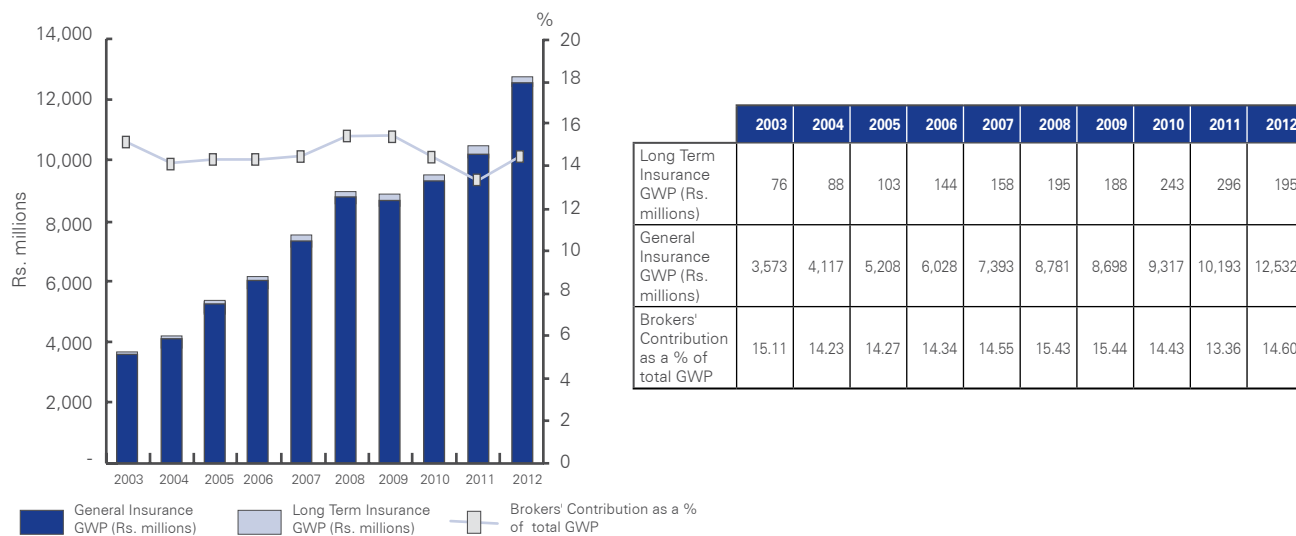
Chart 15 depicts GWP generated through insurance brokers in respect of long term and general insurance businesses and their contribution to total GWP during the period 2003 to 2012.

Table 18

Gross Written Premium Generated Through Insurance Brokering Companies - 2012

	Name of the Broker	Gross Written Premiums					
		Long Term Insurance		General Insurance		Total	
		Rs.'000	%	Rs.'000	%	Rs.'000	%
1	ADZ Insurance Brokers (Pvt) Limited	5,149	2.64	262,350	2.09	267,499	2.10
2	Aitken Spence Insurance Brokers (Pvt) Limited	920	0.47	412,487	3.29	413,407	3.25
3	Alfinco Insurance Brokers (Pvt) Limited	310	0.16	674,331	5.38	674,641	5.30
4	Assetline Insurance Brokers Limited	-	-	954,962	7.62	954,962	7.50
5	CF Insurance Brokers (Pvt) Limited	59	0.03	1,834,940	14.64	1,834,999	14.42
6	Commercial Insurance Brokers (Pvt) Limited	60,116	30.82	1,649,828	13.17	1,709,944	13.44
7	Delmege Insurance Brokers (Pvt) Limited	8,981	4.61	781,673	6.24	790,654	6.21
8	Essajee Carimjee & Co. (Pvt) Limited	7,630	3.91	284,285	2.27	291,915	2.29
9	Finlay Insurance Brokers (Pvt) Limited	17,065	8.75	1,289,993	10.29	1,307,058	10.27
10	Global Insurance Services (Pvt) Limited	69	0.04	432,648	3.45	432,717	3.40
11	Industrial & Commercial Insurance Brokers (Pte) Limited	1,439	0.74	318,815	2.54	320,254	2.52
12	L M & A Insurance Brokers & Consultants (Pvt) Limited	1,451	0.74	244,284	1.95	245,735	1.93
13	Life & General Insurance Brokers Ceylon (Pvt) Limited	229	0.12	109,931	0.88	110,160	0.87
14	Nations Insurance Brokers Limited	6,726	3.45	786,908	6.28	793,634	6.24
15	Procure Insurance Brokers (Pvt) Limited	1,140	0.58	175,673	1.40	176,813	1.39
16	Protection & Assurance Insurance Brokers (Pvt) Limited	185	0.09	652,462	5.21	652,647	5.13
17	Reliance AAG Insurance Brokers Lanka (Pvt) Limited	34,122	17.50	229,247	1.83	263,369	2.07
18	Reliance Insurance Brokers (Pvt) Limited	2,531	1.30	200,184	1.60	202,715	1.59
19	Senarantne Insurance Brokers (Pvt) Limited	2,753	1.41	214,405	1.71	217,158	1.71
20	Strategic Insurance Brokers (Pvt) Limited	308	0.16	236,918	1.89	237,226	1.86
21	Zenith Insurance Brokers (Pvt) Limited	158	0.08	153,786	1.23	153,944	1.21
	Sub-total	151,341	77.60	11,900,110	94.96	12,051,451	94.70
	Other Insurance Brokering Companies (34)	43,679	22.40	631,479	5.04	675,158	5.30
	Grand Total	195,020	100	12,531,589	100	12,726,609	100

statistical review

Chart 15**Gross Written Premium Generated Through Insurance Brokering Companies – From 2003 to 2012**

statistical review

Abbreviations for Insurance Companies

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

review of operations

Supervisory Review Insurance Companies

1. Review of Returns submitted to the Board

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

In terms of the provisions of the Regulation of Insurance Industry Act (RIIA) all insurers are required to submit their Annual Statutory Returns and Audited Financial Statements to the Board within six months following the end of the financial year. Furthermore the insurers who are engaged in long-term insurance business should submit an Actuarial Report and an abstract pertaining to Long-term Insurance business along with their Annual Statutory Returns. The Board monitored the timely submission of the returns and scrutinized them for accuracy and compliance with the provisions of the RIIA and other rules and regulations of the Board. In order to evaluate the Actuarial Returns the Board obtained services of a consultant actuary and where there were concerns relating to actuarial returns, further clarifications were obtained from the companies.

The Board communicated the deviations from statutory requirements observed during the review of returns to respective companies and advised to rectify same within stipulated deadlines. In addition, the Board addressed any relevant issues observed during the review of returns with the senior management of the Insurers at onsite inspections conducted at respective companies.

b) Quarterly Returns

As per the provisions of the RIIA, in order to monitor the financial position and compliance requirements, all the insurers required to submit their

quarterly returns to the Board within forty five days of the end of each quarter. The board reviewed the quarterly returns submitted by all insurers for all four quarters of 2012 with the view of assessing their quarterly performance and financial position.

A comprehensive analysis of each insurer's quarterly performance based on premium income, underwriting profit and net profit for both long-term and general insurance businesses was carried out in order to ascertain the overall insurance industry performance. Furthermore, ratios were computed and analyzed for profitability, expenses and claims for each insurer to ascertain their performance for all quarters of the year and compared against the ratios of previous quarters.

Financial position of each insurer at quarter ends was observed by analyzing their asset and liability position and by computing liquidity and capital adequacy ratios. Where non-compliances, discrepancies and errors were observed during the review of quarterly returns, the relevant companies were informed and instructed for rectification and compliance within the stipulated deadlines.

c) Monthly Returns

According to the directives issued by the Board, three insurance companies were required to submit their monthly returns within fifteen days from the end of each month. The Board reviewed the monthly returns of those three insurers, in order to observe their financial position and business operations in a vigilant manner. Where non-compliances and discrepancies were observed in the above returns, the companies concerned were instructed to take corrective actions within the given timelines.

d) Risk Assessment Summary (RAS)

The Board reviewed the Risk Assessment Summary (RAS) of insurers which are filed with the Board annually with information pertaining to insurers such as organizational structure and ownership, business profile, senior management structure, marketing and distribution, claims administration, risk management function, etc.

2. Other Financial Analyses

Financial evaluations were carried out in respect of Information received as part of the investigations and complaints handled by the IBSL. Specific financial information were gathered in respect of those inquiries and further analyzed, in order to support the decisions made by the IBSL.

3. Monitoring compliance with Solvency Margin Rules

Solvency Margin (General and Long-term Insurance Business) Amendment Rules - 2011 came into effect from 01st April 2011 and all insurers are required to maintain the minimum required solvency margins according to its provisions for both classes of insurance business at all times.

All insurers are required to submit their solvency margin computations together with their monthly/quarterly returns and annual statutory returns. In the year 2012 the Board closely monitored the solvency margins of all insurers for both long-term and general insurance businesses. The Board ensured that same have been computed in accordance with the relevant Solvency Margin Rules. If insurers were unable to fulfill the required solvency margin or if the solvency computations were inaccurate, the relevant companies were instructed to rectify same within stipulated time-lines.

review of operations

4. Risk Sensitive Minimum Capital Model for insurance industry supervision

The Board with the intention to enhance its supervisory activities and to enable market participants to effectively manage their business risks by providing a risk based framework, the risk sensitive minimum capital project was initiated. Assistance of the World Bank and FIRST Initiative were obtained for the development of a risk sensitive minimum capital regime for the insurance sector in Sri Lanka. Deloitte Touche Tohmatsu India (Pvt.) Limited was appointed by the World Bank and FIRST Initiative to provide assistance in proposing a risk sensitive capital regime. The first phase of this project, the Market Assessment Report, was completed in year 2010 to identify relevant issues and to provide an understanding of the Sri Lankan insurance market. This report further outlined underlying factors and growth parameters influencing or likely to influence the insurance industry in the future.

The second phase of the project, the Qualitative Report which contained broad principles and structure of a risk-based capital framework was submitted to the insurance industry in February 2011. The objective of the Qualitative Report was to identify and define the risk factors appropriate to the unique structure of the Sri Lankan insurance sector.

The third phase of the project, the Quantitative Report was submitted to the insurance industry in October 2011 which identified and quantified the capital charges for various risk categories defined in the Qualitative Report. This report also outlined changes in valuation methodology of assets and liabilities of insurers. The Board organized a presentation to introduce the Quantitative Report to the insurance industry and the industry participants were given the opportunity to submit their comments regarding the Qualitative and Quantitative reports.

During 2012 consultants of the project conducted a training programme for the IBSL staff and draft rules were refined by consultants after considering the comments submitted by the industry. As planned from the third quarter of 2012 the Road Test commenced on a voluntary basis and the generic templates for life and general insurance businesses were circulated among the insurance companies for completion. Eighteen insurance companies participated in the Road Test for the quarter ended 30.09.2012. Outputs of the insurance companies are being evaluated and implementation of RBC is continuing.

5. Monitoring compliance with Investment Specifications

a) Investments in Government Securities

According to the section 25 of the RIIA, all insurers should maintain not less than 20% of the assets of Technical Reserves (for general insurance business) and not less than 30% of the assets of the Long-term Insurance Fund (for long-term insurance business) in government securities. The Board monitored compliance of all insurers with the said provision of the RIIA during all quarters of 2012 and at month ends for insurers who are subject to monthly monitoring by reviewing the returns submitted to the Board. Furthermore, in order to substantiate the accuracy of investments in government securities reported in the returns and title and ownership of such investments, each insurer is required to submit the Statement of Holdings issued by the Central Bank of Sri Lanka, as at the end of each reporting period. Where there were non-compliances in respect of investments in government securities, brought to the notice of the relevant companies for necessary action.

b) Other investments as per Determinations

As specified in Determination 1 of 01st March 2011 (amended on 20th October 2011), promulgated under the RIIA, all Insurers are required to invest the balance assets of Technical Reserves and Long-term Insurance Fund in approved assets. Through the returns submitted, the Board monitored the investments of insurance companies to confirm that they comply with Determination 1. Where there were non-compliances observed, respective companies were instructed to take corrective actions.

6. Onsite inspections

During the year 2012, the Board conducted five onsite inspections at insurance companies and reviewed their operations, systems, policies and procedures to assess their compliance with the provisions of the RIIA. Further, interviews were held with relevant senior officials of the company, audit committee/board members as well as actuaries and internal and external auditors in order to gather more information relating to procedures, functions of the companies. The Board made recommendations for areas which needed improvements through onsite inspection reports.

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

Based on the information gathered from the insurers, the Board analyzed premium income, profitability, liquidity, capital, retention, etc. of insurers in detail to identify the insurance industry performance over each quarter of year 2012. Furthermore, ratios were computed in order to ascertain the overall insurance industry performance. That Information on financial performance and financial position of the insurance industry were submitted to the Financial System Stability Department of the Central Bank of Sri Lanka on a quarterly basis.

review of operations

8. Review of Reinsurance Arrangements.

According to the provisions of the RIIA, all insurers are required to furnish the Board with certified copies of their reinsurance treaties, contracts and arrangements annually. Those documents were perused by the Board to ensure that insurers mitigate their insurance risks by obtaining adequate reinsurance coverage. Insurance companies are required to comply with the guidelines issued by the Board under Section 31(1) of the RIIA when they engage in reinsurance arrangements with various reinsurers. When insurers are dealing with the reinsurers, who do not satisfy the required criteria, the insurers were instructed to take corrective actions with reference to their reinsurance arrangements.

9. Submission of Biannual Compliance Certificate as per Circular 18

According to the circular 18 issued by the Board, all insurers are required to submit their Biannual Compliance Certificates to the Board, on a half yearly basis on or before 15th February and 15th August every year. During the year 2012, Board reviewed the Compliance Certificates submitted by all insurers to confirm that they comply with all the legal and regulatory provisions of the RIIA, enter into treaty and facultative reinsurance arrangements with approved reinsurers as per guidelines of the Board, comply with solvency margin rules, fulfill minimum capital requirement and comply with premium payment warranty for policies of general insurance.

10. Revision of Statement of Recommended Practice for Insurance Contracts (SORP) for Insurance Companies

The IBSL liaised with The Institute of Chartered Accountants of Sri Lanka (ICASL) in revising Statement of Recommended Practice (SORP) which prescribes the basis of

presentation of general purpose financial statements of insurance companies. In order to standardize accounting for Insurance Contracts due to change in financial reporting system to SLFRS in 2012, revision of SORP was necessitated. Furthermore, this revision of SORP will ensure a uniform financial statement reporting system facilitating extraction of more information for regulatory and supervisory purposes in line with the SLFRS. The draft revised SORP was finalized with participation of insurance industry representatives and IBSL. The revised SORP will be issued to the industry.

Insurance Brokers

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

In terms of the Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010, all insurance brokers are required to submit their quarterly returns and their interim financial statements within 45 days of the end of each quarter. Those reports submitted by insurance brokers were reviewed for their compliance as an off-site supervision activity. The errors and discrepancies identified during the review, such as incomplete sections, erroneous computations, variant formats, and discrepancies reporting were brought to the notice of respective insurance brokers for rectification.

Insurance brokers are required to submit their audited financial statements within six months from the end of the financial year. The Board reviewed the audited financial statements submitted to ascertain the financial position and performance of insurance brokers during the year.

2. Monitoring Premium Collections

As per section 89 of the RIIA, insurance premiums collected by insurance brokers on behalf of insurers should be remitted to respective insurers within two weeks of collection. The

Board closely monitored insurance brokers' compliance with this regulation through quarterly returns submitted to the Board and during on-site inspections. Necessary actions were taken in respect of insurance brokers who did not comply with the said requirement.

3. Onsite inspections

During the year 2012, the Board carried out seven on-site inspections of insurance brokers in order to assess whether they conduct insurance brokering business in accordance with the rules and regulations of the Board. Further, the Board evaluated internal control procedures and the manner in which operations are carried out by the brokers during the on-site inspections and recommendations were given for further improvements. When non-compliances were observed during on-site inspections, instructions were given to rectify them within stipulated time periods.

4. Renewal of licences

The applications received for the renewal of annual licences to carry out operations during the year 2013 were assessed by evaluating financial position of the insurance brokers. The audited financial statements and quarterly returns of brokers were evaluated to confirm that they fulfill the requirements of the Board prior to the renewal of licences.

5. Grant of new licences

The Board reviewed the business plans, audited financial statements, net capital position, etc. of new insurance brokers who applied for registration in order to assess their financial position. Where the applicants did not satisfy the requirements, they were instructed to fulfill the same or submit additional information for further analysis. Subsequently registration was granted to five insurance brokers since they fulfilled the requirements of the Board.

review of operations

Regulatory Review

Registration of Insurance Companies

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

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

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

Registration to 11 companies to operate as insurance brokers was granted by the Board during the year. Out of which, four companies obtained registration to carry on both long-term and general insurance brokering business, one company to carry on long-term insurance brokering business and the other six companies to carry on general insurance brokering business.

Applications from 44 insurance brokering companies seeking renewal of registration for year 2013 were received by the Board during the year and renewal of registration was granted to all 44 companies for year 2013 in view of them fulfilling necessary requirements under the Act.

The application for renewal of registration submitted by an insurance brokering company for year 2012 was refused by the Board in September 2012, in terms of Section 84 (1) (c) (ii) of the Act on the ground that the Deputy Chairman of the holding company of the said brokering company was serving as a director of an insurance company.

As per Section 84 (1) (c) (ii) of the Act, the Board may suspend or cancel a registration or refuse to renew a certificate issued to a broker, where a director or the principal officer of the broker; or a director or the chief executive officer of

an associate, a subsidiary or a holding company of such broker, becomes a director, a shareholder or an employee of an insurer.

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

Enforcement Action

Insurance Companies

Suspensions

No suspensions were imposed by the Board during the year. However, the suspension imposed on Ceylinco Takaful Limited in year 2009 continues. Following the Supreme Court Order given on the Fundamental Rights Case No. SC (FR) 191/09, the Board entered into a Memorandum of Understanding (MOU) with Ceylinco Takaful Limited, to initiate a procedure to dispose the assets owned by Ceylinco Takaful Limited for the purpose of settling genuine insurance claims of the company.

Directions

A direction was issued by the Board to an insurance company in terms of Section 18 (7) of the Act, requiring them to infuse additional capital by end February 2013 to maintain the minimum net capital requirement of Rs. 500 million, a condition which was imposed at the time of registration.

Section 18 (7) of the Act states that notwithstanding the provisions contained in Sections 18 (1) and 18 (2), the Board may in lieu of cancellation or suspension on any one or more grounds referred to in Section 18 (1), of a licence issued to an insurer under the Act, and where the nature of the act or omission referred to therein and which is committed by such insurer is not of such nature as to warrant a cancellation or suspension of the licence, direct the insurer to take such measures as may be determined by the Board, to -

- (a) prevent the continuance of such act or omission; and
- (b) rectify and set right the consequences resulting from such act or omission.

Directions were issued by the Board under Section 57 of the Act to another insurer with a view to maintaining financial stability and sustainability of the said company, after a detailed consideration of the affairs of the company and the financial position from year 2007 onwards.

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

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

Warnings

A letter of warning was issued by the Board to an insurer since the company failed to comply with Sections 26 and 29 of the Act.

Section 26 of the Act requires every insurer to maintain in respect of each class of insurance business, a solvency margin of such amount as may be determined by the Board, by rules made in that behalf.

As per Section 29 of the Act, no insurer shall grant to any person who holds the position of a Director of such insurer, or to any company in which such a person holds any such position, any loan, other than a loan on a mortgage of a policy of life assurance issued by that insurer, except with the prior approval of the Board which shall grant such approval only if it is satisfied that sufficient security is being given for the repayment of the loan.

review of operations

Further, warnings to 03 insurance companies were issued by the Board for contravening Section 34 of the Act for accepting insurance business from a company, prior to such company being registered as an insurance broker.

As per Section 34 of the Act, no insurer shall accept any insurance business except from-

- (a) any person who has an insurable interest in the subject matter of insurance;
- (b) another insurer in respect of reinsurance;
- (c) an insurance agent; or
- (d) an insurance broker registered under the Act.

Insurance Brokering Companies

Warnings

Letters of warning to 02 insurance brokering companies were issued by the Board in terms of Section 84 (1) (d) of the Act since the companies failed to comply with Section 86 of the Act.

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

The first and final warning was issued by the Board to an insurance broker in terms of Section 84 (1) (d) of Act for carrying out insurance brokering transactions prior to obtaining registration from the Board in violation of Section 79 of the Act and for furnishing the Board with false, misleading and inaccurate information at the time of registration.

Section 79 of the Act prohibits any person to act or hold itself out as an insurance broker unless such person is

a holder of a certificate of registration as a broker granted by the Board and is a member of an Association of Insurance Brokers approved by the Board.

Further, letters of warning were issued by the Board to 02 insurance brokering companies in terms of Section 84 (1) (d) of the Act for violating Section 86 (2) of the Act.

As per 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.

The final letter of warning was issued by the Board in terms of Section 84 (1) (d) of the Act to another insurance brokering company since the company failed to comply with Section 89 of the Act.

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

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

Directions

Directions were issued by the Board to 07 insurance brokering companies in terms of Section 96A of the Act directing them to include as part of their names, the expression "Insurance Brokers". A reasonable time period has been given for compliance.

Section 96A of the Act empowers the Board to issue directions to insurers, brokers and loss adjusters, as the case may be, with the view to safeguarding

the interest of policyholders and potential policyholders, and it is the duty of every such insurer, broker or loss adjuster to comply with any such directions so issued.

Regulatory/Advisory Measures

1. Approval of the Board was sought by a company to obtain Kidnap and Ransom insurance cover for their seafarers - security personnel from international insurance companies informing that local insurance companies are unable to provide such cover. The said company is in the business of providing risk mitigating solutions for merchant vessels trading in designated high risk areas identified by the International Maritime Organization of the UN. Their solutions involve risk assessment and providing risk mitigating personnel, such as armed security guards on board ships. After having confirmed the position in Sri Lanka with regard to kidnap & ransom insurance cover, approval was granted by the Board to the said company to obtain such cover for a period of two years from foreign insurers in terms of Section 101(1) of the Act.

As per Section 101 (1) 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.

Section 101 (2) of the Act states that the Board shall consider the policy of the Government in respect of the insurance industry and the national interest, when granting approval.

2. Approval was granted by the Board to an insurer to change its reporting system from monthly to quarterly, by cancelling a previously issued Direction to the said company in terms of Section 57 (2) of the Act.

review of operations

This was done since the company had maintained the required solvency margin levels during the reporting period.

Section 57 (2) of the Act empowers the Board to modify or cancel any directions issued under Section 57 (1) of the Act and in doing so, to impose such conditions as it thinks fit, when any representations are made to the Board.

3. Approval from the Board was sought by a Sri Lankan branch office of a Professional Accounting Body (Sri Lankan Branch) to purchase a Professional Indemnity cover for their practice in Sri Lanka for year 2012/2013 from a foreign Insurance Company. This request was pursuant to the Global Firm requiring the Sri Lankan Branch to participate in their global insurance arrangements. However, the request of the branch was not acceded by the Board and the Board required the branch to obtain the Professional Indemnity Cover for the operations of the Sri Lankan Branch from an insurer registered with the Board.
4. The Application for renewal of registration as an insurance broker 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 renewal of registration, only 50% of the renewal fee will be refunded to the applicant.
5. Approval from the Board was sought by an insurer to invest Maldivian Ruffia 10 million in the proposed insurance subsidiary to be registered in Maldives, and to transfer the assets and liabilities of its branch office to the said subsidiary. Approval was granted by the Board for the said investment and transfer of assets and

liabilities in terms of Section 25 (3) of the Act read with Regulation 4 of Gazette No. 1414/19 of 12th October 2005, subject to certain undertakings being provided to the Board by the said insurer.

As per Section 25 (3) of the Act, assets of a Reserve or Fund being maintained by an insurer under the Act and all other assets of such insurer shall be kept in Sri Lanka, unless otherwise permitted by the Board on application being made in that behalf by an insurer.

Regulation 4 of Gazette No. 1414/19 of 12th October 2005 stipulates the limits and types of investment permitted by the Board, in the event an insurer wishes to keep its assets outside Sri Lanka.

6. Number of applications were received by the Board during the year by insurance companies for appointment of Directors in terms of the new provisions introduced by the Amendment Act.
7. Instructions were given by the Board to an insurance brokering company to caution its employee who marketed himself that he represents all insurance companies and offers motor insurance service at competitive prices, to refrain from doing such acts in the future.
8. The application submitted by a company for registration as an insurance broker was refused by the Board since it failed to demonstrate a sound financial status.
9. Having noted receipt of large number of applications from companies seeking registration as Insurance Brokers during the past years, the Board has decided to temporarily stop entertaining new applications with effect from 27th April 2012 until further notice is published in

this regard. This step was taken in consultation with the insurance industry.

Regulatory Reforms

Amendments to the Act

Amendments to the Act was suggested by the Board and sent to the Ministry of Finance and Planning for approval. The amendments addresses the name change of the Board to "Insurance Regulatory Commission" and permitting an insurance agent to work for one life insurance company and one general insurance company.

Amendments to Rules

The Solvency Margin (General Insurance) Rules published in Gazette Extraordinary No.1341/8 of 17th May 2004 and the Solvency Margin (Long Term) Rules published in Gazette Extraordinary No.1255/12 of 24th September 2002 were revised by the Board. These revisions were done to meet the varying requirements of the insurance industry and the trends of commercial affairs of the fast moving world. These revisions were published in Gazette Extraordinary No.1697/27 of 18th March 2011 and came into effect from 1st April 2011. The said Solvency Margin Rules were further amended by Rules published in Gazette Extraordinary No.1768/12 of 24th July 2012.

The amendments were with regard to the recognition of Credit Rating Agencies registered with the Securities and Exchange Commission of Sri Lanka and internationally recognized Credit Rating Agencies with the prior approval of the Board. These are in addition to the Credit Rating Agencies recognized in the previous Solvency Margin Rules.

The amendment further recognizes asset backed securities issued by a company listed on a stock exchange and carrying an investment grade rating to

review of operations

the instrument, as admissible assets for the purpose of determining the solvency margin.

Further, Rules to regulate institutional agents and loss adjusters in terms of Parts VIII and VIIIA of the Act were drafted by the Board.

Amendments to Determinations and introduction of new Determinations

Determination No. 1 which stipulates the manner that should be followed in investing the balance assets of the Long Term Insurance Fund and of the Technical Reserve after investing the minimum required amounts in government securities, was amended to give effect to amendments made to Solvency Margin Rules.

Determination No. 14 of 30th March 2012 was made by the Board under Section 47 (1) & 56 of the Act with regard to Annual Returns of Insurance Companies. Accordingly, every insurance company shall, for every financial year commencing from the first day of January 2011, furnish to the Board its annual returns in accordance with the revised formats (revised to be in line with the amendments made to the Solvency Margin Rules) within six months after the closure of the financial year along with statements of holding issued by the Central Bank of Sri Lanka in respect of investments made in Government Securities.

The first submission was required to be made to the Board on or before 30th June 2012 for the financial year ended 31st December 2011.

Determination No. 6 of 30th October 2002 was repealed and Determination No. 15 of 30th March 2012 was introduced by the Board under Section 48 (1) of the Act with regard to Actuarial Abstract of Insurance

Companies. The said Determination requires every insurer carrying on Long-Term-Insurance Business to cause an abstract to be made by an actuary for every financial year commencing from the first day of January 2011, according to the revised formats (revised to be in line with the amendments made to the Solvency Margin Rules) and furnish such abstract to the Board within six months after the closure of the financial year. The first submission is required to be made to Board on or before 30th June 2012 for the financial year ended 31st December 2011.

Amendments to Regulations

New Regulations were made amending the Regulations published in Gazette Extraordinary No. 1414/19 of 12th October 2005 in respect of registration fee and annual fee paid by insurers. The registration fee was increased from Rs 250,000.00 per class of insurance business to Rs 500,000.00 per class of insurance business. The annual fee was also revised to Rs. 100,000.00 in respect of each class of insurance business for the first calendar year of operation; and from and after the commencement of the second calendar year of operation, Rs. 200,000.00 in respect of each class of insurance business or 0.075% of the gross written premium of each class of insurance business of the preceding financial year; whichever amount is higher.

Amendments to Terms and Conditions applicable for reinsurance placements

The terms and conditions applicable for reinsurance placements issued by the Board (applicable to insurance companies with effect from 31.03.2003) was revised with effect from 2013 with a view to strengthening reinsurance placements of local insurance companies.

Salient features of the proposed terms and conditions for reinsurance placements are as follows -

- (1) only rated entities, rated by acceptable rating organizations are recognized;
- (2) more clarity for the type of rating (credit rating or financial strength rating) of reinsurer has been given; and
- (3) the time period in which the rating of the reinsurer will be accepted by the Board has been specified (18 months).

New Formats for reporting have also being introduced in terms of the revised Reinsurance Terms and Conditions issued under Section 31(1) of the Act.

review of operations

Investigatory Review

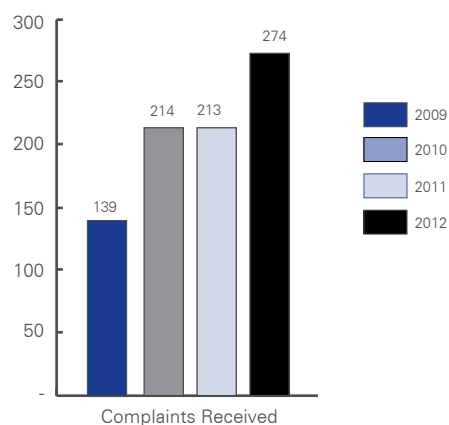
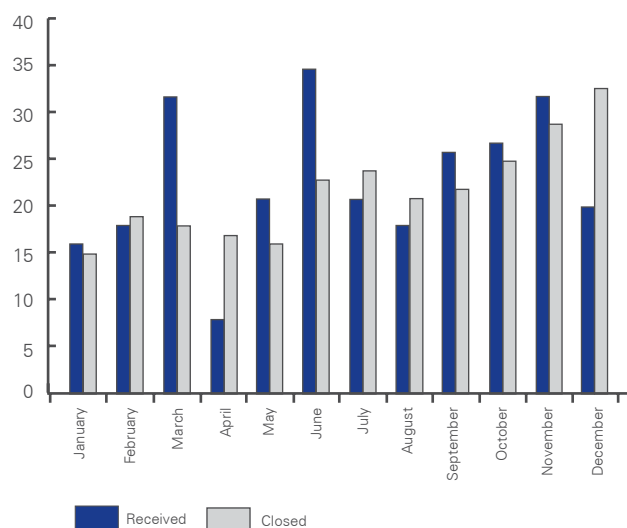
The Board has an overall objective of safeguarding the interests of policyholders and potential policyholders in terms of the statutory obligation stated in Section 3 of the Act.

Accordingly, when a dispute relating to the settlement of a claim arises between the insurance company and the claimant under an insurance policy, such person may at his option refer such dispute to the Board for inquiry. This is stated under Section 98 of the Act.

During the year under review the Board received a total of 274 complaints out of which 262 were resolved during the year.

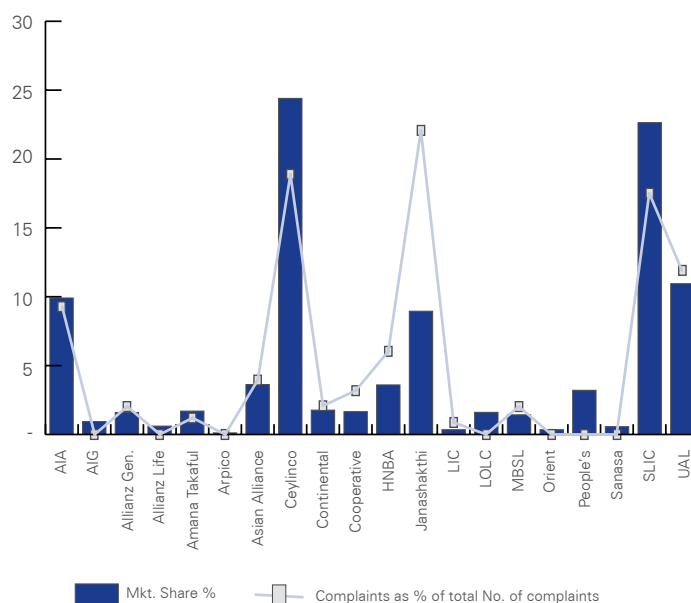
General	No.	Life	No.	Agent Related	No.
Motor	110	Hospitalization	15	Employment Matters	07
Marine	03	Death Benefit	15	Qualifications	07
Fire	05	Disability	03	Misappropriation	17
SRCC/ TC	04	Lapsed	06	Others	13
Burglary	15	Cover Removed/ Policy not Revived	02		
Performance/ Advance Payment	02	Maturity Benefits/ Surrender Value	18		
Workmen's Compensation	01	Other - Loans	01		
Flood	02	Refund of Premia	09		
Agrahara/ Guru Abhimani	04	Investment Policies	04		
Medical/ Health Insurance	02	Critical Illness	02		
Travel Insurance	01				
Contractors' all risk	01				
Cash in Transit	01				
Bankers' Indemnity	03				
Loan Protection	01				

Complaints received and completed during the year 2012



review of operations

Complaints as a % of Total Number of Complaints received vs., Market Share of each Insurance Company



Other Investigations

- During the year under review, the Board inquired into unethical behavior of a particular Investigator engaged by an insurance company. Having inquired into the conduct of the person concerned, it transpired that he had impersonated officers of the public service. This matter was brought to the notice of the Inspector General of Police. Industry was cautioned by the Board in general and the importance of ethical behavior of Investigators was stressed.
- An inquiry was commenced upon receiving several complaints from employees of an insurance company with regard to purchase of shares. The inquiry into the matter is progressing with the assistance of other regulatory authorities.

Other

- The Board considers documentary based analysis of evidence for its inquiries. Hence it has become vital for the Board to consult the Government Analyst in order to obtain clarification on certain forensic materials placed before it. Therefore, after having discussed with the Government Analyst, the Board initiated steps to enter into a Memorandum of Understanding with the Government Analyst Department.
- Third party insurance and its scope were discussed at many forums. Hence the Board took steps to re look at the current third party insurance in place along with the industry and the Department of Motor Traffic. After much deliberation the observations of the Industry were submitted to

the Department of Motor Traffic to be included in the amendments to the Motor Traffic Act. Inclusion of Psychological harm and third party property damages in the said observations is noteworthy.

- During the year 2012 the Board received a range of complaints. After having analyzed the types of complaints along with public concerns stated therein following areas were highlight in public awareness materials issued by the Board:
 1. Important matters to keep in mind when filling a Proposal Form.
 2. Importance of disclosing material facts.
 3. Things to be aware of when buying a Policy.

review of operations

Market Development and External Relations Unit

Overall objective of the Market Development and External Relations (MDER) Unit is to enhance public awareness on insurance related matters with a view to protecting policyholders and potential policyholders.

In the year 2012, following communication channels were utilised to reach the target audiences:

1. Groups that interact with rural community - Grama Niladari's, Samurdhi Officers and Field Officers.
2. Print and electronic media.
3. School Children and undergraduates.

Awareness campaigns launched during the year evolved around the theme "the role and functions of the Insurance Board of Sri Lanka and the insurance sector". This theme was selected after scrutinising the public queries received in the previous years.

Awareness Programmes at Divisional Secretariats

These programmes were organized in collaboration with Divisional Secretariats in order to enhance knowledge of public officers that interact directly with the public.

Divisional Secretariats in Central and Southern Provinces were selected as an initial step.

Seven (07) awareness programmes were conducted in Ukuwela, Tissamaharamaya, Ambalangoda, Harispattuwa, Kamburupitiya, Kotmale and Ampara Divisional Secretariats, covering 400 Grama Niladari Divisions.

Awareness Programmes in Schools

The Board conducts seminars for Advanced Level students in the commerce stream as and when a request is made from respective schools.

On 28th May 2012, a seminar was conducted at Royal College, Colombo and approximately 350 students and staff members of the commerce stream participated.

Upon receiving an invitation from the Pothuwila Navodya Vidyalaya, Payagala, the Board provided a resource person for their "Commerce Day" programme.

Participation in Exhibitions

The Board participated at "Deyata Kirula" National Exhibition held in Oyamaduwa, Anuradhapura from 4th February to 12th February 2012, for the sixth consecutive year.

In collaboration with the Securities and Exchange Commission a permanent building was constructed and handed over to the National Livestock Development Board after the conclusion of the exhibition. Representatives of Insurance Association of Sri Lanka, Sri Lanka Insurance Institute and Sri Lanka Insurance Brokers Association

participated for the first time at the Dayata Kirula National Exhibition along with the Board and contributed in attending to public inquiries.



Media Interviews

Sri Lanka Rupavahini Corporation and Independent Television Network aired documentary news programs on "what is IBSL and its functions" utilizing the documentary film on IBSL along with short interviews from Chairperson. In addition, Director General was interviewed on Rupees & Sense programme of the Independent Television Network.



review of operations

Publications

During the year under review Board published many publications to improve public understanding on insurance concepts and other important aspects of insurance that may assist them when purchasing insurance products.

Board also published paper advertisements, press notices and press releases for the benefit of the public:

a) Advertisements/Supplements

- "Independence Day/ Deyata Kirula" paper supplement in the Daily News on 4th February 2012
- "A message from IBSL when buying an Insurance Policy" in Dinamina Tabloid Supplement "Kolompure Sriya" - July 2012.

b) Press Releases

- "Performance of the insurance industry during the year 2011" - June 2012
- "Performance of the Insurance Industry for the 1st half of 2012" in three languages - October 2012

c) Press Notices

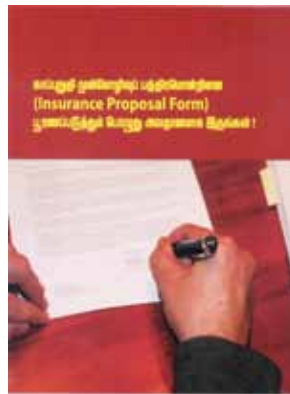
- Notice to the Public - List of Registered Insurance Companies" in three languages - June 2012.

d) Press Articles

- "Introduction of IBSL to the Public as the Regulator of the Insurance Industry" in the insurance supplement of Sunday Times - March 2012

e) Brochures (in Sinhala and Tamil languages)

- Are you aware? - Life Insurance
- Are you aware? - General Insurance
- Insurance Proposal Form
- List of registered insurance companies
- Facts to be considered when buying an insurance policy



Other Activities

1. Documentary film on IBSL

A documentary film depicting the role and functions of the Board was produced in the Sinhala language with English sub-titles. This was used at all awareness programmes of the Board.

2. Product Analysis

The Board also started reviewing products of insurance companies already filed with the Board with a view to suggesting improvements for the benefit of Policyholders. As a preliminary step Motor Insurance Policies were reviewed during 2012.

3. Public Consultation

During the year under review, the Board attended to numerous requests from the general public, policy holders as well as from the other stakeholders relating to information on industry and insurance related matters.



review of operations

Administrative Review

Staff

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

The Board establishes the organizational structure, identifies necessary functions to discharge its duty towards achieving the overall objective of ensuring that the insurance industry in Sri Lanka is carried on with integrity with a view to safeguarding the interests of all policyholders and potential policyholders. The Board took several key initiatives during the year under review to strengthen the human resource

through timely recruitment of required professionals. To meet those initiatives seven executives and two drivers were recruited to the permanent cadre during the year under review. Total staff strength of the Board was 39 positions as at 31st December 2012.

The educational and professional qualifications of the staff as at 31st December 2012 are depicted in the table below.

No. of Employees	Educational / Professional Qualifications				
	Post Graduate, First Degree & Professional Qualifications	Post Graduate & Professional Qualifications	First Degree & Professional Qualifications	First Degree	Professional Qualifications
39	02	04	07	10	05

Training

Focus on training and development covers the broad policy of helping the staff to obtain knowledge and learn

job related skills so as to improve their performance and organizational goals. During the year local as well as overseas

training opportunities were provided to staff to strengthen their capabilities.

Category	2011 (Rs.)	2012 (Rs.)
Local Training	1,606,760	811,321
Foreign Training	2,514,520	6,290,479

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.

Information Technology

In order to provide a corporate solution to its email facilities, the Board took initiatives to move to Zimbra collaboration suit during the year under review. Hardware equipments of servers of the Board were upgraded according to standards to fulfill the present IT requirements and to enhance the performance of servers.

review of operations

Financial Review

Policyholders' Protection Fund (PPF)

According to the Act, any (Cess) money collected to the Policy Holders' Protection Fund (PPF) which is not immediately required for any of the purposes referred

to in the Act has to be invested by the Board in a prudent manner to yield a good return. 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 2008-2012

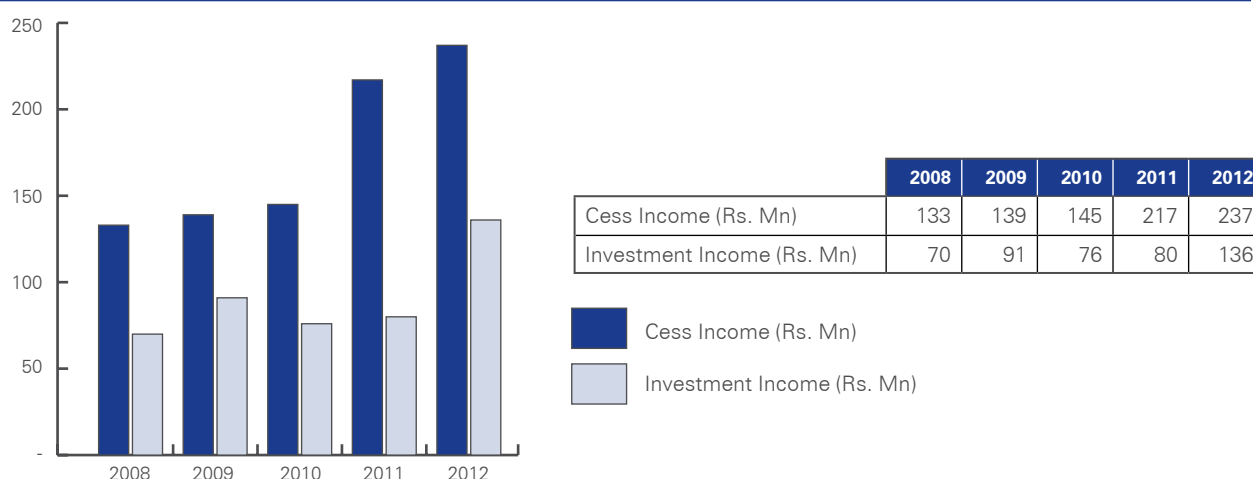


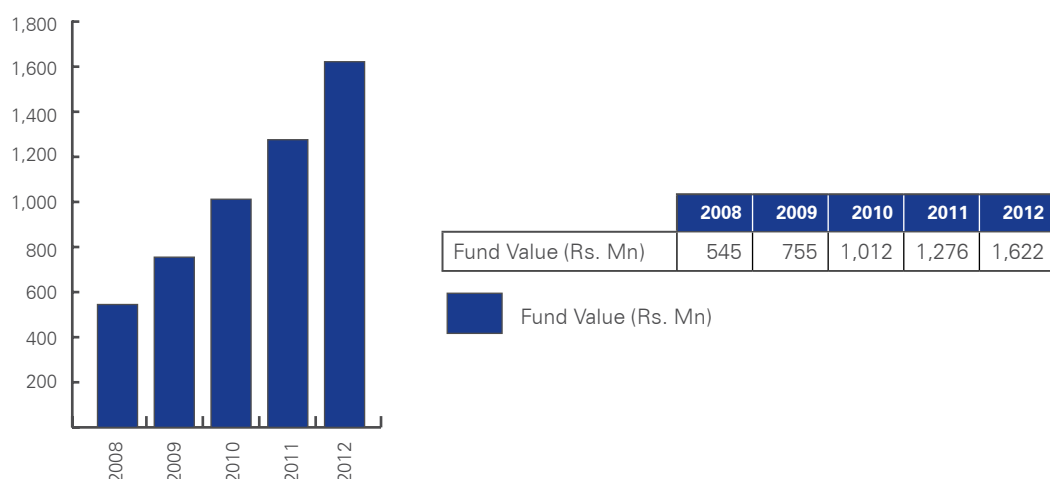
Chart 1 illustrates the growth of the Cess income over the last five years. The investment income has shown a significant increase from 2011 to

2012 due to increase of interest rates and increase of GWP of insurance companies.

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 2008 - 2012

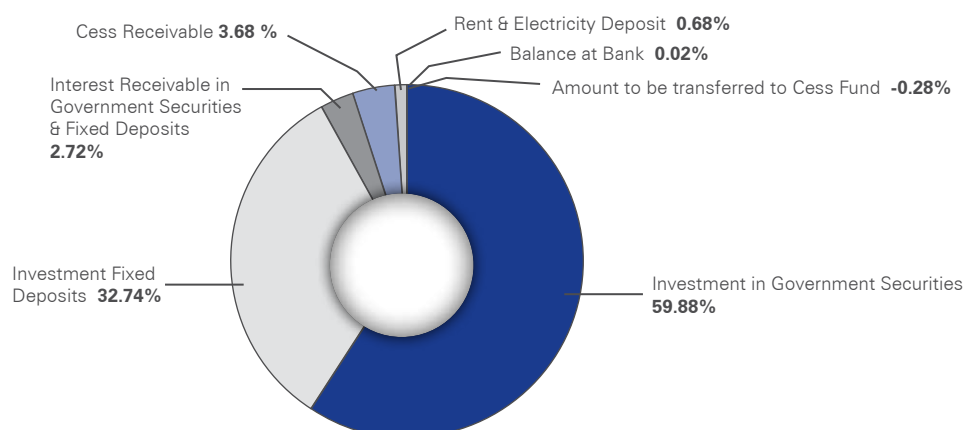


review of operations

The composition of assets of the PPF as at 31st December 2012 is depicted below.

Chart 3

Asset Composition of Policyholders' Protection Fund As At 31 December 2012



Income of the Board

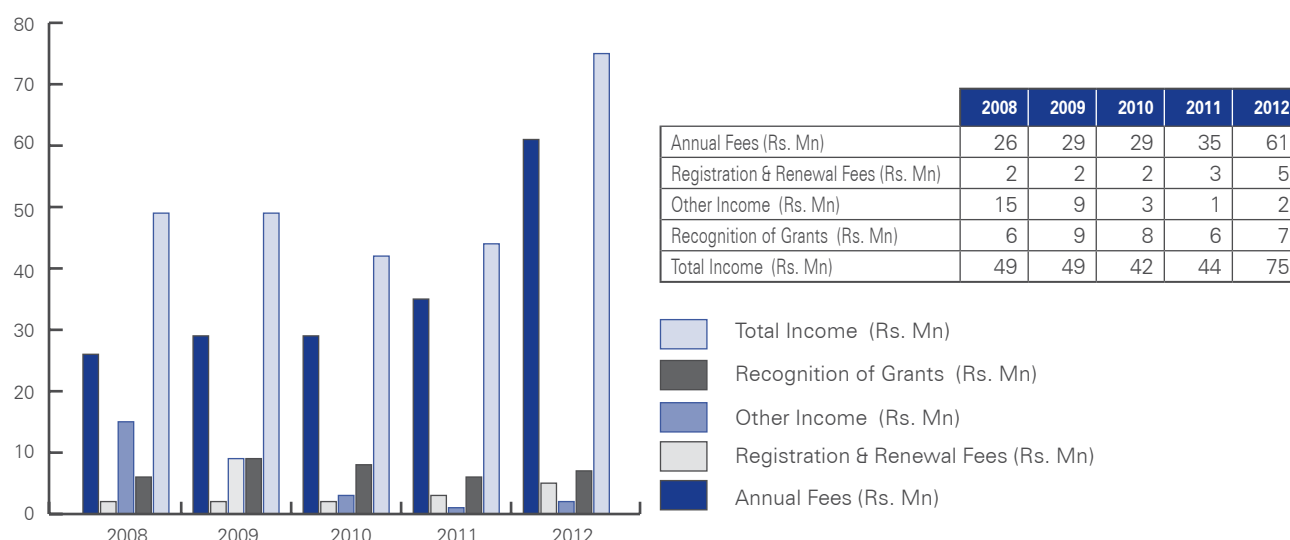
The overall income of the Board is derived from the following sources.

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

Chart 4 depicts the breakup of overall income received for the period 2008 to 2012.

Chart 4

Income of the Board for the period 2008-2012



review of operations

Expenses of the Board

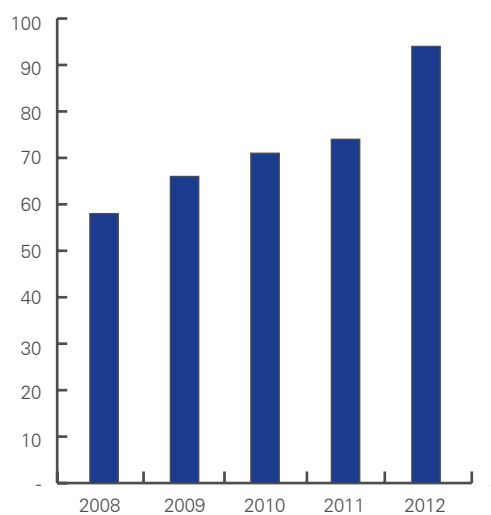
Total expenses of the Board have increased from 2008 to 2012. The deficit between income and the expenses

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 2008 to 2012.

Chart 5

Total Expenses of the Board for the period 2008-2012



	2008	2009	2010	2011	2012
Total Expenses (Rs. Mn)	58	66	71	74	94

■ Total Expenses (Rs. Mn)

financial information

Statement of Financial Position	70
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Statement of Cash Flows	72
Policyholders' Protection	
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statement of financial position

	Notes	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	1	13,165,749	12,368,886
Policyholders' Protection Fund-Rent and Electricity Deposits	2	11,088,660	8,728,590
Current Assets			
Inventories	3	391,138	183,131
Policyholders' Protection Fund-Investments and Others	2 & 17	1,610,930,804	1,267,656,277
Other Current Assets	4 & 17	13,513,443	10,898,124
Cash and Cash Equivalents	5	1,530,608	185,159
Total Assets		1,650,620,402	1,300,020,167
Reserves and Liabilities			
Reserves			
Accumulated Fund		-	-
Policyholders' Protection Fund	6	1,622,019,464	1,276,384,867
Liabilities			
Non Current Liabilities			
Grant	7	13,165,749	12,368,887
Retirement Benefit Obligation	8	1,889,445	1,833,909
		15,055,194	14,202,796
Current Liabilities			
Receipt in Advance	17	4,727,599	4,270,018
Other Current Liabilities	9	8,818,145	5,162,486
		13,545,744	9,432,504
Total Reserves & Liabilities		1,650,620,402	1,300,020,167

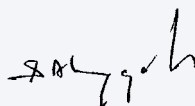
The Members of the Insurance Board of Sri Lanka are responsible for the preparation and presentation of these Financial Statements.

The above Statement of Financial Position is to be read in conjunction with the Accounting Policies and notes appearing on pages 74 to 81.

For and on behalf of the Insurance Board of Sri Lanka



Indrani Sugathadasa
Chairperson



S.R. Attygalle
Member

statement of comprehensive income

For the year ended	Notes	31.12.12 Rs.	31.12.11 Restated Rs.
Income			
Revenue	10 & 17	65,774,167	37,628,544
Recognition of Grant	7	6,662,626	6,040,348
Interest Income		1,932,676	144,873
Other Income	11	172,686	415,246
Total Income		74,542,155	44,229,011
Less:			
Expenditure			
Staff Cost		48,661,790	36,063,408
Professional Charges		994,405	1,619,785
Operational Expenses		43,817,296	36,567,718
Finance and Others		125,629	99,514
Total Expenditure		93,599,120	74,350,425
Net Deficit Before Tax	12 & 17	(19,056,965)	(30,121,414)
Transfer from Policyholders' Protection Fund	6	19,295,177	30,132,344
Taxation		(238,212)	(10,930)
Net Deficit After Tax		-	-
Net Surplus for the Year		-	-

The Accounting Policies and Notes appearing on pages from 74 to 81 form an integral part of the Financial Statements.

statement of cash flows

For the period ended	Notes	31.12.12 Rs.	31.12.11 Restated Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) for the Period		-	-
Adjustment for Depreciation		6,582,865	6,237,563
Provision for Retirement Benefit		55,536	703,074
Profit/Loss on Disposal		79,761	(172,023)
Recognition of Grant		(6,662,626)	(6,040,348)
Income Tax		238,212	10,930
Interest Income		(1,932,676)	(144,873)
Net Increase before Working Capital Changes		(1,638,928)	594,323
Change of Working Capital			
(Increase)/Decrease in Inventories		(208,007)	129,000
(Increase)/Decrease of Receivables	17	(2,656,106)	(3,694,969)
Increase/(Decrease) of Receipt in Advance	17	457,580	1,920,000
Increase/(Decrease) of Creditors and Accruals		3,655,659	(5,284,774)
Cash Flow used in Operating Activities		1,249,126	(6,930,743)
Net Cash Flows from Operating Activities		(389,802)	(6,336,420)
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		-	5,000,000
Interest Income		1,735,251	152,910
Proceeds from Sale of Property, Plant and Equipment		-	886,826
Purchase of Property Plant and Equipment		(7,459,488)	(2,502,591)
Net Cash used in Investing Activities		(5,724,237)	3,537,145
Cash Flow from Financing Activities			
Capital transfer from Policy Holders Protection Fund		7,459,488	2,502,591
Increase in Finance Lease		-	(1,124,441)
Net Cash Flows from Financing Activities		7,459,488	1,378,150
Net Increase/(Decrease) in Cash and Cash Equivalents		1,345,449	(1,421,125)
Cash and Cash Equivalents at the beginning of the year		185,159	1,606,284
Cash and Cash Equivalents at the end of the year		1,530,608	185,159
Cash at Bank and in Hand	5	1,530,608	185,159

The Accounting Policies and Notes appearing on pages 74 to 81 form an integral part of the Financial Statements.

policyholders' protection fund statement of cash flows

For the year ended	Notes	31.12.12 Rs.	31.12.11 Restated Rs.
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		345,634,597	264,574,757
Net Increase before Working Capital changes	17	345,634,597	264,574,757
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities and Fixed Deposits		(12,560,479)	(8,377,361)
(Increase)/Decrease of Cess Receivable		(10,000,000)	(13,985,183)
(Increase)/Decrease of Rent Deposit		(2,360,070)	-
Increase/(Decrease) of Amount to be transferred From PPF	17	702,733	8,328,870
		(24,217,816)	(14,033,674)
Net Cash flows from Operating Activities		321,416,781	250,541,083
Cash Flow into Investing Activities			
Investments in Government Securities		212,926,661	(250,939,905)
Investments in Fixed Deposits		(534,000,000)	-
Net Cash flows from Investing Activities		(321,073,339)	(250,939,905)
Net Increase/(Decrease) in Cash and Cash Equivalents		343,442	(398,823)
Cash and Cash Equivalents at the beginning of the year		28,457	427,280
Cash and Cash Equivalents at the end of the year		371,899	28,457
Cash at Bank	2	371,899	28,457

The Accounting Policies and Notes appearing on pages 74 to 81 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 laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

1.3 Events after the reporting period

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

1.4 Comparative Figures

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

1.5 Taxation

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

The Board has now 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

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

Depreciation

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

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

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

2.2 Investments

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

2.3 Inventories

Inventories are stated at lower of cost or net realizable value. The cost of inventories is valued on First-In- First-Out (FIFO) basis.

2.4 Receivables

Receivables are stated at estimated realizable value.

2.5 Cash and Cash Equivalents

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

3. Liabilities and Provisions

3.1 Retirement Benefits

3.1.1 Defined Benefit Plans - Gratuity

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

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

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

accounting Policies

3.1.2 Defined Contribution Plans - EPF and ETF

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

3.2 Liabilities

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

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

3.3 Grant

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

4. Income & Expenditure

4.1 Revenue Recognition

Revenue is recognized on accrual basis.

4.2 Government Grants

No Government grants were received during the period under review.

4.3 Expenditure Recognition

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

4.4 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 Rs.	Training Equipment Rs.	Total Rs.
Cost					
Balance as at 1 January 2012	9,473,243	14,283,009	20,484,183	141,450	44,381,885
Additions	6,844,078	352,257	263,153	-	7,459,488
Disposals	-	(2,030,551)	(87,000)	-	(2,117,551)
Balance as at 31 December 2012	16,317,321	12,604,715	20,660,336	141,450	49,723,822
Accumulated Depreciation					
Balance as at 1 January 2012	8,722,606	7,609,835	15,539,107	141,450	32,012,998
Charge for the year	2,163,738	1,755,611	2,663,517	-	6,582,866
Disposals	-	(1,950,791)	(87,000)	-	(2,037,791)
Balance as at 31 December 2012	10,886,344	7,414,655	18,115,624	141,450	36,558,073
Written Down Value					
As at 31 December 2012	5,430,977	5,190,060	2,544,712	-	13,165,749
Written Down Value					
As at 31 December 2011	750,636	6,673,174	4,945,076	-	12,368,886

	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
2 Policyholders' Protection Fund Investments and Others		
Non Current Assets		
Rent and Electricity Deposits	11,088,660	8,728,590
Current Assets		
Investment in Government Securities	976,651,187	1,189,577,848
Investment in Fixed Deposits	534,000,000	-
Interest Receivable on Government Securities & Fixed Deposits	44,445,385	31,884,906
CESS Receivable	60,000,000	50,000,000
Balance at Bank	371,899	28,457
Less:		
Amount to be transferred from PPF	4,537,667	3,834,935
	1,610,930,804	1,267,656,277
Total Assets	1,622,019,464	1,276,384,867

notes to the financial statements

	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
3 Inventories		
Printing, Stationery and Computer Accessories	303,083	175,871
Stamps	88,055	7,260
	391,138	183,131
4 Other Current Assets		
Deposits	172,122	187,870
Other Receivables	114,597	146,911
WHT Recoverable	1,049,296	1,055,865
VAT Control	502,748	1,182,959
Staff Loans *	3,923,116	3,668,481
Advance and Pre-payments	3,038,082	821,104
Economic Service Charge	90,815	-
Advance to Purchased Fixed Assets	85,000	-
Amount to be transferred from PPF	4,537,667	3,834,935
	13,513,443	10,898,124
*Loans Granted to Staff		
Balance as at 1st January	3,668,481	4,025,086
Loans Granted during the year	2,942,391	2,305,239
	6,610,872	6,330,325
Repayments during the year	(2,687,756)	(2,661,844)
Balance as at 31st December 2012	3,923,116	3,668,481
5 Cash & Cash Equivalents		
Cash at Banks		
Bank of Ceylon	1,530,608	185,159
Cash in Hand	-	-
	1,530,608	185,159

notes to the financial statements

	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
6 Policyholders' Protection Fund		
Opening Balance	1,276,384,867	1,011,810,110
Cess Received during the year	236,534,917	216,837,328
Interest on Treasury Bill Investment	47,865,987	44,927,884
Interest on Repo and Call Account	87,316,447	35,463,880
Interest on Fixed Deposits	696,541	-
	1,648,798,759	1,309,039,202
Less:		
Transfers for Operational Expenses	19,295,177	30,132,344
Transfers for Capital Expenses	7,459,488	2,502,591
Total transfers- Policyholders' Protection Fund	26,754,665	32,634,935
Bank charges	24,630	19,400
	26,779,295	32,654,335
Closing Balance	1,622,019,464	1,276,384,867
7 GRANT		
Balance at the beginning of the year	12,368,887	15,906,644
Capital Expenditure from Policyholders' Protection Fund	7,459,488	2,502,591
Less: Amortized during the year	(6,662,626)	(6,040,348)
Balance at the end of the year	13,165,749	12,368,887
Note - Recognition of Grant		
The grant has been accounted for in accordance with the LKAS 20.		
The grant is recognized in the Statement of Comprehensive Income at the following rates.		
Motor Vehicle	25%	
Office Equipment - Others & EDP	25%	
Furniture, Fixtures & Fittings	12.5%	
8 Retirement Benefit Obligations		
Balance at the beginning of the year	1,833,909	1,444,533
Provision made during the year	55,536	703,074
(-)Payment made during the period	-	(313,698)
Balance at the end of the year	1,889,445	1,833,909
9 Other Current Liabilities		
Accrued Expenses	8,077,508	4,623,888
EPF Payable	489,052	346,249
ETF Payable	73,359	51,938
PAYE and WHT Payable	84,130	52,191
Others	94,096	88,220
	8,818,145	5,162,486

notes to the financial statements

	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
10 Revenue		
Annual Fees from Insurance Companies	61,044,774	34,578,544
Registration and Renewal Fees	4,729,393	3,050,000
	65,774,167	37,628,544
11 Other Income		
Interest on Vehicle Loan	31,086	48,055
Interest on Distress Loan	94,812	102,196
Sale of publications	-	49,875
Profit on disposal	-	172,023
Sundry Income	46,788	43,097
	172,686	415,246
12 Excess/ (Deficit) Income over Expenditure		
Deficit for the year is arrived at after charging all expenses including the following:		
Staff Salaries	24,881,974	18,504,115
EPF and ETF	3,869,453	2,806,072
Provision for Retiring Gratuity	55,536	703,074
Staff Training - Overseas	6,290,475	3,087,200
Local Consultants	100,000	614,167
Foreign Consultants	666,444	719,121
Auditors Remuneration	375,000	585,252
Depreciation	6,582,865	6,237,563
Chairperson's Expenses - Allowance	900,000	457,500
Chairperson's Expenses - Fuel	317,520	268,920
Directors Vehicle Allowance	3,850,000	1,767,419
Attendance Fee for Board Members	494,547	500,797
Public Awareness	4,281,143	3,318,217
Bank Charges	125,629	73,534
Debit Tax	-	25,816
13 Staff Costs		
Legal	10,028,637	7,593,164
Supervision	12,100,916	11,563,369
Investigation	6,612,549	5,746,372
Market Development & External Relations	3,330,622	1,646,540
Finance and Administration	16,589,066	9,513,963
	48,661,790	36,063,408

notes to the financial statements

	As at 31.12.12 Rs.	As at 31.12.11 Restated Rs.
14 Professional Charges		
Local Consultants	100,000	867,167
Foreign Consultants	666,444	466,121
Others	227,961	286,496
	994,405	1,619,784
15 Operational Expenses		
Legal	11,579,640	9,493,344
Supervision	10,917,675	9,246,637
Investigation	8,444,642	6,848,294
Market Development & External Relations	3,861,266	3,384,915
Finance and Administration	9,139,702	7,594,529
	43,942,925	36,567,719

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 2012.

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

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

Accordingly, the net income earned by the Board from the secondary market transactions in Government Securities had been grossed up in the Financial Statements and the resulting notional tax credit amounting to Rs. 192,805.55 for the year 2012 has been recognized in the Financial Statement for the year ended 31 December 2012.

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

17. Restatement

Renewal of Registration fee income amounting to Rs. 2,870,000.00 to be recognized in current year had been recognized during the last year and impacted comparative figures were adjusted as per the LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, Boards' income was decreased by Rs. 2,870,000.00 while increasing the amount to be transferred from Policy Holders' Protection Fund. Receipt in advance also was increased by the same.

18. Capital Commitments

There were no capital commitments as at 31st December 2012.

19. Contingent Liabilities

There were no contingent liabilities as at 31 December 2012.

20. Events after the reporting period

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

notes to the financial statements

21. Related Party Disclosures

Mrs. Indrani Sugathadasa (Chairperson), Mr. B.D.W.A. Silva, Mr. D.K. Hettiarachchi (Ex-officio Members)

Mr.G. Gunawardhana, Mr. Nawaz Rajabdeen and Mr. Gamini Kohona (Members) held office of the Board during the whole year of 2012.

Mr. D. Widanagamachchi ceased to be a Member of the Board and Mr. S.R. Attygalle assumed duties as an Ex-officio Member on 23rd March 2012.

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

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd	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	Chairman Chairman Board Member Commission Member
Mr. D. Widanagamachchi	Sri Lanka Telecom Ceylon Petroleum Corporation Regional Development Bank Securities and Exchange Commission of Sri Lanka	Director (till 30/05/2012) Chairman (28/01/2012–10/08/2012) Director (till 30/05/2012) Commission Member (till 30/05/2012)
Mr. S.R. Attygalle	Sri Lanka Ports Authority Bank of Ceylon Superior Courts Complex Management Board Postgraduate Institute of Science, University of Peradeniya	Director Director Member Member
Mr. D.K. Hettiarachchi	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting and Auditing Standard Monitoring Board	Member Member
Mr. G. Gunawardhana	Hands International (Pvt) Ltd Hands Dipping (Pvt) Ltd Global Intimates (Pvt) Ltd Poly Gloves Lanka (Pvt) Ltd Ducky's Bag Manufacturing Co. (Pvt) Ltd Tropical Fish Lanka (Pvt) Ltd 21st Century Homes (Pvt) Ltd Lanka Leisure Resort Holdings (Pvt) Ltd Kidcare Home & Resident School Trust Edge Leisure Holdings (Pvt) Ltd Hands on Advertising (Pvt) Ltd Nature's Paradise Resorts (Pvt) Ltd Hands Food & Beverage (Pvt) Ltd Mannar Refineries (Pvt) Ltd Exporters Association of Sri Lanka Securities and Exchange Commission of Sri Lanka	Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Commission Member
Mr. Nawaz Rajabdeen	Rajabdeen & Sons Ltd Export Development Board	Managing Director Board Member
Mr. Gamini Kohona	Pulatisi Exports (Pvt) Ltd	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 அறிபுதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No

FB/I/IBSL/2/2012

ඔබේ අංකය
உமது இல
Your No

දිනය
திகதி
Date

06 August 2013

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 2012 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 2012 comprising the statement of the financial position as at 31 December 2012 and the detailed income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Regulation of Insurance Industry 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 furnished to the Chairman of the Board on 05 June 2013.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

auditor general's report

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2012 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 Non-compliance with Laws, Rules, Regulations and Management Decisions

According to the Management Service Circular No. 19 of 12 November 2003, the loss making institutions should pay bonus at Rs.1,000 per person. Instead of paying a sum of Rs.94,000 as the bonus in the years 2010, 2011 and 2012, payments totaling Rs.3,717,751 had been made.

2.2.2 Transactions not Supported by Adequate Authority

The interest recoverable on motor vehicle loans had been reduced to 4.2 per cent with effect from 01 May 2011 by the Board of Directors without the approval of the Department of Public Enterprises.

3. Financial Review

3.1 Financial Results

The operations of the Board during the year under review had resulted in a pre-tax deficit of Rs.19,056,965 as compared with the corresponding deficit of Rs.27,251,414 for the preceding year, thus indicating an improvement of Rs.8,194,449 or 30 per cent in the financial results for the year under review.

The increase of the identified grants and the interest income of the Board as compared with the preceding year by 76 per cent and 1,234 per cent respectively and the decrease of the professional fees by 39 per cent had affected the improvement.

4. Operating Review

4.1 Performance

The following observations are made on the activities that should have been executed in the year under review according to the Annual Action Plan for the year 2012.

- (a) The Guidelines for investigation of complaints had not been prepared.
- (b) The rules issued by the controller of Insurance in the year 1987 had not been amended.
- (c) A regulatory format for the registration of Loss Adjusters and Insurance Agents had not been prepared.
- (d) Even though expenditure on local training amounting to Rs.811,321 had been shown in the financial statements, a sum of Rs.756,321 or 93 per cent out of that had been spent on welfare activities. As such the attention of the Board had not been paid for training in insurance sector.
- (e) Even though provisions of Rs 2.5 million had been made for the Management Information System for the Supervision Section, that work had not been executed.

4.2 Staff Administration

Vacancies in 05 Executive Posts of the Board existed as at 31 December 2012 and out of that 02 Executive Posts had been vacant from the beginning of the year.

auditor general's report

4.3 Management Inefficiencies

The following observations are made.

- (a) The Board had increased the salaries without following the specified methodology for revision of salaries. As the salaries had been revised based on the Letter No. PED 360/12/2 (ii) dated 18 July 2012 of the Deputy Secretary to the Treasury of the Ministry of Finance and Planning which stated that there was no objection to the revision of salaries on the requirements of the Board subject to a maximum of 25 per cent of the basic salary, an overpayment of Rs.1,564,338 had been made by the Board.
- (b) Even though the Board had been instructed by letter No. MF/2/4/IBSL/GEN dated 27 December 2009 of the Deputy Secretary of the Treasury of the Ministry of Finance and Planning to prepare and submit an Incentive Scheme based on performance, an Incentive Scheme had not been prepared and submitted to the Treasury for approval even by 30 June 2013.
- (c) Even though the Board had paid sums totaling Rs.2,280,660 to 25 officers as the bonus and the allowances for leave unavailed of in respect of the year 2011, the Pay As You Earn Tax thereon had not been recovered and remitted to Commissioner General of Inland Revenue. Similarly, the Pay As You Earn Tax on the bonus and the allowances paid for unavailed leave in the previous years had not been recovered and remitted to the Commissioner General of Inland Revenue.
- (d) As the payment for sick leave not availed of in the year 2011 had not been made according to the provisions in the Administrative Manual prepared by the Board, overpayments totaling Rs.259,556 had been made.
- (e) The overpayment of Rs.580,841 made due to the payment of allowance for unavailed leave for the years 2009 and 2010 based on the gross salary instead of the basic salary had not been recovered from the officers even by 30 June 2013.
- (f) According to Directive No. 11 made by the Committee on Public Enterprises on 09 December 2010, a formal procedure for the payment of compensation to third parties should have been prepared by holding discussion with the Commissioner General of Motor Traffic and submitted to the Committee. But an adequate course of action in this connection had not been taken in the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances in the budgeted expenditure and the actual expenditure in the year under review ranging between 55 per cent to 234 per cent were observed. As such the budget prepared by the institution had not been made use of as an effective instrument of financial management control.

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 Institution from time to time. Special attention is needed in respect of the following areas of control.

- (a) Payments
- (b) Training Programmes



H.A.S. Samaraweera
Auditor General

responses of the board to the matters raised by the auditor general

Auditor General's Report	IBSL Responses
2.2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions	
According to the Management Service Circular No. 19 of 12 November 2003, the loss making institutions should pay bonus at Rs.1,000 per person. Instead of paying a sum of Rs.94,000 as the bonus in the years 2010, 2011 and 2012, payments totaling Rs.3,717,751 had been made.	IBSL has been established by an Act of Parliament for the special purpose of regulating the insurance industry and not as a profit generating institution. Accordingly, it is not appropriate to categorize IBSL as a loss generating institution under Management Circulars. Similar to other regulatory institutions, IBSL had paid bonus with the approval of the Board and with the consent of the Ministry of Finance & Planning by its letter dated 27th December 2009.
2.2.2 Transactions not Supported Adequate Authority	
The interest recoverable on motor vehicle loans had been reduced to 4.2 per cent with effect from 01 May 2011 by the Board of Directors without the approval of the Department of Public Enterprises.	At the Board Meeting No. 103 held on 02nd May 2011 approval has been given to reduce the vehicle loan interest rate from 7.2% to 4.2% considering the market interest rates. The interest rate mentioned in the new Administrative Manual that has already been sent for approval of the Ministry of Finance & Planning is 4.2%. Further, we understand that the same rate has been applied by similar regulatory institutions and the Ministry of Finance & Planning has not objected to the said rate.
3. Financial Review	
3.1 Financial Results	
The operations of the Board during the year under review had resulted in a pre-tax deficit of Rs.19,056,965 as compared with the corresponding deficit of Rs.27,251,414 for the preceding year, thus indicating an improvement of Rs.8,194,449 or 30 per cent in the financial results for the year under review. The increase of the identified grants and the interest income of the Board as compared with the preceding year by 76 per cent and 1,234 per cent respectively and the decrease of the professional fees by 39 per cent had affected the improvement.	Restated figures need to be taken for the year 2011. According to your calculation, Rs. 2,870,000/- income amount has been taken as income both in year 2011 and 2012, and hence double counted. Accordingly, annual fees, interest income and grants increased by 75%, 1234% and 10% respectively while other income decreased by 58%, compared to the previous year.

responses of the board to the matters raised by the auditor general

Auditor General's Report	IBSL Responses
4. Operating Review	
4.1 Performance	
The following observations are made on the activities that should have been executed in the year under review according to the Annual Action Plan for the year 2012. (a) The Guidelines for investigation of complaints had not been prepared. (b) The rules issued by the controller of Insurance in the year 1987 had not been amended. (c) A regulatory format for the registration of Loss Adjusters and Insurance Agents had not been prepared. (d) Even though expenditure on local training amounting to Rs.811,321 had been shown in the financial statements, a sum of Rs.756,321 or 93 per cent out of that had been spent on welfare activities. As such the attention of the Board had not been paid for training in insurance sector.	(a) Investigation Division has already prepared a guideline for investigation of complaints and currently it's under review. The draft guidelines are expected to be finalized during the second quarter of 2013. (b) Although, effecting amendments to the said rules were commenced in year 2012, the Legal Division was unable to complete the task during the same year due to resigning of experienced Legal Officers and new recruitments to the Division. Hence, the task was included in the 2013 Action Plan and is expected to be finalized during year 2013. (c) It was not possible to complete the task during the year 2012 due to the reason given above and it is expected to be finalized in year 2013 as per the Action Plan. (d) The Board has spent Rs. 811,321/- for residential and other local training programmes during the year. Due to lack of local training programmes relating to the regulation of the insurance industry, the Board has paid special attention to sending IBSL staff for foreign training to fulfill this requirement. Total of Rs. 4,042,870/- has been spent for insurance related training within the year 2012. It is not appropriate to restrict the local training especially for the insurance field.
4.2 Staff Administration	
(a) Even though provisions of Rs 2.5 million had been made for the Management Information System for the Supervision Section, that work had not been executed. (b) Vacancies in 05 Executive Posts of the Board existed as at 31 December 2012 and out of that 02 Executive Posts had been vacant from the beginning of the year.	(a) Preliminary examination was conducted during 2012 in relation to implementation of Management Information System (MIS) while continuing the balance during year 2013. Further, it is expected that by obtaining professional expertise the MIS will incorporate superior functionality as well as the changes that have taken place in the Divisions of the Board. (b) The two vacant positions at the beginning of the year were not filled since there was no such requirement during the year. Officers have already been selected for the remaining three Executive positions and will be recruited during the next month.

responses of the board to the matters raised by the auditor general

Auditor General's Report	IBSL Responses
4.3 Management Inefficiencies	
(a) The Board had increased the salaries without following the specified methodology for revision of salaries. As the salaries had been revised based on the Letter No. PED 360/12/2 (ii) dated 18 July 2012 of the Deputy Secretary to the Treasury of the Ministry of Finance and Planning which stated that there was no objection to the revision of salaries on the requirements of the Board subject to a maximum of 25 per cent of the basic salary, an overpayment of Rs.1,564,338 had been made by the Board. (b) Even though the Board had been instructed by letter No. MF/2/4/IBSL/GEN dated 27 December 2009 of the Deputy Secretary of the Treasury of the Ministry of Finance and Planning to prepare and submit an Incentive Scheme based on performance, an Incentive Scheme had not been prepared and submitted to the Treasury for approval even by 30 June 2013. (c) Even though the Board had paid sums totaling Rs.2,280,660 to 25 officers as the bonus and the allowances for leave unavailed of in respect of the year 2011, the Pay As You Earn Tax thereon had not been recovered and remitted to Commissioner General of Inland Revenue. Similarly, the Pay As You Earn Tax on the bonus and the allowances paid for unavailed leave in the previous years had not been recovered and remitted to the Commissioner General of Inland Revenue. (d) As the payment for sick leave not availed of in the year 2011 had not been made according to the provisions in the Administrative Manual prepared by the Board, overpayments totaling Rs.259,556 had been made. (e) The overpayment of Rs.580,841 made due to the payment of allowance for unavailed leave for the years 2009 and 2010 based on the gross salary instead of the basic salary had not been recovered from the officers even by 30 June 2013. (f) According to Directive No. 11 made by the Committee on Public Enterprises on 09 December 2010, a formal procedure for the payment of compensation to third parties should have been prepared by holding discussion with the Commissioner General of Motor Traffic and submitted to the Committee. But an adequate course of action in this connection had not been taken in the year under review.	(a) Members of the Board have been given the authority by the Act to decide the remuneration and allowances of the staff which has been communicated to the Audit on several occasions. IBSL has increased the staff salaries by 25% with effect from 01st July 2012 after obtaining prior approval from the Secretary to the Ministry of Finance & Planning. It is noteworthy that the Deputy Secretary to the Treasury is an ex-officio member of the Board. This is the first salary revision in 7 years since the establishment of the Board, in the year 2005. No excess payment has been made as queried, and any increase in remuneration has been paid after obtaining the proper approval. (b) IBSL has implemented a Performance Based Incentive Scheme from year 2009 onwards. A copy of the format of the performance appraisal has been sent to the Treasury on 25/11/2010. (c) Taxes were duly paid during 2012. (d) As per the provisions of the Administrative Manual encashment of unutilized sick leave for the year 2012 has been duly paid. (e) As per the provisions of the Administrative Manual of the IBSL, encashment of unutilized leave was paid based on the basic salary for the year 2012. (f) A detailed explanation was given in this regard at the meeting of the Committee on Public Enterprises (COPE) held on 12th November 2012. A copy of the report presented to COPE has already been given to the audit. Action taken with regard to third party motor insurance claims were mentioned at the said meeting. As a follow up action to the COPE observation, IBSL held several discussions with three representatives nominated by the Chairman of COPE. The progress was informed to the Chairman of the COPE from time to time.

responses of the board to the matters raised by the auditor general

Auditor General's Report	IBSL Responses
5. Accountability and Good Governance	
5.1 Budgetary Control	
Variances in the budgeted expenditure and the actual expenditure in the year under review ranging between 55 per cent to 234 per cent were observed. As such the budget prepared by the institution had not been made use of as an effective instrument of financial management control.	Variances were shown in several expenses due to changes that took place in relation to external factors outside the control of IBSL. However, the budget for the year 2013 was prepared considering these variances.
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 Institution from time to time. Special attention is needed in respect of the following areas of control. (a) Payments (b) Training Programmes	Noted. Special attention will be given to the areas of control mentioned.

appendix I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2012

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

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

appendix II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2012

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

appendix II

38	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
39	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
40	Reliance Insurance AAG Lanka (Pvt) Ltd	Long Term and General Insurance
41	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
42	Rinkoon Lanka Insurance Brokers (Private) Ltd.	General Insurance
43	Ro-Pa Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
44	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
45	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Senkadagala Insurance Broking Services (Pvt) Ltd.	Long Term and General Insurance
47	Southern Merchant Insurance Brokers (Private) Ltd.	General Insurance
48	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
49	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
50	UN Insurance Brokers (Pvt) Ltd.	General Insurance
51	United Insurance Brokers (Pvt) Ltd.	General Insurance
52	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
53	Victor Emmanuel Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
54	Zenith Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance

glossary

Accumulation

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

Acquisition Expenses

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

Actuary

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

Administrative Expenses

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

Admissible Assets

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

Annuity

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

Beneficiary

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

Cedent

Client of a reinsurance company (primary insurance company).

Claims

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

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

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

Claims Outstanding Reserve - General Insurance Business

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

Co-insurance

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

Commission

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

Deferred Acquisition Cost - General Insurance Business

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

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

Earned Premiums

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

General Insurance Business

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

Gross Premium

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

Insurance Risk

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

Insurer

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

Long Term Insurance Business

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

Maturity

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

glossary

Net Claims Ratio or Net Loss Ratio

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

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

Net Combined Ratio - General Insurance Business

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

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

Net Earned Premium - General Insurance Business

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

Net Expense Ratio - General Insurance Business

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

Net Loss Ratio - General Insurance Business

A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurances).

Non - Participating Policy - Long term Insurance Business

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

Policy

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

Policyholder

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

Policy Loan

A loan from the insurer to a policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Primary Insurer

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

Operating Profit

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

Reinsurance

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

Reinsurance Commission

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

Reinsurance Inwards

The acceptance of risks under contract of reinsurance.

Reinsurance outwards

The placing of risks under contract of reinsurance.

Reinsurance Profit Commission

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

Retention

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

Solvency Margin - Long Term Insurance

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on long term insurance business as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under Section 26 of the Regulation of Insurance Industry Act, No.43 of 2000.

Solvency Margin - General Insurance

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

Surrender Value

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

Underwriting Profit

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

Unearned Premium

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

Unearned Premium Reserve

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

Unexpired Risk Reserve

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

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general information

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Legal Form

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

The Object and Responsibility of the Board

The object and responsibility of the Board is 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. Gamini Kohona

Mr. Mohamed Nawaz Rajabdeen



growing
on the path of excellence



Annual Report 2012

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