



## TRUST & PARTNERSHIP

**IBSL**  
INSURANCE  
BOARD OF SRI LANKA



INSURANCE BOARD OF SRI LANKA  
ANNUAL REPORT 2015

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## TRUST & PARTNERSHIP



Our achievements in the last financial year in a changing political and economic landscape were the culmination of a series of solid policy decisions and processes we set forth on, in the past few years.

In a scenario of adaptation, segregation and consolidation the insurance industry reached a greater level of maturity. While the finishing touches were made towards the adoption of the Risk Based Capital (RBC) model, the year also saw the final stages of the segregation process take shape, with many companies splitting the operations of their composite insurance business into two separate legal entities.

The year also experienced the beginning of a consolidation process of the local insurance industry, with two general insurance companies seeking to merge their operations.

With a strong foundation of trust and partnership the year 2015 continued the process where the Regulator engaged in meaningful consultation with the industry, in order to ensure that the policy that it sets is tailor-made to both ensure policyholder protection as well as being of benefit to the Insurance industry.

## VISION

To be the benchmark Insurance  
Regulator in Asia

## MISSION

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



# HIGHLIGHTS OF THE YEAR

- 30 Insurance Companies
- 57 Insurance Brokers
- 45,429 Insurance Agents
- Insurance awareness reached 866 Grama Niladhari Divisions

## Performance of Insurance Industry

	2015	2014	Change %
Gross Written Premium (Rs. billions)	122	105	16.12
Total Assets (Rs. billions)	465	421	10.33
Penetration as a % of GDP	1.09	1.01	8.49
Insurance Density (Rs.)	5,838	5,074	15.04

## Performance of the Board

	2015	2014	Change %
Policy Holders' Protection Fund (Rs. billions)	2.64	2.18	21
Cess Income (Rs. millions)	321.75	273.91	17
Annual Fees (Rs. millions)	103.81	73.44	41

**Rs. 465 Bn.**

Total Assets of Insurance Industry

**Rs. 122 Bn.**

GWP of Insurance Industry



# MANAGEMENT INFORMATION



“ Though a regulator, by its very nature, is tasked with overseeing compliance with the law by the entities that it regulates, I have always believed that they must never do so in isolation, shielded as it were from the nitty-gritty real world experiences of the industry that it seeks to regulate ”



# CHAIRPERSON'S MESSAGE

We are pleased to present the Annual Report for the year 2015; a year which saw significant changes to both the political and economic firmament of Sri Lanka. A presidential election, which was thereafter followed by a general election, resulted in a period of change and transition throughout the year, as the market waited upon the changed political landscape to indicate the economic policy direction for the future of the country.

The year also saw the final stages of the segregation process take shape, with many companies splitting the operations of their composite insurance business into two separate legal entities. It was heartening to note that the segregation process, which was enacted as a policy measure to ensure better protection for policyholders and thus was done in betterment of the insurance industry as a whole, being undertaken willingly and with determination by almost all insurance companies. It is also hoped that the few companies that have yet to comply with the requirement for segregation, held back as they are by a variety of reasons would do so in the near future, as the law should be applied equally, regardless of any external considerations.

It was in this period of change that IBSL held fast to its primary objective, which is to create a vibrant and sustainable insurance industry in Sri Lanka, through the fulfillment of our mission statement, which is "to protect policyholders' interest whilst regulating, supervising and facilitating the development of the insurance industry".

## Industry Performance

Within this context, the insurance industry was able to achieve an overall Gross Written Premium (GWP) of approximately Rs 122,390 million from life and general businesses recording an increase of Rs. 16,992 million in absolute terms and a growth of 16.12%. This was relatively a significant growth rate compared to 5.44% recorded in

2014. Both life and general businesses have shown a satisfactory performance during the year under review.

However, in the total assets of Insurance Companies, whilst there was a growth of 23.81% in the life business sector, the general business sector recorded a decline by 9.75% compared to 2014. This decline may have been due to segregation of composite insurance companies which came into effect in 2015.

## Achievements

The year 2015 saw the finishing touches being made towards the adoption of the Risk Based Capital (RBC) model. The parallel run which commenced in 2014 and continued till the end of 2015, gave Insurers a better understanding of what is required under the new RBC rules and helped identify and iron out many of the issues that would naturally arise when a company shifts from one particular solvency regime to another. Though we envisage that the implementation of RBC, from 2016 onwards, would bring about many a new issues for both IBSL and insurers to overcome, the experience that we all gained from the said parallel run would no doubt stand us in good stead in the years to come.

I would also be remiss if I did not mention one heartening fact that has transpired during the year, which is the consultative and collaborative approach that IBSL and the Insurance industry have taken, when implementing regulation and formulating policy objectives for the Insurance industry.

Though a regulator, by its very nature, is tasked with overseeing compliance with the law by the entities that it regulates, I have always believed that they must never do so in isolation, shielded as it were from the nitty-gritty real world experiences of the industry that it seeks to regulate.

As such, 2015 saw a continuation of an admirable process where the Regulator

was able to engage in meaningful consultation with the industry, in order to ensure that the policy that it sets is tailor-made to both ensure policyholder protection as well as being of benefit to the Insurance industry.

The topic of collaboration and cooperation was also a major premise of another notable achievement of IBSL, which successfully hosted an International Conference, the 10th annual meeting of the Asian Forum of Insurance Regulators (AFIR) in Colombo in July 2015, under the theme 'Changing Landscape in Insurance Regulation'. The event, which brought together Insurance Regulators from Asia, including China, Chinese Taipei, Japan, Hong Kong, India, Macau, Maldives, Papua New Guinea, Philippines, Korea, Singapore, Thailand and Malaysia, was also attended by the Secretary General of the International Association of Insurance Supervisors (IAIS) and representatives of the Organization for Economic Co-operation and Development (OECD), the Asian Development Bank (ADB) and the Access to Insurance Initiative (A2ii). The Forum was a resounding success, and concluded with a discussion on the way forward for AFIR, and a proposal to establish a Permanent Secretariat in Beijing, China. Sri Lanka was made a part of the Task Force appointed by the Forum to prepare discussion papers on Information Exchange.

The year 2015 also experienced the beginning of a consolidation process of the local insurance industry, with two general insurance companies seeking to merge their operations. In a relatively small economy such as ours, a process of consolidation, through mergers and acquisitions, would result in a local insurance industry that would be much better equipped, through both operational efficiencies and stronger balance sheets, in meeting the requirements of their customers and in dealing with the low levels of insurance penetration of the country.

## CHAIRPERSON'S MESSAGE CONTD...

### Way Forward

The persistent low level of insurance penetration in the local market continues to remain one of the key challenges facing the insurance industry. As Sri Lanka moves forward to being a middle-income country, with a corresponding increase in GDP, it is imperative that the insurance sector, being one of the pillars of the financial sector of this country, rises to meet the challenges of the future.

A population that has recourse to, and actively adopts and partakes in financial products and services, is a must if we are to truly achieve the potential that this country has, and which has long remained dormant. I trust that the insurance industry would, therefore, reassess its capabilities, and do more, to increase insurance penetration, more particularly to the rural and urban-poor sectors of the economy, a segment which still remains one of the least served, and most deserving of groups, and one that desperately requires appropriate financial products that are tailor-made to cater to their needs. Low income groups are more likely to display interest in products that cater to their implicit needs, address their personal problems, and provide a holistic service to which they have easy access.

The IBSL will embark on the development and formalization of the Micro Insurance sector in 2016 with the World Bank assistance. We envisage to develop a micro insurance specific regulatory framework based on globally accepted insurance standards.

### In Appreciation

In conclusion, I wish to place on record my appreciation for the generous support and important contribution made by the fellow members of the Board, whose active engagement in deliberating and deciding on various policy measures that affect the insurance industry remains one of the Regulators' greatest assets.

I would also wish to thank the industry stakeholders including the Insurance Ombudsman, Insurance Association of Sri Lanka, the Sri Lanka Insurance Brokers Association and the Sri Lanka Insurance Institute for their excellent cooperation and the cordial relationship that they maintain with us.

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



**Indrani Sugathadasa**  
*Chairperson*

21<sup>st</sup> June 2016





“ The Board has identified key areas that should be reviewed for further development of the insurance sector in Sri Lanka, some of which are arising from the Financial Sector Assessment Programme (FSAP) Development Module for Sri Lanka conducted by the World Bank in year 2015. ”

# DIRECTOR GENERAL'S REVIEW

It is with great pleasure that I report the performance of the Insurance Board for year 2015. Year 2015 was a challenging and optimistic year, which brought to life significant transformations, which will certainly go down in history of the insurance industry of Sri Lanka. Segregation of composite insurance companies was one of them, which required consistent and conscientious effort being put by the industry as well as the Board to make it a reality. Out of the 12 composite insurance companies, 9 companies have separated their life and general insurance businesses into two companies, demonstrating a higher level of transparency and governance in the businesses.

The other significant change was the capital reforms introduced to the industry to better signify the risks associated with the business. From a simplistic rules based capital model introduced at the formation of the Board, the industry transformed to a sophisticated risk based capital model keeping in line with international trends. These capital reforms were introduced after carrying out different levels of testing for many years, where the industry was an integral part of the process. Though we obtained technical support and capacity building from foreign sources, the final lap of formulating the rule on time for implementation was a challenge. In spite of few hiccups, we were able to steer through the challenges to achieve the goal on time. We are also eager to fully implement the Risk Based Supervisory framework for the industry in the next few years and in this regard the Board has carried out work to set up the regime in a systematical manner.

## Regulatory and Supervisory Reforms

Along with the aforesaid major reforms introduced during the year, the Board initiated certain other regulatory reforms for the development of the insurance sector. All such activities were with very close and cordial consultative process with the industry. The said reforms mainly focused on enhanced consumer protection and governance related

matters pertaining to the industry. Some of the said activities have been concluded and others are being discussed with the industry to reach consensus. Such reforms include, guidelines on the conduct of investigators of insurers, guidelines on complaints handling procedure by insurers and brokers, good practises for conducting inquiries relating to insurance agents, code of ethics for agents, investment guidelines for insurers, guidelines on the role and responsibilities of Principal Officers of insurers and brokers, guidelines on non admitted health insurance products, guidelines on referral models, guidelines on outstanding life policy reserves, corporate governance rules, guidelines on reversing of provisions of outstanding motor claims, amendments to terms and conditions pertaining to reinsurance placements, market conduct guidelines etc. The Board has also revamped its complaints handling and dispute resolution procedure to better cater to the needs of aggrieved policyholders.

## Future Initiatives

The Board has identified key areas that should be reviewed for further development of the insurance sector in Sri Lanka, some of which are arising from the Financial Sector Assessment Programme (FSAP) Development Module for Sri Lanka conducted by the World Bank in year 2015. These include follow up on matters relating to Risk Based Capital regime, Risk Based Supervisory system, revamping of the Regulation of Insurance Industry Act and alignment of the Act and subordinated legislation with Insurance Core Principles of the International Association of Insurance Supervisors (IAIS), development of a dedicated microinsurance regulatory framework, market development via product development, process, marketing and organizational innovation etc.

## Performance of the industry

Continuing with the momentum the industry demonstrated high growth in

GWP during the year with an overall growth rate of 16.12%, the highest being after year 2011. This year, information from NITF has also received, thus this report reflects data of the entire industry.

GWP of General Insurance Business has witnessed a notable growth of 13% in year 2015 compared to the growth of 4% in year 2014. This year too, the growth of Long Term Insurance Business (20%) has surpassed the growth of GWP of General Insurance Business (13%). During the year, motor, fire, marine and miscellaneous sub classes have witnessed positive growth, motor business being notably significant recording a growth rate of 19% and representing 62% of the total GWP. Another positive factor for the General Insurance Industry is the decreased combined ratio of 99% from 109% recorded in year 2014. A significant reduction of net expenses by 19% is a definite reason for the reduced combined ratio, though the net claims ratio of motor business has increased by 5 points compared to year 2014. Another significant development is the increase penetration level from 0.58 to 0.62 and high retention levels as a percentage of GWP, specially on fire sub class being doubled.

The growth in GWP of the Long Term Insurance Business too has remarkably increased by 20% recording an all time high since year 2011. The Life Insurance Awareness month declared last September by IASL may have contributed to this growth significantly. However, life penetration level as a percentage of GDP has increased only marginally from 0.43 to 0.48.

The maturity benefits paid during the year has considerably increased by 20% and represents more than half of the total claims incurred. Another notable factor we have seen is the reduction of surrender benefits by 27% and slight reduction of lapsed ratios, indicative of a stabilized environment in the life sector.

## DIRECTOR GENERAL'S REVIEW CONTD...

Penetration levels continue to be low compared to other emerging jurisdictions with a GWP/GDP ratio being 1.09%. However, the penetration level has increased by 8% compared to 1.01% recorded in year 2014. Insurance density which is represented by the GWP per person has increased to Rs 5,838 from Rs 5,074, recorded in 2014 mainly due to increased GWP.

Value of total assets of insurance companies have grown steadily from year 2011 and has posted a growth rate of 10% when compared to 2014. However, we have seen a decrease in the growth rate when compared to the growth rate of 2014. Assets of long term insurance including shareholders have recorded a significant growth of 24% compared to 2014 and assets of general insurance and shareholders have recorded a decline of 10% compared to 2014.

As for the distribution channels of insurance companies, insurance agents have dominated the distribution channel of long term insurance business and general insurance business. Agents have overtaken the direct business channel of insurers' in the general insurance sector.

### Performance of Brokering Business

The contribution of Brokering Companies to the total GWP recorded a growth of 11% compared to the contribution in 2014. This contribution consists of premium income generated through general insurance business and long term insurance business being 98.74% and 1.26% respectively.

### International Relations

Year 2015 is also special to IBSL as we hosted IBSL's first International Conference, under the theme "Changing Landscape in Insurance Regulation" bringing together insurance regulators of several Asian jurisdictions and representatives from International bodies, such as the International Association of Insurance Supervisors (IAIS), Asian Development Bank (ADB), Access to Insurance Initiative (A2ii), Organization for Economic Co-operation and Development (OECD) for the 10th Asian Forum of Insurance Regulators (AFIR). The meeting was a success with the adoption of the Colombo Declaration where significant action points were identified to take AFIR to a higher level of recognition within the IAIS. As initial steps towards achieving this, a task force was established to develop concept papers on the Exchange of Information among Asian Regulators, Capacity Building, Regional Cooperation and Governance Structure of AFIR. These concept papers are intended to be adopted at the 11th AFIR in Chinese Taipei. Currently the China Insurance Regulatory Commission (CIRC) is holding the Chairmanship of AFIR and Secretarial support is provided by CIRC. IBSL is also a task force member and is responsible for the discussion paper on Information Exchange.

### In Appreciation

In conclusion I thank the Chairperson and Members of the Board for the guidance, understanding and support given to us throughout the eventful year, without which we would not have

been able to achieve success in our activities. I also wish to place on record my sincere gratitude to Chairperson for mentoring us and giving us the strength to organize the Asian Forum of Insurance Regulators.

My appreciation is also extended to the Presidents and office bearers of IASL, SLIBA and SLII for the cooperation extended to the Board.

Finally I wish to express my appreciation to my team of Directors and staff for their high level of commitment and hard work to achieve our goals for the year.



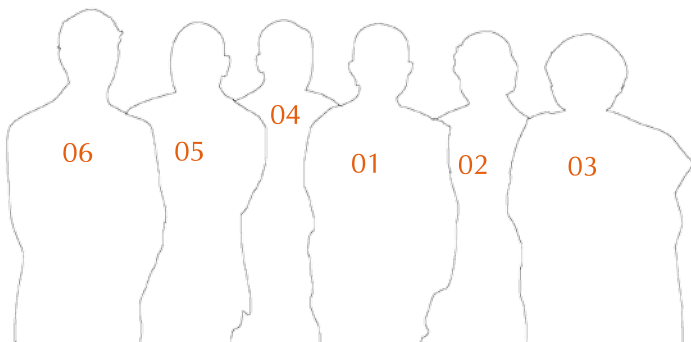
**Damayanthi Fernando**  
*Director General*

21<sup>st</sup> June 2016



**BOARD MEMBERS  
AND STAFF**

# MEMBERS OF THE BOARD



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



# PROFILES OF MEMBERS OF THE BOARD

## (1) Mrs. Indrani Sugathadasa Chairperson

Mrs. Indrani Sugathadasa a senior Civil Servant has embarked on her career as a member of the Sri Lanka Administrative Service (SLAS) in 1977 at the Ministry of Plan Implementation. Her illustrious career of over 35 years in the public sector includes various senior positions in the Ministries and as the Chairperson of Securities and Exchange Commission of Sri Lanka.

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

Mrs. Sugathadasa holds a Bachelor's degree in Social Sciences from University of Colombo and Masters (MBA/MPA) from Monash University, Australia. She is also a Fellow of the prestigious Hubert H. Humphrey Fellowship (Fulbright).

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

Her contribution to the public service and leadership in numerous sectors in the country has been recognized through a number of accolades, including the Australian Alumni Excellence Award in 2013, and the Gold Award for "Inspirational Woman 2014/15" by Women in Management Organization.

## (2) Mr. P. Samarasiri

Mr. P Samarasiri is currently a Deputy Governor of the Central Bank of Sri Lanka. Prior to being appointed to the post of Deputy Governor, he has served in many senior positions such as Assistant Governor, Secretary to the Monetary Board, Compliance Officer and Director of Bank Supervision in the Central Bank. He also holds the post of Chairman of the Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka and a member of Securities and Exchange Commission of Sri Lanka.

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

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

## (3) Ms. Pushpa Wellappili

Ms. Pushpa Wellappili is an officer of the Sri Lanka Administrative Service. During her over 34 years

of service in the public sector, she has held various positions such as Additional Secretary to the President, Director General-Public Finance Department of the General Treasury, Director in the Ministry of Housing and Urban Development and Assistant Commissioner of Probation & Childcare Services.

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

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

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

Mr. D. N. R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (LL.B) from the Open University of Sri Lanka and a registered student in the LL.M Degree program conducted by the University of Colombo. He is an Attorney-At-Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988. Currently He has been working as the Registrar General of Companies. Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka, an ex-officio member of the Sri Lanka Accounting and Auditing Standard

## MEMBERS OF THE BOARD CONTD...

Monitoring Board and also an ex-officio member of the Securities and Exchange Commission of Sri Lanka.

**(5) Deshabandhu Dr. Ali Asger Shabbir Gulamhusein**

Deshabandhu Dr. Ali Asger Shabbir Gulamhusein holds a PhD from Tokyo, Japan and a Degree from King's College London, UK. Dr. Gulamhusein has been bestowed with the prestigious title of "Deshabandhu Manawahithawadhi, Lankaputhra" and also serves as a director of the Insurance Board of Sri Lanka and The Sri Lanka Institute of Textile and Apparel and as a Justice of Peace (all island).

Dr. Gulamhusein also serves as a director of Adam Capital PLC, Adam Carbons (Pvt) Ltd, Ceylon and Foreign Trades PLC, Adamexpo (Pvt) Ltd, Spice of Life (Pvt) Ltd, Network Communications (Pvt) Ltd, Adam Metals (Pvt) Ltd, Sonakshi Trust (Pvt) Ltd, Adam Trust (Pvt) Ltd, Adam Air conditioners (Pvt) Ltd, Adam Automobiles (Pvt) Ltd, Colombo Apothecaries Company Ltd, Business Chamber of Commerce, Hamilton Resorts (Pvt) Ltd, Ceylon & Foreign Trade Surgi-Tech (Pvt) Ltd, Colombo Freight and Transport Ltd, and Dodwell & Company Ltd.

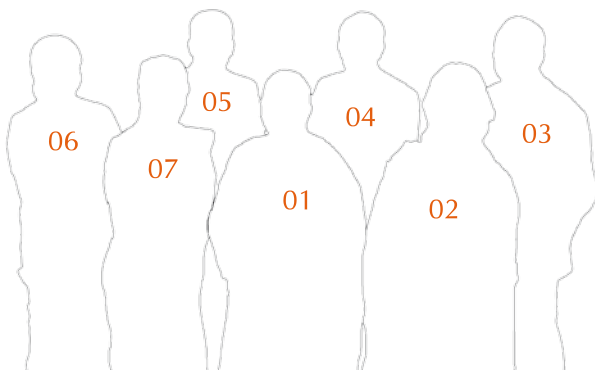
**(6) Mr. Jeremy Bolling**

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

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

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

# SENIOR MANAGEMENT TEAM



- 1. Mrs. Damayanthi Fernando**  
(Director General)
- 2. Mrs. Chamarie Ekanayake**  
(Director Supervision)
- 3. Mr. Rajan Nirubasingham**  
(Assistant Director Legal)
- 4. Mr. Sudheera Senaratne**  
(Director Investigation)
- 5. Mr. Ranil Angunawela**  
(Director Legal)
- 6. Mrs. Chaya Vithanawasam**  
(Director Finance and Administration)
- 7. Ms. Saroja Gunatilleke**  
(Consultant Actuary)

# STAFF MEMBERS



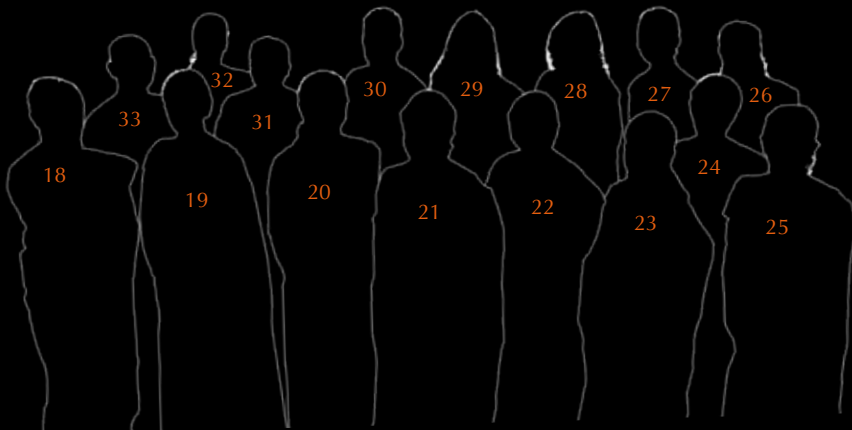
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|--------------------------------|---------------------------------|
| 1. Mrs. Pavithra Punchihewa    | 10. Mr. Charitha Wickramasinghe |
| 2. Mrs. Chandima Kamburugamuwa | 11. Mrs. Sujeewa Ranasinghe     |
| 3. Mrs. Priyangi De Silva      | 12. Mr. H. P. Asanka            |
| 4. Mrs. Kokila Sirirwardana    | 13. Mr. Sanath Udayanga         |
| 5. Mrs. Decika Rathnayaka      | 14. Mrs. Lakmali Algama         |
| 6. Mrs. Upendra Senevirathne   | 15. Mr. Luxman Wijesinghe       |
| 7. Mr. Chaminda Lal Kumara     | 16. Mr. Lakmal Kalubowila       |
| 8. Ms. Upalakshi Ranasinghe    | 17. Mrs. Kaushali Dayaratne     |
| 9. Mr. Ethirraj Srikanthan     |                                 |



## STAFF MEMBERS



- |                               |  |
|-------------------------------|--|
| 18. Mrs. Hasini Perera        | 28. Mrs. Shanika Nanayakkara               |
| 19. Mrs. Shashini Premalal    | 29. Mrs. Malhari Wickramasinghe            |
| 20. Mrs. Ruvini Liyanage      | 30. Mr. J. M. Jayatissa                    |
| 21. Mrs. Merina Dias          | 31. Mr. Saman Senadeera                    |
| 22. Mrs. Thilini Wakista      | 32. Mrs. Lasanthi Thotahewa                |
| 23. Mrs. D. W. S. S. Supulee  | 33. Mr. Bimsara Wijesinghe                 |
| 24. Mrs. Thanuja Antony       | 34. Mrs. Sarika Wattuhewa (Absent)         |
| 25. Mrs. Veena Dineka         | 35. Mrs. Chathuri Bandara (Absent)         |
| 26. Mrs. Shyamalie Attanayaka | 36. Mrs. Thushari Wijegunawardana (Absent) |
| 27. Mr. Roshan De Costa       |  |







# REVIEWS

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## GENERAL REVIEW

### Administration of the Act and Regulatory Reforms

#### Legislation

The object and responsibility of the Insurance Board of Sri Lanka (hereinafter referred to as “the Board”) is to ensure that insurance business in Sri Lanka is transacted with integrity and in a professional and prudent manner with a view to safeguarding the interests of policyholders and potential policyholders.

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

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

#### Subordinate Legislation

Subordinate legislation made under the Act during the year is described below under Regulatory Reforms.

#### Regulatory Reforms

##### Rules

#### Rules to specify the Format of the Register of Insurance Agents (other than individuals):

The Board issued Insurance Agents (other than individuals) Register Rules 2015 by Gazette Extraordinary No.1916/10 of 27th May 2015. These Rules introduced the Format of the Register of Insurance Agents (other than individuals) to be maintained by insurance companies and insurance brokering companies under section 78(1) of the Act in connection with the Insurance Agents (other than individuals) Qualification Rules published in the Gazette Extraordinary No.1861/45 of 10th May 2014.

#### Rules to introduce Risk Based Capital (RBC) to insurance companies

The Board issued Solvency Margin (Risk Based Capital) Rules 2015 by Gazette Extraordinary No.1945/19 of 15th December 2015. The Risk Based Capital (RBC) rules are based on the RBC Framework which has been developed by the World Bank.

The said rules shall apply to every insurer, from 1st January 2016. And as such, the Solvency Margin (Long Term Insurance) Rules, 2002 and the Solvency Margin (General Insurance) Rules, 2004, shall be withdrawn from its application to insurers.

#### Regulations

#### Regulations to increase the annual fee payable to the Board by insurers:

The Board issued an amendment to the Insurance Board Regulations, 2005, by Gazette Extraordinary No. 1907/17 of 25th March 2015 to increase the annual fee payable to the Board. The annual fee of Rs. 100,000.00 in respect of each class of insurance business, which is payable to the Board by insurers, for the first calendar year of operation was revised by adding a new provision specifying an annual fee of 0.10% of the gross written premium for the first calendar year of operation for the newly segregated insurance companies under Section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011(hereinafter referred to as the “Amendment Act”) ; and from and after the commencement of the second calendar year of operation, the chargeable percentage of 0.075% of GWP has been increased to 0.10% of the gross written premium.

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

#### Direction #6/#6 (A) of 26th March 2015 - Settlement of Insurance Claims

The Board issued the following direction to all insurers in terms of Section 96 A of the Act :

Every insurer shall pay the claim amount due in respect of claims arising out of a policy of general or long term insurance issued by it.

- (i) within 14 days from the time of the quantum of claim being established and receipt of the discharge documents; and
- (ii) upon establishment of the identity of the claimant.

The above Direction was issued in view of the proposed deletion of Regulation # 30 of 1987 issued under the Control of Insurance Act, No. 25 of 1962.

#### Circulars

#### Circular # 36 of 9th October 2015 - Overseas Health Insurance – Repeal of Circular # 32 of 30th October 2013

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.

In terms of Circular # 4 dated 5th June 2002, any person in Sri Lanka was allowed 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.

As there were deficiencies in the said Circular# 4 dated 5th June 2002, it was initially amended by Circular # 32 dated 30th October 2103, which allowed a person in Sri Lanka to directly or indirectly place health & travel insurance (without prior written approval of the Board) with insurer/s that are not registered, subject to following:

1. For the purpose of travel abroad;
2. For the period of travel ; and
3. Such insurance products placed through insurance brokering companies registered under the Act.



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Circular # 32 also allowed a person in Sri Lanka to obtain health and travel policies, which are not available with insurance companies registered with the Board, only after having obtained the written approval from the Board in terms of Section 101 of the Act.

After having considered several request made by insurance brokering companies and non-brokering companies, seeking the approval of the Board for their clients in Sri Lanka to obtain foreign overseas health insurance policies, in view of Circular # 32, the Board decided to issue a new Circular # 36 cancelling Circular # 32.

Salient features of Circular # 36 are as follows:

1. A Person in Sri Lanka, who has already placed health insurance with a foreign insurer/foreign entity, before the effective date of this Circular i.e. 9th October 2015, may continue/renew such insurance only if such placement has been made through a brokering company registered under the Act, even if such broker is not specifically authorized as hereunder.
2. The brokering company, in order to obtain authorization, should submit a written request to the Board and the request should be accompanied with the following:
  - i. A confirmation from the Insurance Association of Sri Lanka (IASL) that the health insurance product offered by the foreign insurer/foreign entity is not available with any insurer registered under the Act;
  - ii. Details of the said foreign health insurance product that is intended to be offered by such foreign insurer/foreign entity;
  - iii. Documents to demonstrate that the foreign insurer/foreign entity, which offers the said health insurance product, is licensed

and/or registered overseas to issue health insurance covers by an insurance regulatory authority which is a member of the International Association of Insurance Supervisors;

iv. An initial authorization fee of Rs 500,000/- excluding applicable government taxes, per each foreign health insurance product that is intended to be placed by an insurance broker for and on behalf of a person in Sri Lanka.

v. A dispute resolution procedure.

3. The authorization given above will be valid only for a period of one year, and shall be in relation to only one specific type of foreign health insurance product. In the event that an insurance broker wishes to seek authorization for more than one foreign health insurance product, the said broker would have to seek separate authorization, for each product.

In the light of Circular # 36, the Board has informed the Controller of Exchange regarding the change of policy on health insurance cover and requested the Controller of Exchange to issue appropriate instructions to authorized dealers on foreign exchange transactions relating to health insurance.

### Circular # 37 of 23rd November 2015

The Board issued Circular # 37 requiring all insurance companies and insurance brokering companies to keep the Board informed of any proposed change to their company names and the purpose of same, prior to effecting such change.

### Condition on minimum net capital requirement of insurance brokers in terms of Section 82 (5) of the Act

Certain insurance brokers were required to maintain rupees 1 million as the minimum net capital as a result of a condition imposed by the Board at the time of their registration in addition

to meeting the paid up share capital (stated capital) requirement of rupees two million five hundred thousand.

However, some insurance brokers did not have the above net capital requirement since they were registered a long time ago. Therefore, to have consistency in the application of regulatory requirements, the Board decided to impose a condition on all insurance brokers in terms of Section 82 (5) of the Act, requiring them to maintain at least a minimum net capital of Rs. 1.125 million from 30th September 2015 and a minimum net capital of Rs. 2.5 million from 30th September 2016.

## Market Structure

### Insurers

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

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

30 companies were in operation as insurers as at the end of the year. The suspension of registration imposed on Ceylinco Takaful Limited continued from 2009. Chart 1 depicts the classes of insurance business companies engaged in. Out of the 30 companies in operation, 03 companies were composite insurers, carrying on both long term insurance business and general insurance business, 12 companies were carrying on long term insurance business and 15 companies were carrying on general insurance business.

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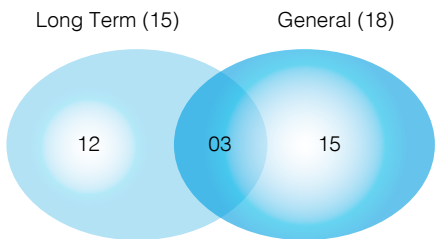
**Segregation**

Section 53 of the Amendment Act requires composite insurance companies to separate the two classes of insurance businesses into two separate companies (hereinafter referred to as “segregated insurance companies/ segregated insurance company”) on or before February 2015.

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

During the year under review, applications submitted by composite insurers, in compliance with Section 53 of the Amendment Act, were evaluated and the Board granted registration to 3 companies as insurers and granted licenses to 10 companies to commence business.

**Chart 1**  
Classes of Insurance Business Carried on by Insurers



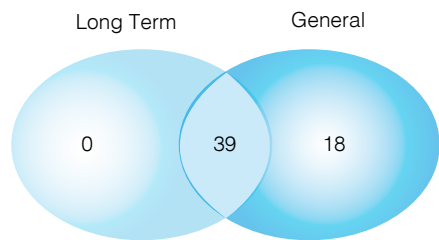
**Insurance Brokers**

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

company, in expectation of a payment by way of brokerage or commission.

At the end of the year, there were 57 companies registered as insurance brokers. Out of the said companies, 39 companies were registered in both long term and general insurance brokering business while 18 companies were registered only in general insurance brokering business. Chart 2 depicts the classes of insurance brokering business insurance brokers carried on during the year.

**Chart 2**  
Classes of Insurance Brokering Business Carried on by Insurance Brokers



**Insurance Agents**

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

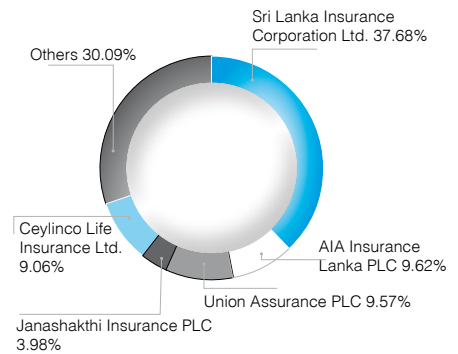
As per Section 34 of the Act insurance agents are one of the important distribution channels in which insurers procure insurance business.

As per information given by insurers, the total number of individuals recruited as insurance agents during the year was approximately 16,879, a 0.82% decrease from the previous year (17,018).

Total number of individual insurance agents representing insurers as at the end of year was approximately 45,433, a 5.76 % increase from the previous year (42,958).

Chart 3 depicts insurance agents registered with insurance companies.

**Chart 3**  
Individual Insurance agents registered with insurers



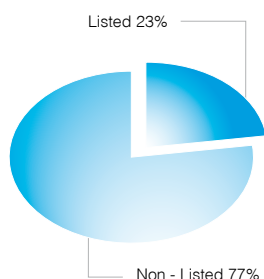
There are approximately 237 individual insurance agents registered with insurance brokering companies during last year.

**Company Status and Changes in Capital**

Out of the insurers, 07 companies were listed on the Colombo Stock Exchange namely, AIA Insurance Lanka PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC, Janashakthi Insurance PLC and Arpico Insurance PLC (Ceylinco Insurance PLC which is the holding company of Ceylinco Life Insurance Ltd. and Ceylinco General Insurance Ltd, is listed on the Colombo Stock Exchange). Chart 4 depicts the percentage of listed and non-listed insurers.

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**Chart 4**  
Status on 'listed/non listed' insurers



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

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

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

Insurance companies registered subsequent to June 2011 have a stated capital not less than rupees five hundred Million.

#### 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 that 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business 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 2015 was Rs. 322 Mn. Table 1 depicts the movement of the Cess and the Policyholders' Protection Fund.

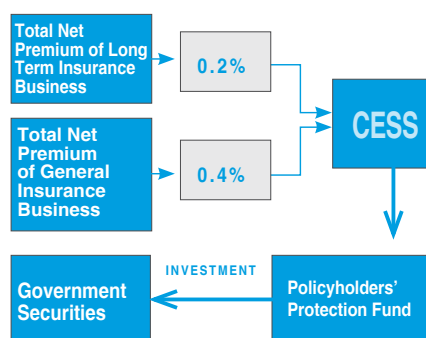
#### Policyholders' Protection Fund

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

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

The amount lying to the credit of the Policyholders' Protection Fund is invested in government securities. The accumulated amount in the Fund, as at 31st December 2015, is Rs. 2,643 million; a 21.07% increase from the previous year (Rs 2,183 million).

**Table 1**  
Cess and the Policyholders' Protection Fund Insurance Tariff



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

#### Exemptions to the application of the Act

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

#### National Insurance Trust Fund (NITF)

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

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

The Act, as amended by Act, No. 27 of 2007, requires every insurer who reinsures to reinsure with the NITF, a percentage not exceeding 50% as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured. The said Gazette Notification No. 1791/4 states that with effect from 1st January 2013, 30% being the percentage payable by the insurer on the total liability arising

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out of every general re-insurance, such insurer is required to re-insure with the NITF excluding long-term re-insurance contracts entered into by the insurer. 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.

The contribution is used to compensate hit and run victims of motor vehicle accidents.

#### Financial Sector Oversight Council (FSOC)

The Inter Regulatory Institutions Council established by the Central Bank of Sri Lanka (CBSL) has been renamed as "Financial Sector Oversight Council". This high-level committee is set up to ensure that appropriate policy directions are set out for the orderly development of the financial markets, and that all financial regulatory agencies co-ordinate and exchange information in the interests of the entire financial system. The Board of IBSL is represented on the FSOC.

#### Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka (IASL) was established in 1989 and every insurer registered under the Act is eligible for membership.

The Executive Committee of IASL, which comprises of CEOs of all insurance companies, is responsible for the overall management of 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
- Actuarial Sub Committee

#### 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. Create 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 partnering with professional and academic institutions / bodies and reinsurance partners operating in Sri Lanka.

#### Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association (SLIBA) is the only Association of insurance brokers that has been approved by the Board. In terms of Section 79 of the Act, it is

mandatory that all applicants seeking registration as insurance brokers obtain membership of this Association prior to registration as an insurance broker by the Board. The members are subject to a code of conduct adopted by SLIBA.

#### The main Objectives of SLIBA are:

To create Public awareness of the role of an insurance broker;

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 an mutually beneficial relationships with the Regulator, insurers and the public.

#### Sri Lanka Insurance Institute (SLII)

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

#### The main objectives of SLII are:

To provide and maintain a central organization for the promotion of professionalism, 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 of rendering the conduct of such business more effective, and to instil and maintain professionalism in the industry;

To conduct courses leading to Diploma and Certificate qualifications in order to develop knowledge about insurance;

To 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

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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 Institute of Actuaries 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.

### Insurance Ombudsman

The Insurance Association of Sri Lanka appointed Dr. Wickrema Weerasooria as the Insurance Ombudsman in January 2005. According to the MOU entered in with IASL the Insurance Ombudsman and the Insurance Companies who are with IASL will do their utmost to mediate and settle disputes brought to the notice of the Insurance Ombudsman by Policyholders.

### International Association of Insurance Supervisors (IAIS)

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

### Hosting of 10th Annual Meeting of the Asian Forum of Insurance Regulators (AFIR)

The 10th Asian forum of Insurance Regulators (AFIR) Conference was hosted by the Board in Colombo on 27th & 28th July 2015 under the theme "Changing Landscape in Insurance Regulation". State Minister of Finance Hon. Minister Mahinda Samarasinghe graced the inauguration of conference as the chief guest. Fourteen (14) insurance regulators in the Asian region along with the Secretary General of International Association of Insurance Supervisors (IAIS) and representatives of the Access to Insurance Initiative (A2ii), the Asian Development Bank (ADB) and the Organization of Economic Co-operation and Development (OECD) attended the conference.

The conference contained the following key sessions:

- presentations by all regulators on developments in the insurance sector in their respective countries;
- presentation by IAIS on Promoting Global Insurance Capital Standards;
- panel discussion on the challenges in implementing new capital standards;
- ADB high-level round table on catastrophic insurance, agriculture insurance and tax-deferred annuities; and
- panel discussion on developing a proportionate framework for inclusive insurance.

The official website of AFIR ([www.afirweb.org](http://www.afirweb.org)) was also launched during



Hon. Minister Mahinda Samarasinghe



Mrs. Indrani Sugathadasa, Chairperson of Insurance Board of Sri Lanka.

the inauguration of the conference. The conference provided an opportunity for regulators to meet and learn from the experiences of each other and concluded with very positive results where the Asian insurance regulators discussed the way forward for the 10 year old AFIR, including a proposal to set up a permanent Secretariat with the agreement of the Colombo Declaration. Currently the AFIR is chaired by the Chairman of China Insurance Regulatory Commission.



## STATISTICAL REVIEW

### An Overview of the Insurance Industry

Year 2015 was a successful year for the Sri Lankan Insurance industry which posted a commendable growth rate of 16.12% in total Gross Written Premium (GWP) when compared to 5.44% growth recorded in 2014. The total GWP generated during 2015 amounted to Rs. 122,390 million (2014: Rs. 105,399 million). This significant growth was attributable to increased premium incomes in both long term and general insurance business sectors which amounted to Rs. 53,575 million and Rs. 68,815 million respectively.

During 2015, National Insurance Trust Fund (NITF) has generated reinsurance premium income from compulsory reinsurance cession of general insurance business worth of Rs. 1,784 million. NITF's reinsurance premium income has declined by 12.59% compared to Rs. 2,041 million generated in 2014.

Long term insurance business generated premiums amounting to Rs. 53,575 million in 2015 with a growth of 20.14% over premiums worth of Rs. 44,596 million recorded in 2014. The increased performance of the long term insurance sector was mainly due to factors such as insurers efforts to improve operational processes to assure quality service to customers, revamping existing products whilst introducing innovative life insurance products to cater changing needs of customers, improved customer awareness on insurance and upliftment in socio economic conditions of the country which in turn increase the demand for life insurance products, etc.

General insurance business also recorded a notable growth of 13.18% in year 2015 by generating GWP worth of Rs. 68,815 million compared to Rs. 60,803 million generated in 2014. It is noteworthy that most of the general insurers have been able to increase their premium income in 2015 amidst fierce competition prevailing in the market through mechanisms such as re-engineering their business processes, targeting attractive niche markets,

expanding business operations in the northern and eastern provinces, etc.

Insurance penetration reflects insurance premium as a percentage of GDP and in 2015 total industry premium was 1.09% of GDP and recorded a growth of 8% compared to 2014. Insurance penetration in Sri Lanka is still at a lower level than many other economies in the Asian region, which indicates that there is significant opportunity for insurers to expand their businesses by offering insurance products to cater growing needs of customers. In 2015, penetration ratios of long term and general insurance businesses were recorded as 0.48% (2014: 0.43%) and 0.62% (2014: 0.58 %) respectively, both classes reflecting improvement in penetration levels.

Insurance density reflects the premium income per person of the population and amounted to Rs.5,838 in 2015. Insurance density has grown by 15.06% in 2015 compared to Rs.5,074 recorded in 2014. This growth was due to increased premium income against the insignificant growth in the population.

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

	2011 (a)	2012 (a)	2013 (a)	2014 (b)	2015 (c)
Premium Income - Long Term Insurance Business (Rs. millions)	35,162	37,477	41,676	44,596	53,575
Premium Income - General Insurance Business (Rs. millions)	46,929	53,213	58,284	60,803	68,815
Total Premium Income - Insurance Business (Rs. millions)	82,091	90,690	99,960	105,399	122,390
Growth Rate in Total Premium Income - Insurance Business (%)	17.62	10.48	10.22	5.44	16.12
Reinsurance Premium Income (Rs. millions)**	199	464	1,042	2,041	1,784
Gross Domestic Product at Current Market Price (Rs. billions)*	7,219	8,732	9,592	10,448	11,183
GDP Growth Rate % *	8.40	9.10	3.40	4.90	4.80
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.14	1.04	1.04	1.01	1.09
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.49	0.43	0.43	0.43	0.48
Penetration % (Premium of General Insurance Business as a % of GDP)	0.65	0.61	0.61	0.58	0.62
Insurance Density - (Total Premium Income - Insurance Business/ population) Rs.	3,934	4,440	4,857	5,074	5,838
Population '000 (Mid Year) *	20,869	20,424	20,579	20,771	20,966

\* Source: Central Bank of Sri Lanka and Department of Census and Statistics

\*\* Reinsurance premium income represents the compulsory cession of reinsurance premium of General Insurance Business ceded to NITF.

- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures

## STATISTICAL REVIEW CONTD...

**Total Assets of Insurance Companies**

Total assets held by insurers and reinsurer, NITF after eliminating inter segment transactions amounted to Rs. 464,944 million as at 31st December 2015 (2014: Rs.421,407 million), up by 10.33% compared to 2014. Assets of long term insurance business including shareholders amounted to Rs. 305,897 million as at 31st December 2015 (2014: Rs. 247,061 million) which recorded a significant growth of 23.81% compared

to 2014. Assets of general insurance business and shareholders of general and composite insurers amounted to Rs. 157,001 million as at 31st December 2015 (2014: Rs.173,964 million) recording a decline by 9.75% compared to 2014.

However, above mentioned growth in assets of long term insurance business and decline in assets of general insurance business were due to segregation of composite insurance

companies which came into effect in year 2015, where assets belonging to shareholders of composite insurers were previously considered under general insurance business. Further, assets pertaining to reinsurance business of NITF amounted to Rs. 3,381 million as at 31st December 2015 (2014: Rs. 3,065 million) recording a growth of 10.31% compared to the previous year.

Total assets of the insurance industry and their growth rates from 2011 to 2015 are depicted in Chart 1.

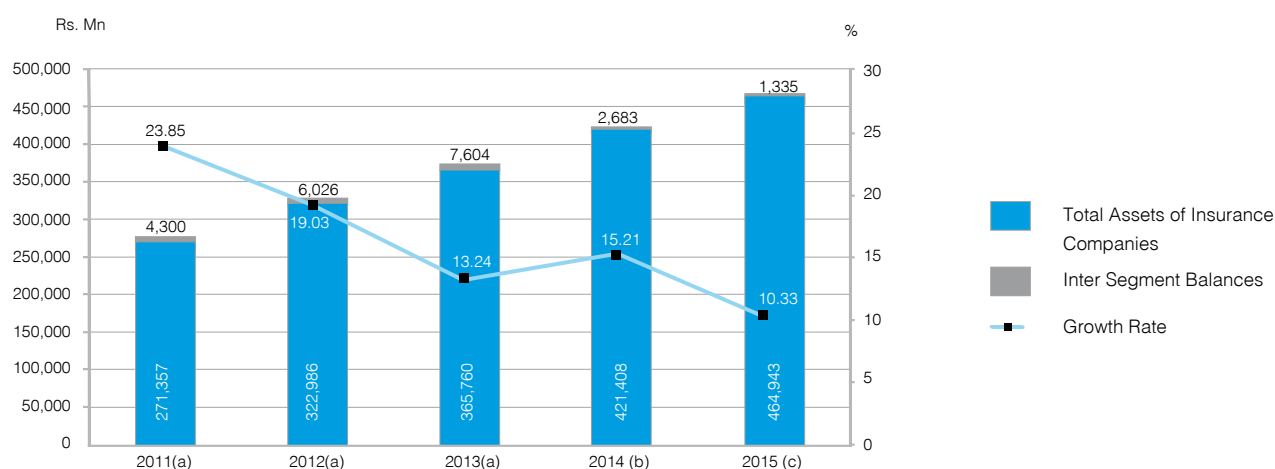
**Table 2**  
**Assets of Insurance Companies**

	2011 (a)	2012 (a)	2013 (a)	2014 (b)	2015 (c)
Long Term Insurance (Rs. millions)	165,519	190,642	216,275	247,061	305,897
General Insurance (Rs. millions)	109,482	137,730	155,636	173,964	157,001
Reinsurance (Rs. millions)	655	640	1,453	3,065	3,381
<b>Total</b>	<b>*271,356</b>	<b>*322,986</b>	<b>*365,760</b>	<b>*421,407</b>	<b>* 464,944</b>

\*Intersegment transactions have been eliminated as per Table 3.

- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures

**Chart 1**  
**Total Assets and Assets Growth Rate of the Insurance Industry**



- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures

## STATISTICAL REVIEW CONTD...

**Distribution of Assets of Insurance Companies**

Table 03 illustrates the distribution of assets among insurance companies under long term insurance and shareholders, general insurance and shareholders and reinsurance segment of NITF as at 31st December 2014 and 2015.

SLIC held the largest portion of the insurance industry's assets which accounted for 36.03% of total assets

in 2015 (2014: 38.43%) with assets worth of Rs. 167,540 million (2014: Rs. 161,931 million). Assets held by SLIC as at 31st December 2015 under long term and general insurance businesses amounted to Rs. 94,914 million (2014: Rs. 90,143 million) and Rs. 72,626 million (2014: Rs. 71,988 million) respectively.

Ceylinco Life held 17.33% of total assets of the insurance industry which amounted to Rs. 80,595 million and claimed the second position in terms of asset ownership. AIA Life which

held assets worth of Rs. 45,958 million claimed the third position by accounting for 9.88% of total assets. Union Life and Janashakthi Life recorded assets amounted to Rs. 31,014 million and Rs. 19,656 million respectively as at 31st December 2015 and accounted for 6.67% and 4.23% of total assets to claim the fourth and fifth places. Above five insurers together held 74.14% of total assets and the remaining 25.86% of assets were held by the other twenty five players of the insurance industry.

**Table 3**  
**Company wise analysis of Total Assets**

Insurer	2014 (a)						2015 (b)					
	Long Term Insurance (Rs.'000)	General Insurance and Shareholders (Rs.'000)	Reinsurance (Rs.'000)	Inter Segment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%	Long Term Insurance and Shareholders (Rs.'000)	General Insurance and Shareholders (Rs.'000)	Reinsurance (Rs.'000)	Inter Segment Transactions Elimination (Rs.'000)	Total (Rs.'000)	%
AIA Life	38,436,443	9,229,720		-	47,666,163	11.31	45,957,923				45,957,923	9.88
AIA Gen.					-		-	5,647,487			5,647,487	1.21
AIG	-	449,598		-	449,598	0.11		234,134		-	234,134	0.05
Allianz Gen.	-	3,264,435		-	3,264,435	0.77		3,943,092		-	3,943,092	0.85
Allianz Life	1,467,969	-		-	1,467,969	0.35	1,947,203			-	1,947,203	0.42
Amana Gen.	1,432,807	1,764,027		107,552	3,089,282	0.73		2,716,376		119,289	2,597,087	0.56
Amana Life							2,521,827			57,696	2,464,131	0.53
Arpico	980,743	-		-	980,743	0.23	1,184,539			-	1,184,539	0.25
Asian Life	6,716,714	3,589,135		-	10,305,849	2.45	9,814,620			-	9,814,620	2.11
Asian Gen.								2,489,014		-	2,489,014	0.54
Ceylinco	63,184,332	34,313,040		-	97,497,372	23.14						
Ceylinco Gen.								18,849,220		-	18,849,220	4.05
Ceylinco Life							80,595,478				80,595,478	17.33
Continental	-	2,037,110		-	2,037,110	0.48		2,544,689		-	2,544,689	0.55
Cooperative Gen.	999,455	2,839,229		-	3,838,683	0.91		3,005,196		-	3,005,196	0.65
Cooplife							1,672,432			-	1,672,432	0.36
HNB Life	5,930,808	2,583,550		1,394,110	7,120,248	1.69	10,022,562			-	10,022,562	2.16
HNB Gen.								2,710,914		-	2,710,914	0.58
Janashakthi Life	8,159,309	12,507,757		-	20,667,067	4.90	19,656,286			-	19,656,286	4.23
Janashakthi Gen.								11,212,847		-	11,212,847	2.41
LIC	1,899,682	-		-	1,899,682	0.45	2,056,120			-	2,056,120	0.44
LOLC	1,042,182	2,653,278		247,838	3,447,622	0.82						
LOLC Gen.								3,120,836		-	3,120,836	0.67
LOLC Life							2,346,342			402,566	1,943,775	0.42
MBSL	395,278	1,337,651		-	1,732,929	0.41	517,231	1,427,882			1,945,114	0.42
NITF (b)		8,128,022	3,065,354		11,193,376	2.66		8,454,168	3,380,634		11,834,803	2.55
Orient	-	1,015,302		-	1,015,302	0.24		1,150,664		-	1,150,664	0.25
People's	-	4,577,483		-	4,577,483	1.09		6,459,865		-	6,459,865	1.39
Sanasa	742,655	1,047,995		-	1,790,650	0.42	920,152	1,170,876		-	2,091,028	0.45
SLIC	90,142,534	71,988,109		200,137	161,930,506	38.43	94,914,277	72,625,496		-	167,539,773	36.03
Union Life	25,530,258	10,638,421		733,048	35,435,630	8.41	31,769,676			755,860	31,013,816	6.67
Union Gen.								9,238,376		-	9,238,376	1.99
<b>Total</b>	<b>247,061,169</b>	<b>173,963,862</b>	<b>3,065,354</b>	<b>2,682,685</b>	<b>421,407,699</b>	<b>100</b>	<b>305,896,668</b>	<b>157,001,132</b>	<b>3,380,634</b>	<b>1,335,411</b>	<b>464,943,024</b>	<b>100</b>

(a) Reinstated Audited figures (Except NITF)

(b) Provisional figures

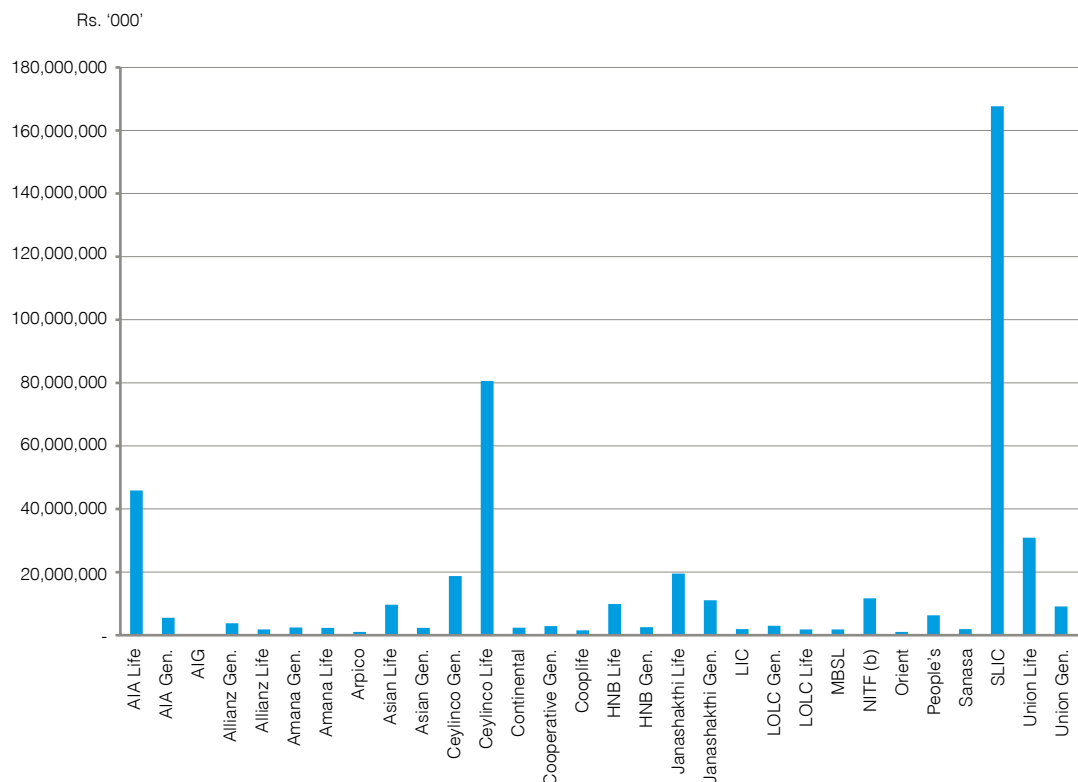
Notes:

1. Intersegment transactions have been eliminated.
2. Assets belonging to shareholders of composite insurance companies have been reported under general insurance business for the year 2015.
3. Assets belonging to shareholders have been reported under general insurance business except for Allianz Life, Arpico and LIC for the year 2014.



## STATISTICAL REVIEW CONTD...

**Chart 2**  
**Company-wise Analysis of Concentration of Assets as at 31st December 2015**



### Shareholders' Funds of Insurance Companies

Total shareholders' funds of insurance companies amounted to Rs. 134,689 million as at 31st December 2015 (2014: Rs. 128,445 million) growing by 4.86% over 2014. As depicted in Table 4, total shareholders' funds comprising of stated capital and reserves amounted to Rs. 39,242 million and Rs. 95,447 million respectively as at 31st December 2015. Similar to previous year, SLIC held the largest portion of total shareholders'

funds by accounting for 46.88%. Ceylinco Life and NITF accounted for 6.43% and 6.30% of total shareholders' funds respectively claiming the second and the third largest portions of total shareholders' funds. Ceylinco General and Janashakthi Life accounted for 5.91% and 5.58% of total insurance industry's shareholders' funds respectively as at 31st December 2015. Above mentioned five insurance companies which were ranked at the top five positions accounted for 71.10%

of total shareholders' funds as at 31st December 2015.

It's noteworthy to state that due to segregation of composite insurance companies which came into effect in year 2015, significant variations are observed in the shareholders' funds of individual insurance companies. This was mainly due to shareholders funds of composite insurance companies were previously considered under general insurance business.

## STATISTICAL REVIEW CONTD...

**Table 04**  
**Total Shareholders' Funds of Insurance Companies**

Insurer	2014 (a)		2015 (b)			
	Total Shareholders' Funds (Rs.'000)	%	Stated Capital (Rs.'000)	Total Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA Life	4,835,259	3.76	511,922	5,850,950	6,362,871	4.72
AIA Gen.			1,878,017	52,262	1,930,279	1.43
AIG	216,399	0.17	536,265	(409,203)	127,062	0.09
Allianz Gen.	896,867	0.70	500,000	486,717	986,717	0.73
Allianz Life	228,764	0.18	739,624	(525,138)	214,486	0.16
Amana Gen.	1,039,367	0.81	1,650,001	40,390	1,690,391	1.26
Amana Life			500,000	15,594	515,594	0.38
Arpico	621,296	0.48	675,565	(22,912)	652,653	0.48
Asian Life	2,370,993	1.85	1,062,500	1,375,435	2,437,935	1.81
Asian Gen.			800,000	(214,611)	585,389	0.43
Ceylinco	25,269,840	19.67				
Ceylinco Gen.			500,200	7,463,161	7,963,361	5.91
Ceylinco Life			500,001	8,154,425	8,654,426	6.43
Continental	897,988	0.70	750,000	286,499	1,036,499	0.77
Cooperative Gen.	1,464,133	1.14	1,004,910	486,574	1,491,483	1.11
Cooplife			500,000	(13,445)	486,555	0.37
HNB Life	2,406,356	1.87	1,171,875	1,339,468	2,511,343	1.86
HNB Gen.			1,150,000	(227,399)	922,601	0.68
Janashakthi Life	5,206,641	4.05	4,854,139	2,661,582	7,515,721	5.58
Janashakthi Gen.			4,000,000	171,287	4,171,287	3.10
LIC	698,866	0.54	500,000	192,038	692,038	0.52
LOLC	1,008,610	0.79				
LOLC Gen.			600,000	215,108	815,108	0.61
LOLC Life			800,000	(337,230)	462,770	0.34
MBSL	459,735	0.36	1,080,022	(727,273)	352,749	0.26
NITF (b)	7,723,035	6.01		8,483,299	8,483,299	6.30
Orient	627,949	0.49	750,000	(232,710)	517,290	0.38
People's	1,409,322	1.10	1,350,000	888,865	2,238,865	1.66
Sanasa	637,444	0.50	745,058	111,080	856,138	0.64
SLIC	64,216,314	50.00	6,000,000	57,143,901	63,143,901	46.88
Union Life	6,210,217	4.83	1,000,000	2,464,929	3,464,929	2.57
Union Gen.			3,131,948	272,914	3,404,863	2.54
<b>Total</b>	<b>128,445,395</b>	<b>100</b>	<b>39,242,047</b>	<b>95,446,557</b>	<b>134,688,603</b>	<b>100</b>

(a) Reinstated Audited figures (Except NITF)

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

**Distribution of Total Assets of Major Financial Sectors**

In 2015, total assets of major financial sectors of the economy increased to Rs.13,662 billion as at 31st December 2015 from Rs. 12,015 billion recorded as at 31st December 2014 increasing by 13.71%. Banking sector accounted for 69.6% of the total assets with

assets worth of Rs. 9,503 billion as at 31st December 2015 reflecting its importance in the financial sector as depicted in Table 5 and Chart 3. Contractual savings institutions accounted for 15.4% of total assets of the financial sector in 2015 by recording assets amounted to Rs.2,108.1 billion. Other deposit taking financial institutions and specialized financial institutions

held assets worth Rs.1,042 and Rs. 544 billion respectively as at 31st December 2015 and accounted for 7.6 % and 4.0% of the financial sector respectively. Assets held by insurance companies amounted to Rs. 464.9 billion as at 31st December 2015 and accounted for only 3.4% of total assets of the financial sector indicating a decline compared to 3.5% recorded in 2014.

*Table 05*  
**Distribution of Total Assets of Major Financial sectors**

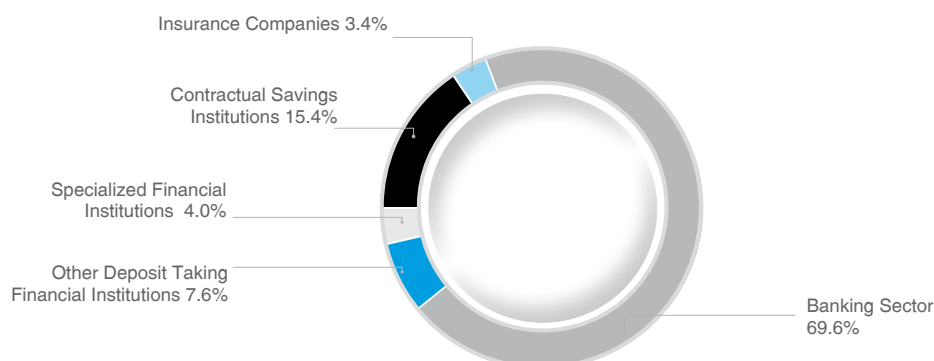
Financial Sector	Distribution of Assets									
	2011		2012		2013		2014		2015	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	5,375.6	69.7	6,377.0	70.3	7,187.5	69.6	8,442	70.3	9,503	69.6
Other Deposit Taking Financial Institutions	427.1	5.5	621.2	6.9	756.4	7.3	857	7.1	1,042	7.6
Specialized Financial Institutions	338.8	4.4	310.4	3.4	378	3.7	441	3.7	544	4.0
Contractual Savings Institutions	1,299.4	16.8	1,429.6	15.8	1,632.5	15.8	1,853.6	15.4	2,108.1	15.4
Insurance Companies	271.4 (a)	3.6	323.0 (a)	3.6	365.8 (a)	3.6	421.4 (b)	3.5	464.9 (c)	3.4
<b>Total</b>	<b>7,712.3</b>	<b>100</b>	<b>9,061.2</b>	<b>100</b>	<b>10,320.2</b>	<b>100</b>	<b>12,015</b>	<b>100</b>	<b>13,662</b>	<b>100</b>

\* Source: Central Bank of Sri Lanka Annual Report - 2015

Assets of insurance companies were reinstated based on data received from insurance companies.

- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures

*Chart 3*  
**Distribution of Total Assets of Major Financial Sectors as at 31st December 2015**



STATISTICAL REVIEW CONTD...

**Analysis of Branches, Employees and Agents of Insurance companies**

Insurance companies had a total of 1,872 branches island-wide as at 31st December 2015, growing by a significant 27.78% compared to 1,465 branches operated in 2014 corresponding with the growth in the insurance sector in 2015. As depicted in Table 6, highest number of branches was situated in the Western province which amounted to 631 (2014:488) and represented 33.71% of the total branches situated in the island. Southern province and North Western provinces had the second and third largest branch networks with 232 (2014:192) and 188 (2014:133) respectively. Similar to previous year, in 2015 least number of branches was situated in the Uva province which amounted to 108 branches (2014: 76) although growing by 42.11% compared

to 2014. Branches situated in the Northern and Eastern provinces have also increased by 25.23% and 19.23% in 2015 reflecting continuous expansion of insurance business in the North and East after the end of the war.

Insurance industry contributes to the economy by providing both direct and indirect employment opportunities. In 2015, total employees of the insurance sector amounted to 15,830 (2014: 15,650) increasing by 1.15% compared to 2014. Highest number of employees was located in the Western Province which amounted to 10,484 (2014: 10,287) representing 66.23% of total employees of the island. Southern and North Western provinces stationed the second and the third highest number of employees in 2015 with 986 (2014: 1,143) and 883 (2014: 725) respectively. Least number of employees was

stationed in the Northern province which amounted to 430 in 2015 (2014: 400).

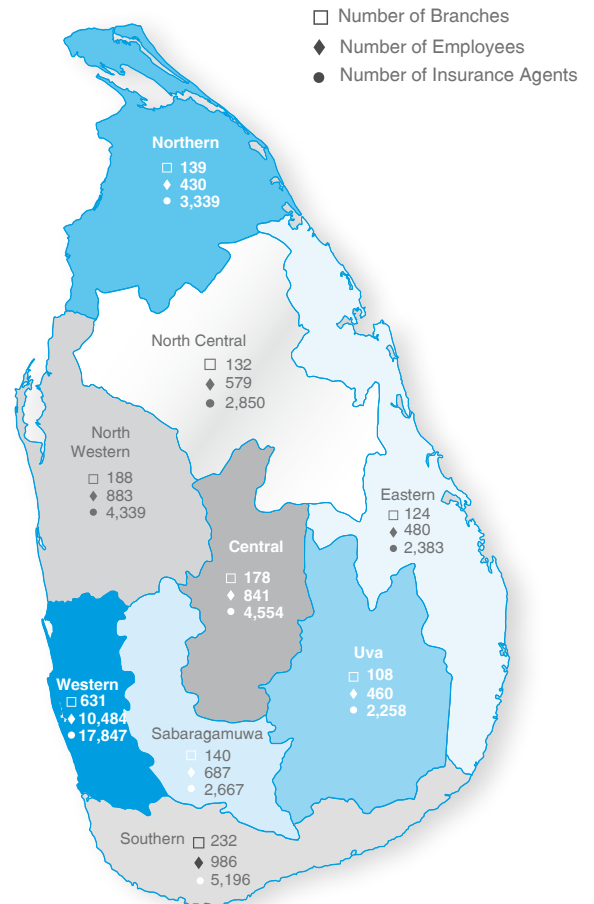
Total agents operated in the insurance market amounted to 45,433 in 2015 (2014: 42,958) representing a growth of 5.76% compared to 2014. Similar to branches and employees, the highest number of agents operated in the Western province and amounted to 17,847 (2014:16,578). Second and the third largest number of agents operated in the Southern and Central provinces in 2015 and amounted to 5,196 (2014: 5,275) and 4,554 (2014: 4,370) respectively. Least number of agents was located in the Uva province and amounted to 2,258 (2014: 2,197) in 2015.

Chart 4 provides details regarding the number of branches, employees and agents operated in the nine provinces of the island as at 31st December 2015.

**Table 06**  
Number of Branches, Employees and Agents as at 31st December, 2015 and 2014

Province	No of Branches		No. of Employees		No. of Agents	
	2014	2015	2014	2015	2014	2015
Central Province	159	178	941	841	4,370	4,554
Eastern Province	104	124	506	480	2,310	2,383
North Central Province	110	132	682	579	2,752	2,850
North Western Province	133	188	725	883	3,898	4,339
Northern Province	111	139	400	430	3,369	3,339
Sabaragamuwa Province	92	140	561	687	2,209	2,667
Southern Province	192	232	1,143	986	5,275	5,196
Uva Province	76	108	405	460	2,197	2,258
Western Province	488	631	10,287	10,484	16,578	17,847
<b>Total</b>	<b>1,465</b>	<b>1,872</b>	<b>15,650</b>	<b>15,830</b>	<b>42,958</b>	<b>45,433</b>

**Chart 4**  
Number of Branches, Employees and Agents as at 31st December 2015



## STATISTICAL REVIEW CONTD...

**Distribution Channels of Insurance Companies**

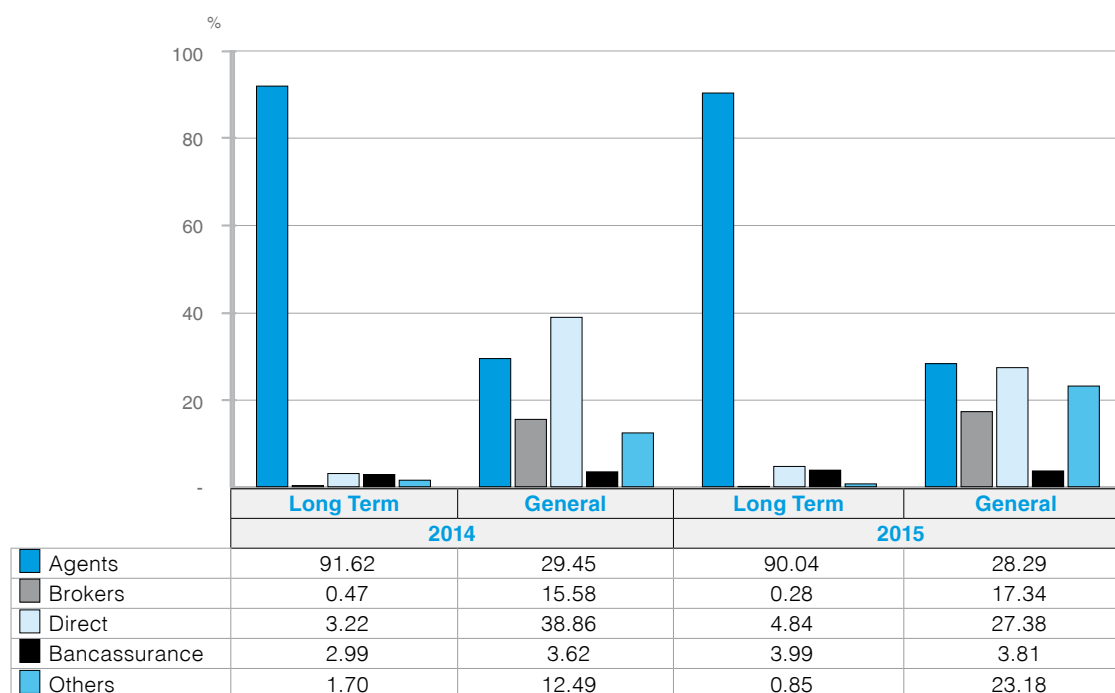
Chart 5 depicts the main distribution channels adopted by insurers to reach their customers, namely agents, brokers, direct marketing, bancassurance and other distribution channels. Similar to 2014, agents continued to be the main distribution channel of long term insurance business in 2015 and generated 90.04% of total GWP (2014: 91.62%) reflecting their dominance in the market. Direct

marketing and bancassurance were the other important distribution channels of long term insurance business and generated 4.84% and 3.99% of GWP respectively in 2015. Other distribution channels consists of group, corporate entities and branches generated 0.85% of GWP. Brokers generated only 0.86% and 0.28% of total GWP during 2015.

Agents, direct marketing, other distribution channels and brokers play important roles in generating GWP of general insurance business

unlike in long term insurance business where agents are the main distribution channel. As illustrated in Chart 05, in 2015 agents have generated 28.29% of GWP of general insurance business followed by direct marketing, other distribution channels, brokers and bancassurance which have generated 27.38%, 23.18%, 17.34% and 3.81% of total GWP respectively.

**Chart 5**  
**Distribution Channels of Insurance Companies**



## STATISTICAL REVIEW CONTD...

**Long Term Insurance Business****Gross Written Premium**

Long term insurance companies have notably performed well during 2015 and generated GWP income of Rs. 53,575 million compared to Rs. 44,596 million generated in year 2014. During the year 2015, long term insurance companies have recorded a commendable growth of 20.14% compared to 7.01% growth recorded in year 2014. This is the highest year on year growth recorded by the long term insurers during the last five years.

The growth in premiums was mainly attributable to the innovative products, creative marketing campaigns, expansion in distribution channels especially in terms of agency force,

etc. Further 'Life Insurance Awareness Month' which was held during the month of September 2015, to educate and create greater awareness on long term insurance among the general public have positively contributed to the growth in the long term insurance market.

Ceylinco Life, the market leader of long term insurance market has generated premium income of Rs. 13,457 million (2014: Rs. 12,003 million) and achieved a market share of 25.12% (2014: 26.92%). SLIC was able to secure the second position in the market by recording GWP of Rs. 10,367 million and a market share of 19.35% (2014: 18.21%). SLIC's premium income has increased by 27.66% in 2015 compared to Rs. 8,121 million recorded in 2014. Similar to previous years, AIA Life was

able to achieve the third largest market share (Rs. 8,433 million, 15.74%), followed by Union Life (Rs. 6,964 million, 13%) and Asian Life (Rs. 4,091 million 7.64%). HNB Life and Janashakthi Life has recorded premium income of Rs. 2,789 million (5.21%) and Rs. 2,536 million (4.73%) respectively and were able to secure the sixth and seventh positions in the market.

LOLC Life has considerably improved its premium income to Rs. 1,210 million (2014: Rs. 592 million) by recording a market share of 2.26% (2014: 1.33%) and achieved the eighth place in the long term insurance market. Chart 6 illustrate the company wise market share of GWP for 2015 and Table 7 illustrates the GWP of long term insurance business from 2011 to 2015.

Table 7

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

Insurer	2011		2012		2013		2014 (a)		2015 (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 Life	7,846,447	22.32	6,495,863	17.33	6,863,047	16.47	7,266,574	16.29	8,433,333	15.74
Allianz Life	351,299	1.00	532,142	1.42	828,790	2.00	823,456	1.85	919,143	1.72
Amana Life	303,786	0.86	364,759	0.97	542,986	1.30	679,029	1.52	928,294	1.73
Arpico	-	-	101,900	0.27	206,494	0.50	297,439	0.67	484,226	0.90
Asian Life	1,579,191	4.49	2,034,084	5.43	2,520,283	6.05	3,048,148	6.84	4,091,042	7.64
Ceylinco Life	9,815,943	27.91	10,829,470	28.90	11,122,906	26.69	12,002,524	26.92	13,456,828	25.12
Cooplif	269,579	0.77	312,056	0.83	337,623	0.81	402,046	0.90	493,384	0.92
HNB Life	1,290,367	3.67	1,500,028	4.00	2,014,547	4.83	2,342,867	5.25	2,788,716	5.21
Janashakthi Life	1,871,986	5.32	2,025,075	5.41	2,193,662	5.26	2,170,419	4.87	2,536,298	4.73
LIC	295,859	0.84	303,344	0.81	322,268	0.77	348,767	0.78	387,535	0.72
LOLC Life	51,427	0.15	106,238	0.28	274,798	0.66	592,422	1.33	1,209,578	2.26
MBSL	143,156	0.41	192,780	0.52	251,720	0.60	294,299	0.66	203,235	0.38
Sanasa	128,113	0.36	203,616	0.54	283,975	0.68	260,867	0.58	311,910	0.58
SLIC	6,743,073	19.18	7,369,031	19.66	8,397,718	20.15	8,121,159	18.21	10,367,498	19.35
Union Life	4,471,627	12.72	5,106,323	13.63	5,515,063	13.23	5,945,499	13.33	6,964,390	13.00
<b>Total</b>	<b>35,161,853</b>	<b>100</b>	<b>37,476,709</b>	<b>100</b>	<b>41,675,880</b>	<b>100</b>	<b>44,595,515</b>	<b>100</b>	<b>53,575,410</b>	<b>100</b>
<b>Growth Rate(%)</b>	<b>12.87</b>		<b>6.58</b>		<b>11.20</b>		<b>7.01</b>		<b>20.14</b>	

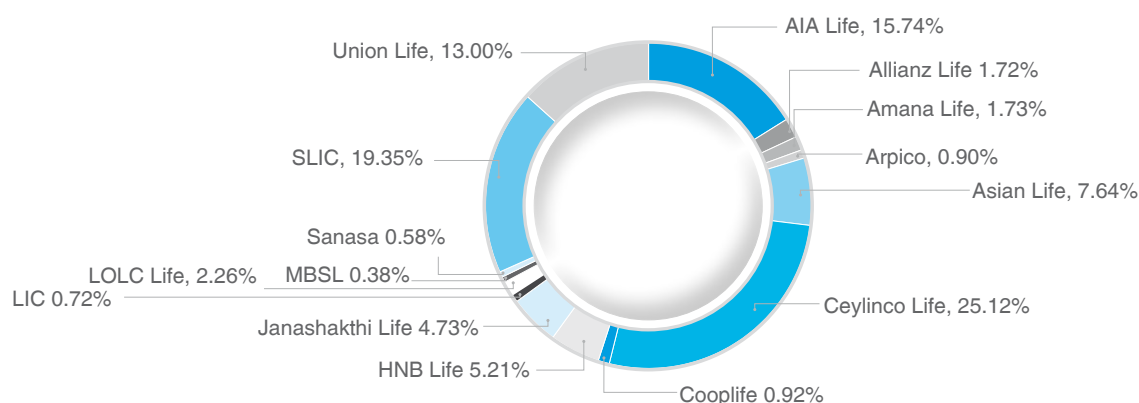
(a) Reinstated Audited figures

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

Chart 6

**Company wise Market Share of Gross Written Premium - Long Term Insurance Business for the Year Ended 31st December 2015**



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

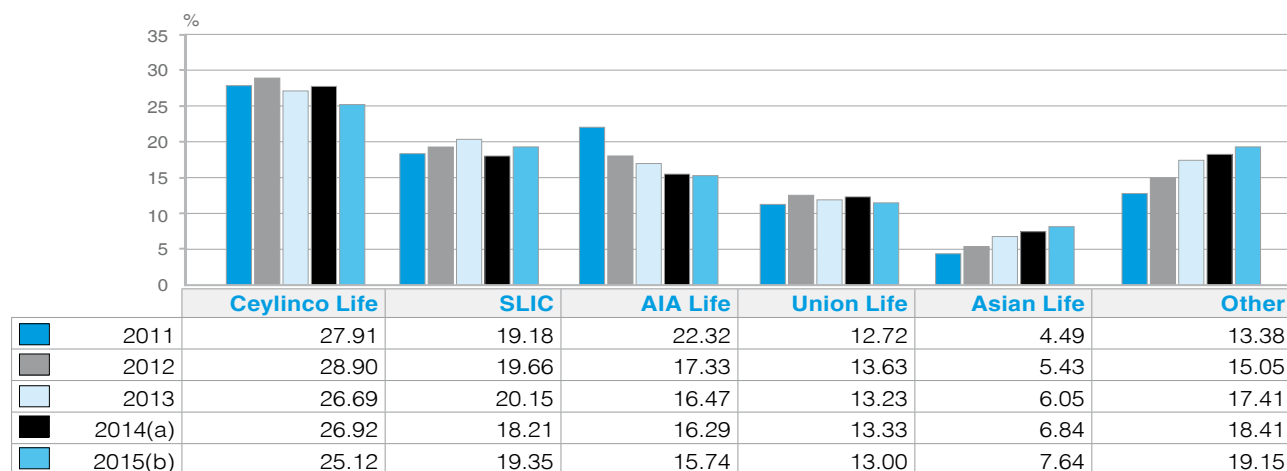
Ceylinco Life, SLIC, AIA Life, Union Life, Asian Life remained as the leading

five players in the long term insurance market in year 2015. These five market players together contributed to 80.85% (2014: 81.59%) of the total long term insurance premium recorded in 2015 and the remaining ten players together

generated 19.15% (2014: 18.41%) of the total premium income. The analysis of market share of top five premium contributors and other insurers are reflected in Chart 7.

Chart 7

**Market Share of Top Five contributors of GWP and Other Insurers for the years 2011 to 2015 - Long Term Insurance Business**



(a) Reinstated Audited figures

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

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

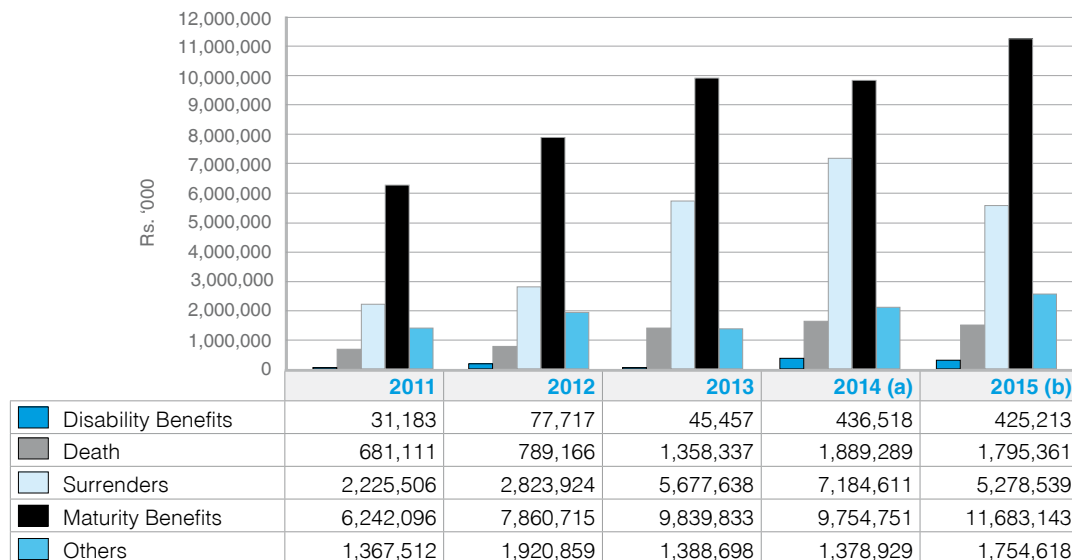
During 2015 total claims incurred by long term insurance companies including maturity, death, surrender benefits, etc. amounted to Rs. 20,937 million (2014: Rs. 20,644 million) as indicated in Chart 8.

The maturity benefits have considerably increased by 19.77% to Rs. 11,683 million (2014: Rs. 9,754 million) in year 2015. These claims represented more than half of the total claims incurred during the year. Surrenders as an impactful phenomenon for poor persistency in the life insurance market represented one fourth of the total claims. However surrender benefits have reduced by 26.53% to Rs. 5,279 million in 2015 compared to Rs. 7,185

million recorded in 2014.

Death benefits which amounted to Rs. 1,795 million represented 8.58% of the total claims incurred in 2015. Further, death benefits have slightly reduced compared to Rs. 1,889 million reported in 2014. Other benefits such as health benefits, advance payments, bonus, etc. amounted to Rs. 1,755 million in 2015 compared to Rs. 1,379 million recorded in 2014.

Chart 8

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

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

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

In 2015 280,753 long term insurance claims have been reported to long term

insurers and represented the highest number of claims reported during the last five years as depicted in table 8. The number of maturity and death claims reported was 105,308 and 6,782

respectively in 2015. Further, there were 43,651 policies reported as surrenders and represented 15.55% of the total number of claims incurred in 2015.

Table 8

**Number of Insurance Claims - Long Term Insurance Business**

	2011	2012	2013	2014	2015
Maturity Benefits	98,363	102,465	102,050	107,353	105,308
Death	4,328	4,358	5,284	5,795	6,782
Disability Benefits	569	578	6,980	8,120	12,540
Surrenders	25,661	24,631	41,964	46,312	43,651
Other benefits	45,885	51,773	99,257	84,835	112,472
<b>Total</b>	<b>174,806</b>	<b>183,805</b>	<b>255,535</b>	<b>252,415</b>	<b>280,753</b>



## STATISTICAL REVIEW CONTD...

**Assets of Long Term Insurance Business**

Total assets held by long term insurance companies amounted to Rs. 305,897 million (2014:247,061 million) as at 31st December 2015 and recorded a significant growth of 23.81% compared to previous year. Similar to previous years government securities represented the main investment category mainly due to regulatory requirement to invest a minimum of 30% of the life fund assets and the low risk involved. In 2015, total government securities investments amounted to Rs. 136,832 million (2014: Rs. 111,153 million) and represented 44.73% (2014:44.99%) of the total assets.

The volume of investments in corporate debt instruments especially in listed debentures continued to be high and recorded as Rs. 51,895 million compared to Rs. 40,743 million in 2014. This represented a growth of 27.37%.

Due to low interest rate environment prevailed during 2015, investments in deposits have slightly increased from Rs. 37,474 million in 2014 to Rs. 38,644 million in 2015. These main investment categories namely, government securities, corporate debts and deposits have accounted for 74.32% (2014: 76.65%) of the total assets held by long term insurers in 2015.

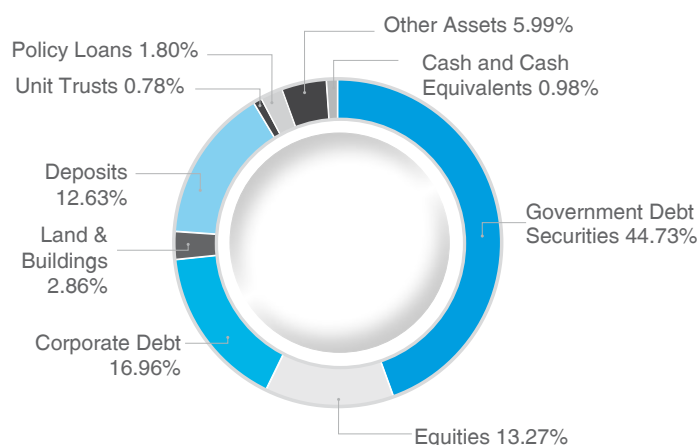
Equity investments, the third largest investment category has increased from Rs. 31,049 million to Rs. 40,595 million in 2015 despite the relatively moderate performance of the stock market. This was mainly due to increase in investments in subsidiaries recorded in the year 2015 as a result of segregation of composite insurance companies. In addition insurers' asset portfolios consisted of other asset categories such as land and buildings, policy loans and cash and cash equivalents, etc. Table 9 and Chart 9 illustrate the concentration of assets of long term insurance business.

**Table 9**  
**Concentration of Assets as at 31st December 2014 & 2015**  
**- Long Term Insurance Business**

Type of Asset	2014 (a)		2015 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	111,153,045	44.99	136,831,589	44.73
Equities	31,048,723	12.57	40,595,129	13.27
Corporate Debt	40,743,451	16.49	51,895,159	16.96
Land & Buildings	5,909,483	2.39	8,738,764	2.86
Deposits	37,473,905	15.17	38,643,918	12.63
Unit Trusts	2,220,790	0.90	2,392,162	0.78
Policy Loans	5,708,113	2.31	5,498,162	1.80
Other Assets	10,635,805	4.30	18,310,155	5.99
Cash and cash equivalents	2,167,851	0.88	2,991,628	0.98
<b>Total</b>	<b>247,061,166</b>	<b>100.00</b>	<b>305,896,666</b>	<b>100</b>

(a) Reinstated Audited figures  
(b) Provisional figures

**Chart 9**  
**Concentration of Assets as at 31st December 2015 -**  
**Long Term Insurance Business**



## STATISTICAL REVIEW CONTD...

**Investment Income of Long Term Insurance Business**

Investment income of long term insurance companies had a negative impact from low interest rates movement in price indices of stock market etc. during 2015. As depicted in Table 10, total investment income generated amounted to Rs. 24,882 million from average investments worth of Rs. 260,945 million, recording an overall investment yield of 9.54%.

Investment income generated from government securities amounted to Rs. 12,934 million in 2015 against average investments of Rs. 123,922 million. Income from treasury bonds was Rs. 12,063 million and represented 48.5% of total investment income in 2015. However, investment yield of

government securities was represented 10.43% in 2015 and recorded a decline compared to 11.25% recorded in 2014.

Insurers have preferred to invest in the attractive corporate bonds market and average investments in corporate bonds had increased to Rs. 46,319 million in 2015 (2014: Rs. 36,844 million) by Rs. 9,475 million. Further, corporate bonds had generated an investment income of Rs. 5,465 million and recorded an investment yield of 11.80% in 2015.

The returns from equities have drastically decreased in 2015 and amounted to Rs. 869 million compared to Rs. 3,956 million recorded in 2014 with the slow performance exhibited in the equity market. Dividend income of insurance companies amounted to Rs.

1,464 million and capital losses reported amounted to Rs. 595 million in 2015. In 2015 investment income from unit trusts has noticeably dropped to Rs. 101 million from Rs. 531 million recorded in 2014. Further, average investment of unit trusts amounted to Rs. 2,306 million compared to Rs. 2,261 million recorded in 2014.

During 2015, average investment in deposits has reduced by 2.76% to Rs. 38,059 million, meanwhile investment income has dropped by 23.14% to Rs. 3,507 million from Rs. 4,563 million reported in 2014.

Investment income from other investments has significantly increased in 2015 to Rs. 1,902 million from Rs. 676 million recorded in 2014 mainly due to sale of subsidiary by one insurer.

**Table 10**  
**Breakup of Investment Income and Average Investments - Long Term Insurance Business**

Category	2014(a)			2015(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	11,512,106	102,346,152	11.25	12,934,054	123,992,317	10.43
- Treasury Bonds	10,315,496			12,063,400		
- Treasury Bills	384,095			202,707		
- Others (REPO)	812,515			667,947		
<b>Equity</b>	3,956,177	27,827,594	14.22	869,042	35,821,926	2.43
- Capital Gain/Losses	3,026,181			(595,326)		
- Dividend	929,996			1,464,368		
<b>Corporate Debts</b>	4,600,656	36,843,640	12.49	5,464,638	46,319,305	11.80
- Debentures	4,586,742			5,435,533		
- Commercial Papers	20,783			19,925		
- Asset Backed Securities	5,910			-		
- Other Similar Financial Instruments	(12,779)			9,180		
<b>Land and Buildings</b>	2,454	6,019,820	0.04	(1,729)	7,324,124	(0.02)
<b>Deposits</b>	4,563,205	39,140,139	11.66	3,507,413	38,058,912	9.22
- Bank	4,344,197			3,300,590		
- Finance Companies	219,008			206,823		
<b>Unit Trust</b>	531,077	2,261,415	23.48	101,312	2,306,476	4.39
<b>Gold</b>	(56)	14,648	(0.38)	-	-	-
<b>Policy Loans</b>	56,724	5,471,640	1.04	105,190	5,603,138	1.88
<b>Others</b>	675,749	916,864	73.70	1,901,613	1,518,722	125.21
<b>Total</b>	<b>25,898,092</b>	<b>220,841,912</b>	<b>11.73</b>	<b>24,881,533</b>	<b>260,944,920</b>	<b>9.54</b>

(a) Reinstated Audited figures

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

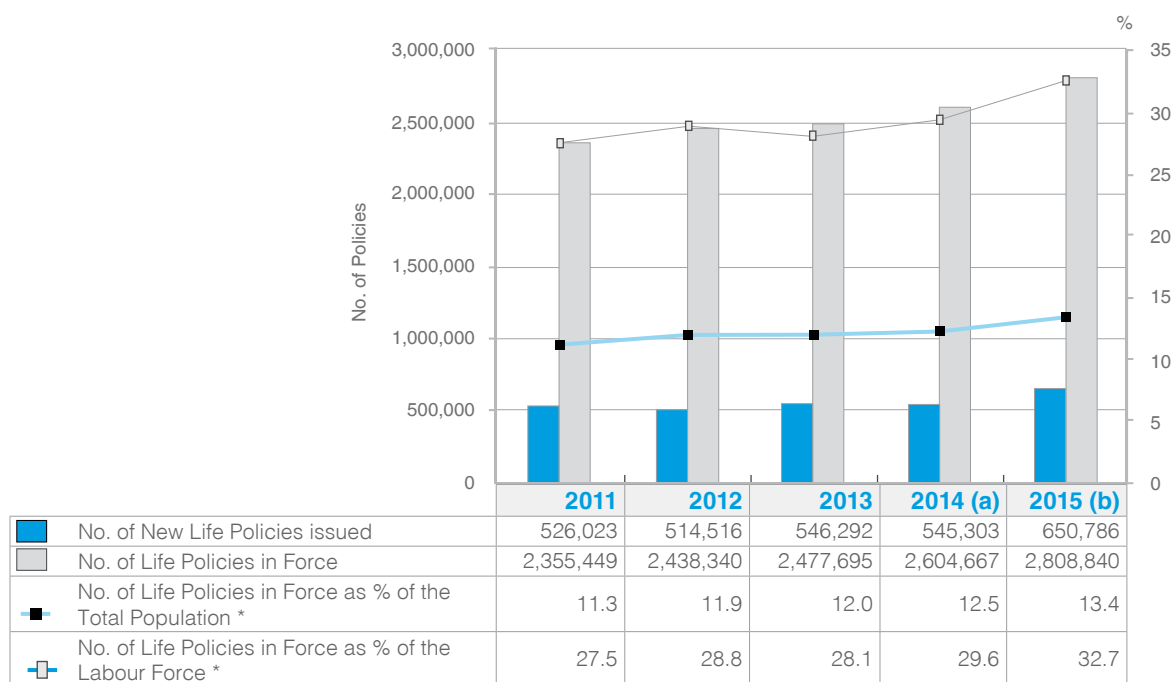
**Number of Insurance Policies Issued and Policies in Force –Long Term Insurance Business**

During the year life insurance companies have taken several initiatives to develop business by expanding and improving quality of their distribution network especially by way of enhancing quality of

agency (sales) force. With these efforts, new policies issued by insurers have considerably increased by 19.34% to 650,786 during the year 2015 compared to 545,303 in 2014. As depicted in Chart 10 total policies in force were 2,808,840 in 2015 (2014: 2,604,667) and this was the highest number of policies in force recorded during last five years.

The number of effective policies in force as a percentage of total population was 13.4% in year 2015. Further, long term insurance policies in force as a percentage of labor force has increased by 3.1% compared to 29.6% recorded in 2014.

Chart 10

**Number of Insurance Policies Issued and Policies in Force- Long Term Insurance Business**

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

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

STATISTICAL REVIEW CONTD...

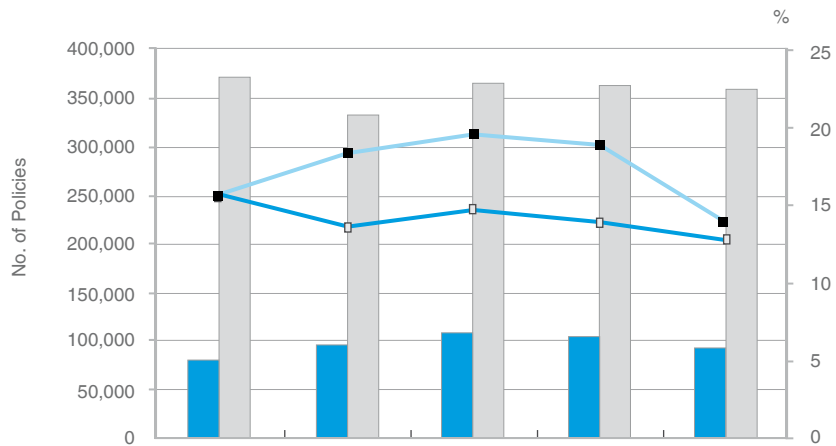
**Insurance Policy Lapses – Long Term Insurance Business**

Chart 11 depicts details of lapsed policies of long term insurance business during the last five years. During the year, there were 358,748 policy lapses and total

lapsed policies as a percentage of total policies in force were 12.77% in 2015 compared to 13.92% recorded in 2014 reflecting a slight improvement. New insurance policies lapsed during 2015 has amounted to 92,222 reflecting an

improvement compared to 103,500 new policy lapses recorded in 2014. Further, new policy lapses as a percentage of new policies issued has improved to 14.17% compared to 18.98% recorded in 2014.

**Chart 11**  
**Number of Policies Lapsed and Lapse Ratio from 2011 to 2015 - Long Term Insurance Business**



	2011	2012	2013	2014 (a)	2015 (b)
New Insurance Policies Lapsed	82,080	94,936	107,906	103,500	92,222
Total Insurance Policies Lapsed	371,196	332,707	366,506	362,664	358,748
New Insurance Policies Lapsed as a % of New Policies Issued	15.6	18.45	19.75	18.98	14.17
Total Insurance Policies Lapsed as a % of Total Policies in Force	15.76	13.64	14.79	13.92	12.77

(a) Reinstated as per the Actuarial Returns submitted to the board  
(b) Provisional figures

## STATISTICAL REVIEW CONTD...

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

Table 11 provides details of solvency margin and policy liabilities of long term insurance business of each insurance company as at 31st December 2014

and 2015. All long term insurance companies have complied with the solvency margin requirement by recording solvency ratios above one as at 31st December 2015 in accordance with the Solvency Margin Rules issued

by the Board. Further, long term policy liabilities amounted to Rs. 170,095 million as at 31st December 2015 and this represented an increase of 11.57% compared to Rs. 152,454 million recorded as at 31st December 2014.

**Table 11**  
**Company-wise Analysis of Solvency Position and Policy Liabilities as at 31st December 2014 & 2015 - Long Term Insurance Business**

Insurer	As at 31st December 2014 (a)		As at 31st December 2015 (b)			
	Solvency Ratio (ASM/RSM)	Value of Policy Liabilities (Rs. '000)	Available Solvency Margin (ASM) (Rs. '000)	Required Solvency Margin (RSM) (Policy Liabilities*0.05) (Rs. '000)	Solvency Ratio (ASM/RSM)	Value of Policy Liabilities (Rs. '000)
AIA Life	4.32	25,120,062	7,938,606	1,392,166	5.70	27,843,311
Allianz Life	2.30	980,741	88,833	70,172	1.27	1,403,433
Amana Life	1.10	555,610	161,678	29,267	5.52	585,338
Arpico	34.27	283,540	394,263	23,728	16.62	474,558
Asian Life	2.66	4,913,375	447,020	298,185	1.50	5,963,695
Ceylinco Life	10.50	40,315,535	22,942,452	2,201,381	10.42	44,027,618
Cooplif	1.05	798,243	272,354	51,824	5.26	1,036,476
HNB Life	2.29	5,040,184	736,314	342,273	2.15	6,845,464
Janashakthi Life	2.54	6,822,472	630,047	398,395	1.58	7,967,906
LIC	12.28	1,141,273	587,122	64,976	9.04	1,299,526
LOLC Life	5.74	682,942	317,371	60,328	5.26	1,206,569
MBSL	0.13	336,932	40,820	19,025	2.15	380,499
Sanasa	3.59	693,098	245,236	43,687	5.61	873,747
SLIC	13.22	46,300,512	24,872,920	2,409,380	10.32	48,187,592
Union Life	4.74	18,469,562	3,004,872	1,099,955	2.73	21,999,099
<b>Total/Overall</b>	<b>8.57</b>	<b>152,454,081</b>	<b>62,679,908</b>	<b>8,504,742</b>	<b>7.37</b>	<b>170,094,831</b>

(a) Reinstated Audited figures

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

**General Insurance Business****Gross Written Premium**

All insurance companies engaged in general insurance business generated GWP amounted to Rs. 68,815 million in 2015 compared to Rs. 60,803 million recorded in 2014 and reported a significant growth of 13.18% as depicted in Table 12. This growth was mainly due to increased premium income recorded by all the classes of general insurance business and it is noteworthy to state that motor insurance business recorded a significant growth rate of 19% compared to 7.37% recorded in 2014. Increase in number of vehicle registrations during 2015 has resulted in the above growth.

As confirmed by the NITF, SRCC & TC premium in respect of general insurance business has amounted to Rs. 3,017 million in 2015 (2014: Rs. 2,835 million) and represent a growth of 6.41% compared to previous year.

SLIC achieved the largest market share of the general insurance market by accounting for 19.77% of the total GWP (2014: 19.92%) which amounted to Rs. 13,606 million (2014: Rs. 12,114 million).

Ceylinco General remained in the second position of the general insurance market in 2015 with a market share of 18.78% (2014: 18.80%) and generated GWP worth of Rs. 12,922 million (2014: Rs. 11,432 million).

Janashakthi General generated GWP worth of Rs. 7,372 million in 2015 (2014: Rs. 6,492 million) to achieve the third largest market share of 10.71% (2014: 10.68%).

Union General and NITF generated GWP worth of Rs. 5,557 million (2014: Rs. 4,951 million) and Rs. 4,541 million (2013: Rs. 4,896 million) respectively to claim the fourth and the fifth largest market shares of 8.08% (2014: 8.14%) and 6.60% (2014: 8.05%) respectively.

Top Five GWP generators collectively accounted for 63.94% of the Total GWP (2014:65.59%) and the balance 36.06% was shared among the other thirteen insurers.

Chart 12 illustrates the company-wise market share of GWP achieved by insurance companies in 2015.

Table 12

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

Insurer	2011 (a)		2012 (a)		2013 (a)		2014 (b)		2015 (c)	
	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 Gen.	2,456,347	5.23	2,143,252	4.03	2,428,675	4.17	2,655,577	4.37	3,297,840	4.79
AIG	942,901	2.01	819,448	1.54	880,060	1.51	414,805	0.68	3,141	0.00
Allianz Gen.	1,379,406	2.94	1,397,127	2.63	1,964,907	3.37	2,723,406	4.48	3,244,844	4.72
Amana Gen.	916,754	1.95	1,125,838	2.12	1,432,135	2.46	1,285,418	2.11	1,438,732	2.09
Asian Gen.	582,257	1.24	1,133,240	2.13	1,556,386	2.67	1,638,126	2.69	1,908,901	2.77
Ceylinco Gen.	9,558,942	20.37	10,434,917	19.61	10,311,479	17.69	11,431,680	18.80	12,921,561	18.78
Continental	1,149,121	2.45	1,545,225	2.90	1,330,515	2.28	1,761,747	2.90	2,309,413	3.36
Cooperative Gen.	922,859	1.97	1,135,011	2.13	1,272,941	2.18	1,358,932	2.24	1,692,035	2.46
HNB Gen.	1,623,830	3.46	1,635,306	3.07	1,767,361	3.03	2,182,915	3.59	2,541,313	3.69
Janashakthi Gen.	5,086,207	10.84	5,773,429	10.85	6,318,626	10.84	6,491,556	10.68	7,372,182	10.71
LOLC Gen.	364,735	0.78	1,295,133	2.43	1,485,521	2.55	1,815,486	2.99	2,476,961	3.60
MBSL	636,738	1.36	1,049,147	1.97	1,132,789	1.95	961,225	1.58	1,159,209	1.68
NITF	3,599,928	7.67	3,518,528	6.61	4,973,357	8.53	4,895,760	8.05	4,540,558	6.60
Orient	1,749	0.00	308,547	0.58	355,001	0.61	491,127	0.81	746,935	1.09
People's	2,284,578	4.87	2,795,448	5.25	3,085,041	5.30	3,286,063	5.40	3,637,403	5.29
Sanasa	232,374	0.49	308,142	0.58	322,592	0.55	344,041	0.57	360,302	0.52
SLIC	11,134,583	23.73	12,359,188	23.23	12,549,763	21.53	12,113,994	19.92	13,606,205	19.77
Union Gen.	4,055,443	8.64	4,436,052	8.34	5,116,966	8.78	4,950,741	8.14	5,557,189	8.08
<b>Total</b>	<b>46,928,752</b>	<b>100</b>	<b>53,212,978</b>	<b>100</b>	<b>58,284,115</b>	<b>100</b>	<b>60,802,599</b>	<b>100</b>	<b>68,814,724</b>	<b>100</b>
<b>Growth Rate (%)</b>	<b>21.46</b>		<b>13.39</b>		<b>9.53</b>		<b>4.32</b>		<b>13.18</b>	

(a) Reinstated Audited figures

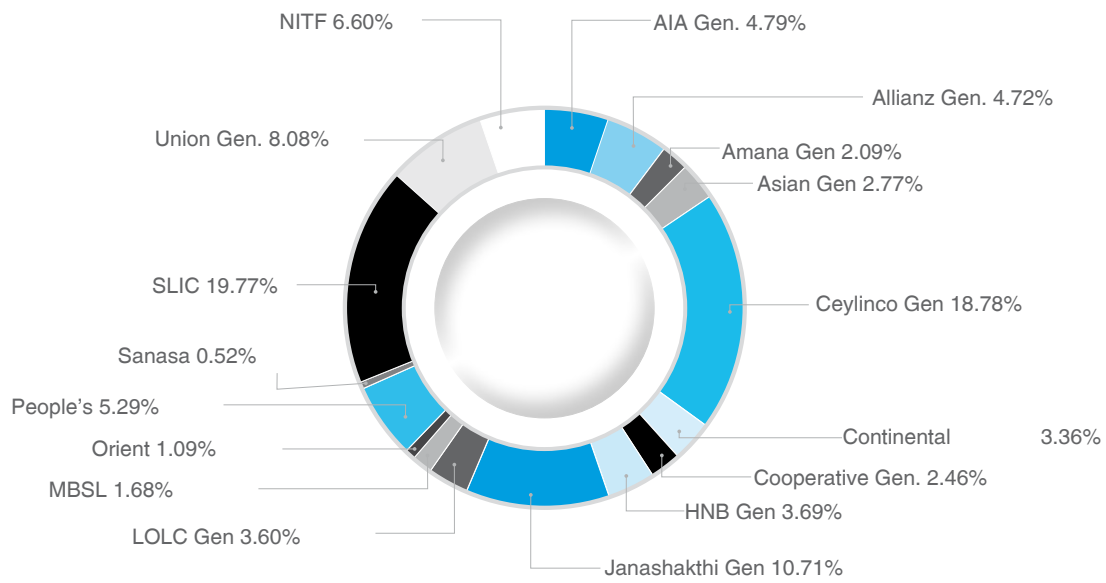
(b) Reinstated Audited figures (Except NITF)

(c) Provisional figures

## STATISTICAL REVIEW CONTD...

Chart 12

Company-wise Market Share of Gross Written Premium - General Insurance Business for the Year ended 31st December 2015



STATISTICAL REVIEW CONTD...

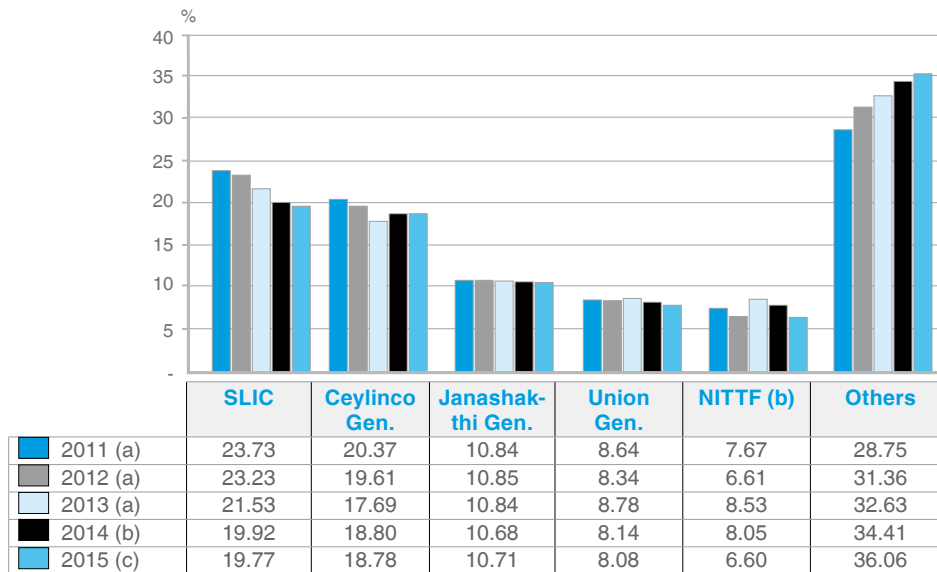
**Market Share of Top Five Contributors to Gross Written Premium and Other Insurers - General Insurance Business**

Chart 13 depicts the market share of top five contributors to the GWP and other insurers' market share in the general insurance business from 2011 to 2015. SLIC, Ceylinco General, Janashakthi General, Union General and NITF were the five main contributors to GWP. SLIC

had continued to be the market leader since 2011 and had achieved a market share of 19.77% in 2015. Ceylinco General has secured the second position in general insurance market in 2015 with a market share of 18.78%. Janshakthi General and Union General remained the third and fourth positions in the general insurance market by achieving market shares of 10.71% (2014:10.68%) and 8.08% (2014:8.14%)

respectively. Although NITF achieved the fifth position in the general insurance business by holding a market share of 6.60% in 2015 (2014:8.05%) market share has declined by 1.45% compared to year 2014. It is notable that the market share of the other insurance companies had gradually increased during the past five years.

*Chart 13*  
**Market Share of Top Five Contributors to GWP and Other Insurers for the Years 2011 and 2015 - General Insurance Business**



- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures



## STATISTICAL REVIEW CONTD...

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

Table 13 and Chart 14 depict the class wise analysis of gross written premium generated from different classes of general insurance business during the period 2011 to 2015. Fire, marine, motor, miscellaneous insurance business constitute the main sub-classes of general insurance business.

In addition, premiums pertaining to SRCC & T covers provided by NITF are also analysed in Table 13 and Chart 14.

Similar to previous years, motor insurance continued its dominance in the general insurance segment by recording GWP of Rs. 42,585 million (2014: Rs. 35,787 million) which represented 61.88% of total GWP of general insurance business. Motor insurance had grown by 18.99% compared to previous year. In 2015, miscellaneous insurance sector accounted for 21.18% of the total GWP by posting GWP worth of Rs.14,573 million (2014: Rs.13,915 million) and had grown by 4.73% compared to 2014. GWP of fire insurance business amounted to Rs. 6,579 million (2014:

Rs. 6,353 million) and accounted 9.56% share of the total GWP (2014: 10.45%). Marine insurance generated GWP amounted to Rs. 2,061 million (2014: 1,912 million) and accounted for 3% of the total GWP in 2015 (2014:3.14%) growing by only 7.81% compared to 2014.

As confirmed by the NITF, SRCC & T premium in respect of general insurance business has amounted to Rs. 3,017 million in 2015 (2014: Rs. 2,835 million) and represent a growth of 6.41% compared to previous year.

Table 13

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

Class	Gross Written Premium (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	5,379,788	5,474,094	6,303,725	6,353,292	6,578,842
Marine	1,679,794	1,927,096	1,796,969	1,911,944	2,061,222
Motor	27,356,318	31,844,102	33,331,917	35,786,941	42,584,532
Miscellaneous	10,506,321	11,686,509	14,307,720	13,915,221	14,573,260
<b>Sub Total</b>	<b>44,922,221</b>	<b>50,931,801</b>	<b>55,740,331</b>	<b>57,967,398</b>	<b>65,797,856</b>
SRCC & T	2,006,531	2,281,177	2,543,784	2,835,201	3,016,868
<b>Total</b>	<b>46,928,752</b>	<b>53,212,978</b>	<b>58,284,115</b>	<b>60,802,599</b>	<b>68,814,724</b>

Class	Growth (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	7.33	1.75	15.16	0.79	3.55
Marine	12.07	14.72	(6.75)	6.40	7.81
Motor	29.12	16.40	4.67	7.37	18.99
Miscellaneous	15.82	11.23	22.43	(2.74)	4.73
<b>Sub Total</b>	<b>22.18</b>	<b>13.38</b>	<b>9.44</b>	<b>4.00</b>	<b>13.51</b>
SRCC & T	7.29	13.69	11.51	11.46	6.41
<b>Total</b>	<b>21.46</b>	<b>13.39</b>	<b>9.53</b>	<b>4.32</b>	<b>13.18</b>

Class	Percentage Share (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	11.46	10.29	10.82	10.45	9.56
Marine	3.58	3.62	3.08	3.14	3.00
Motor	58.29	59.84	57.19	58.86	61.88
Miscellaneous	22.39	21.96	24.55	22.89	21.18
<b>Sub Total</b>	<b>95.72</b>	<b>95.71</b>	<b>95.64</b>	<b>95.34</b>	<b>95.62</b>
SRCC & T	4.28	4.29	4.36	4.66	4.38
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

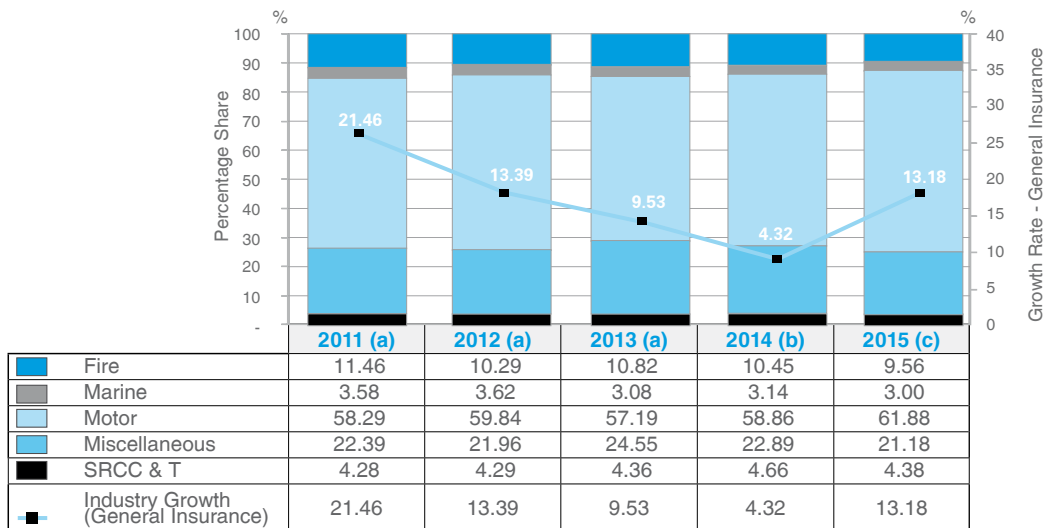
(a) Reinstated Audited figures

(b) Reinstated Audited figures (Except NITF)

(c) Provisional figures

STATISTICAL REVIEW CONTD...

**Chart 14**  
**Class-wise Analysis of GWP from 2011 to 2015 - General Insurance Business**



(a) Reinstated Audited figures  
(b) Reinstated Audited figures (Except NITF)  
(c) Provisional figures

**Category – wise Analysis of GWP of Miscellaneous Insurance Business**

Table 14 depicts the GWP generated from different insurance segments categorized under miscellaneous insurance business during the years 2014 and 2015. Main categories of miscellaneous insurance business include health & surgical, personal accident, air craft hull, bankers' indemnity, workmen compensation insurance, cash in transit, etc. Total GWP generated from miscellaneous insurance

excluding SRCC & T and coinsurance premium amounted to Rs.14,573 million in 2015 (2014: Rs.13,915 million). Similar to previous year health and surgical was the segment which generated the highest GWP under miscellaneous insurance business which amounted to Rs.8,285 million in 2015 (2014: Rs.7,193 million) which represented 55.60% of total GWP inclusive of SRCC & T and coinsurance premium. Other categories of miscellaneous insurance business generated the second highest

premium income under miscellaneous insurance business in 2015 with a GWP of Rs. 1,520 million (2014:Rs.2,373 million). This represented 10.20% of the total GWP of miscellaneous insurance business inclusive of SRCC & T and co-insurance premium even though recorded a decline of 35.94% compared to the GWP generated in 2014. Personal accident generated the third highest premium income of miscellaneous insurance business which amounted to Rs. 1,338 million in 2015 (2014: Rs.1,263 million)

**Table 14**  
**Category - wise analysis of GWP of Miscellaneous Insurance Premium for 2014 & 2015**

Category	GWP Rs.'000	
	2014 (a)	2015 (b)
Health & Surgical	7,193,386	8,284,561
Title	390,491	415,569
Personal Accident	1,263,406	1,338,009
Contractors' All Risk	172,772	213,337
Professional Indemnity	251,586	160,176
Travel Insurance	302,037	389,156
Fidelity Guarantee	73,704	137,180
Burglary	259,640	252,502
Cash in Transit Including Cash in Safe	388,982	399,385
Goods in Transits	69,916	75,101
Products Liability	49,948	53,632
Public Liability	159,683	266,540
Bankers' Indemnity	325,318	342,786
Air Craft Hull	577,559	575,595
WCI	375,507	477,941
Others	2,372,637	1,519,825
<b>Subtotal</b>	<b>14,226,573</b>	<b>14,901,295</b>
Less : Total of SRCC & T due to NITF	(293,448)	(294,773)
Coinsurance Premium	(17,903)	(33,262)
<b>Total Miscellaneous Insurance GWP</b>	<b>13,915,222</b>	<b>14,573,260</b>

(a) Reinstated Audited figures (Except NITF)  
(b) Provisional figures

## STATISTICAL REVIEW CONTD...

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

Table 15 and chart 15 depict the GWP generated by insurance companies, reinsurance premium ceded to reinsurers and the retention levels of main classes of general insurance business from 2011 to 2015. In 2015, Rs. 10,358 million had been ceded to reinsurers (2014: Rs. 9,519 million) out of the total GWP of Rs. 65,798 million exclusive of SRCC & T premium generated by general insurers

(2014: Rs.57,967 million) which resulted in overall retention ratio of 84.26% (2014:83.58%).

Similar to previous years, the highest retention ratio was recorded in motor insurance business which amounted to 97.46% in 2015 (2014:98.22%). Similar to last five years miscellaneous insurance recorded the second highest retention ratio which amounted to 79.74% in 2015 (2014: 81.07%) and indicated a decrease of 1.33% compared to year 2014.

The retention ratio of marine insurance had increased to 41.25% in 2015 compared to 38.71% recorded in 2014. Reinsurance premium ceded to reinsurers in respect of marine insurance has increased to Rs. 1,211 million in 2015 from Rs. 1,172 million recorded in 2014.

Similar to previous years fire insurance recorded the lowest retention ratio in 2015 which amounted to 22.32% and had increased by 2.21% compared to previous year.

**Table 15**  
**Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business**

Class	Gross Written Premium (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	5,379,788	5,474,094	6,303,725	6,353,292	6,578,842
Marine	1,679,794	1,927,096	1,796,969	1,911,944	2,061,222
Motor	27,356,318	31,844,102	33,331,917	35,786,941	42,584,532
Miscellaneous	10,506,321	11,686,509	14,307,720	13,915,221	14,573,260
<b>Sub Total</b>	<b>44,922,221</b>	<b>50,931,801</b>	<b>55,740,331</b>	<b>57,967,398</b>	<b>65,797,856</b>
SRCC & T	2,006,531	2,281,177	2,543,784	2,835,201	3,016,868
<b>Total</b>	<b>46,928,752</b>	<b>53,212,978</b>	<b>58,284,115</b>	<b>60,802,599</b>	<b>68,814,724</b>

Class	Reinsurance Premium (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	4,090,136	4,140,877	4,823,732	5,075,545	5,110,528
Marine	847,392	1,326,369	998,976	1,171,768	1,210,958
Motor	387,211	478,478	864,394	636,603	1,083,455
Miscellaneous	2,302,942	2,752,627	2,700,309	2,634,795	2,953,005
<b>Total Reinsurance Premium</b>	<b>7,627,681</b>	<b>8,698,351</b>	<b>9,387,411</b>	<b>9,518,711</b>	<b>10,357,946</b>

Class	Retention (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	1,289,652	1,333,216	1,479,993	1,277,747	1,468,314
Marine	832,402	600,727	797,994	740,176	850,264
Motor	26,969,107	31,365,623	32,467,523	35,150,338	41,501,077
Miscellaneous	8,203,379	8,933,883	11,607,411	11,280,426	11,620,255
<b>Total Net Written Premium</b>	<b>37,294,540</b>	<b>42,233,449</b>	<b>46,352,921</b>	<b>48,448,687</b>	<b>55,439,910</b>

Class	Retention as a Percentage of Gross Written Premium (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	23.97	24.36	23.48	20.11	22.32
Marine	49.55	31.17	44.41	38.71	41.25
Motor	98.58	98.50	97.41	98.22	97.46
Miscellaneous	78.08	76.45	81.13	81.07	79.74
<b>Overall Retention Ratio</b>	<b>83.02</b>	<b>82.92</b>	<b>83.16</b>	<b>83.58</b>	<b>84.26</b>

(a) Reinstated Audited figures

(b) Reinstated Audited figures (Except NITF)

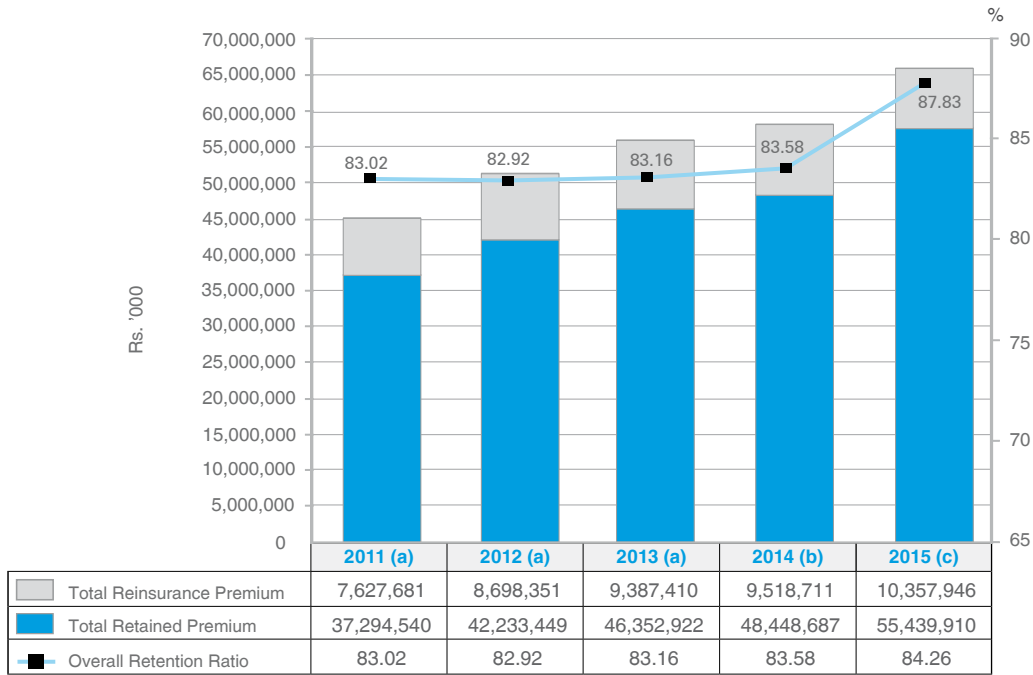
(c) Provisional figures

Note:

Re-insurance premium details are not applicable for SRCC & T Premums of NITF.

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**Chart 15**  
**Reinsurance Premium and Retention by Insurers - General Insurance Business**



- (a) Reinstated Audited figures
- (b) Reinstated Audited figures (Except NITF)
- (c) Provisional figures

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

Net earned premium generated from main sub-classes of general insurance business increased to Rs. 54,148 million in 2015 from Rs.49,597 million generated in 2014 by 9.18% as depicted in Table 16. Motor insurance business recorded the highest net earned premium that amounted to Rs. 37,946 million (2014 : 33,821 million) and reflected 70.08% of total net earned premium recorded in 2015.

Total net claims incurred during 2015 amounted to Rs. 33,897 million indicating an increase of 12.93% compared to Rs. 30,016 million recorded in 2014. Motor insurance business accounted for 72.55% of total net claims incurred in 2015 by recording claims amounted to Rs. 24,593 million (2014: Rs 20,281 million).

Net claims ratio, which reflects net claims as a percentage of net

earned premiums, was highest for miscellaneous insurance business in 2015 which reflects 77.12% (2014: 78.41%). Accordingly net claim ratio of miscellaneous insurance business had marginally declined in 2015 compared to 2014.

Motor insurance business recorded a net claims ratio of 64.81% in 2015 which was higher than the net claims ratio of 59.97% recorded in 2014. Though net earned premium of motor insurance business had increased to Rs. 37,946 million in 2015 from Rs. 33,821 million recorded in 2014 by 12.19%, net claims ratio of motor insurance business had increased due to significant increase of claims incurred by 21.26% in 2015 when compared with 2014.

Fire insurance business recorded a net claims ratio of 45.77% in 2015 and reflected a considerable decrease over 57.78% recorded in 2014. Net claims incurred for marine insurance business has recorded a 35.24% net claim ratio

which is similar to the net claim ratio recorded in 2014 of 35.37%.

Net claims ratio of SRCC & T has significantly dropped to -0.01% in 2015 from 2.11% recorded in 2014 due to the over provision made by NITF in 2014.

As reflected in Table 16 and Chart 16 net expenses incurred by general insurance sector which amounted to Rs. 19,522 million in 2015 (2014: Rs.23,991 million) had decreased by 18.63% in 2015. The overall net expense ratio of general insurance business including SRCC & T has also decreased to 36.05% in 2015 compared to 48.37% recorded in 2014. Net combined ratio which reflects the aggregate of net claims ratio and net expense ratio had decreased to 98.65% from 108.89% recorded in 2014. A combined ratio not exceeding 100% reflects that the total claims and expenses incurred by the general insurance sector had been lower than the earned premium which is favorable to the general insurance business.

## STATISTICAL REVIEW CONTD...

Table 16

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

Class	Net Earned Premium (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	1,145,285	1,452,556	1,405,887	1,241,985	1,283,057
Marine	804,444	546,598	806,277	753,643	804,393
Motor	23,790,270	29,499,705	31,346,284	33,821,396	37,945,841
Miscellaneous	7,670,795	8,192,094	10,845,577	11,087,494	10,936,252
<b>Sub Total</b>	<b>33,410,794</b>	<b>39,690,953</b>	<b>44,404,025</b>	<b>46,904,518</b>	<b>50,969,543</b>
SRCC & T (d)	1,864,652	2,185,222	2,406,477	2,692,730	3,178,495
<b>Total</b>	<b>35,275,446</b>	<b>41,876,175</b>	<b>46,810,502</b>	<b>49,597,248</b>	<b>54,148,038</b>

Class	Net Claims Incurred (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	482,646	506,092	810,281	717,626	587,194
Marine	232,189	321,562	432,748	266,560	283,458
Motor	15,544,386	18,351,251	19,514,319	20,281,109	24,592,825
Miscellaneous	5,683,867	6,176,879	6,170,826	8,694,096	8,433,888
<b>Sub Total</b>	<b>21,943,088</b>	<b>25,355,784</b>	<b>26,928,174</b>	<b>29,959,391</b>	<b>33,897,365</b>
SRCC & T (d)	(141,694)	37,076	2,332	56,897	(240)
<b>Total</b>	<b>21,801,394</b>	<b>25,392,860</b>	<b>26,930,506</b>	<b>30,016,288</b>	<b>33,897,125</b>

Class	Net Claims Ratio (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Fire	42.14	34.84	57.63	57.78	45.77
Marine	28.86	58.83	53.67	35.37	35.24
Motor	65.34	62.21	62.25	59.97	64.81
Miscellaneous	74.10	75.40	56.90	78.41	77.12
Sub Total	65.68	63.88	60.64	63.87	66.51
SRCC & T (d)	(7.60)	1.70	0.10	2.11	(0.01)
<b>Total</b>	<b>61.80</b>	<b>60.64</b>	<b>57.53</b>	<b>60.52</b>	<b>62.60</b>

Description	Net Expenses (Rs.'000)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Net Expenses for all classes of General Insurance Business except SRCC & T	12,105,102	14,807,142	17,359,623	21,322,543	19,035,896
SRCC & T (d)	329,202	386,071	414,422	2,668,435	486,474
<b>Total</b>	<b>12,434,304</b>	<b>15,193,213</b>	<b>17,774,045</b>	<b>23,990,978</b>	<b>19,522,370</b>

Description	Net Expense / Ratio (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	36.23	37.31	39.09	45.46	37.35
Net Expense Ratio of General Insurance Business	35.25	36.28	37.97	48.37	36.05

Description	Net Combined / Ratio (%)				
	2011 (a)	2012 (a)	2013 (a)	2014(b)	2015(c)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	101.91	101.19	99.74	109.33	103.86
Net Combined Ratio of General Insurance Business	97.05	96.92	95.50	108.89	98.65

(a) Reinstated Audited figures

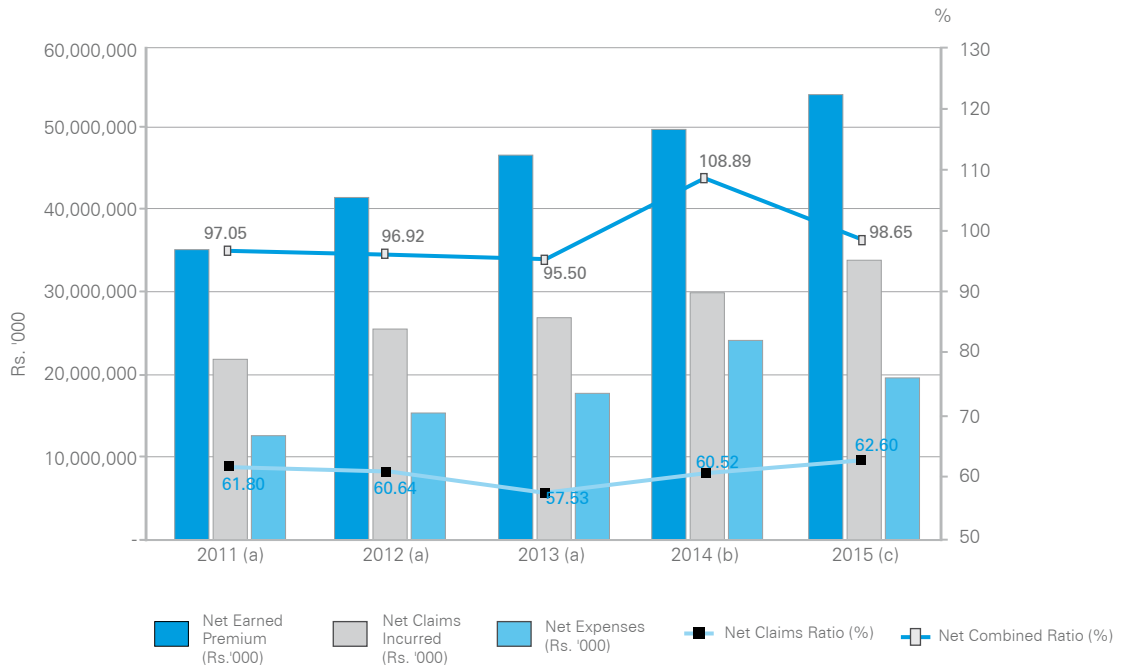
(b) Reinstated Audited figures (Except NITF)

(c) Provisional figures

(d) SRCC and T details were included in above analysis as per information submitted by NITF

STATISTICAL REVIEW CONTD...

**Chart 16**  
**Net Earned Premium, Net Claims Incurred, Net Expenses, Net Claims Ratio and Net Combined Ratio - General Insurance Business**



(a) Reinstated Audited figures  
 (b) Reinstated Audited figures (Except NITF)  
 (c) Provisional figures

**Number of Policies Representing Gross Written Premium – General Insurance Business**

Table 17 illustrates the total number of insurance policies which had contributed to generate GWP of different sub-classes of general insurance business during the period 2011 to 2015. The total number of insurance policies related to all sub-classes of general insurance business has increased to 5,191,170 in

2015 from 4,597,188 policies reported in 2014.

As depicted in Table 17 total number of policies of general insurance business had increased gradually during the past five years. Motor insurance business accounted for the largest number of policies from a single sub-class of general insurance business representing 87.97% of total policies in year 2015. Further, total number of

motor insurance policies amounted to 4,566,914 in 2015 which comprised of 2,478,380 third party insurance policies and 2,088,534 comprehensive insurance policies.

Insurance policies of fire, marine and miscellaneous insurance business had increased in 2015 compared to 2014. However insurance policies of workmen compensation had decreased in 2015 compared to 2014.

## STATISTICAL REVIEW CONTD...

Table 17

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

	2011	2012	2013	2014	2015
Fire	205,657	186,478	177,749	188,578	215,047
Marine	169,748	154,528	158,893	186,447	190,334
Motor					
3rd Party Only	2,086,490	1,997,502	2,126,037	2,229,153	2,478,380
Comprehensive	1,213,255	1,476,423	1,669,022	1,775,009	2,088,534
WCI	17,197	17,422	18,717	16,087	14,784
Miscellaneous					
Health	7,925	10,262	11,609	13,716	17,155
Excluding Health	204,782	198,406	167,414	188,198	186,936
<b>Total</b>	<b>3,905,054</b>	<b>4,041,021</b>	<b>4,329,441</b>	<b>4,597,188</b>	<b>5,191,170</b>

## Assets of General Insurance Business and Shareholders

Table 18 and Chart 17 demonstrate the concentration of assets of general insurance business and shareholders as at 31st December 2015. Total assets of general insurance business including shareholders' assets amounted to Rs. 157,001 million as at 31st December 2015 (2014: Rs. 173,964 million) and recorded a decline of 9.75% compared to total assets recorded as at 31st December 2014. This decline was due to segregation of composite insurance companies which came into effect in 2015 where part of the shareholders assets previously considered under general insurance business is now considered under long term insurance

business.

Equities were the main investment category of the general insurance business and amounted to Rs. 46,295 million and represented 29.49% of the total asset portfolio of general insurance business in 2015.

Investment in government securities amounted to Rs. 38,042 million (2014: Rs. 31,770 million) recorded as at 31st December 2015 and represented the second largest asset category in general insurance business. Investments in government securities recorded a growth of 19.74% compared to previous year. 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.

Deposits accounted for Rs. 14,729 million (2014: Rs. 20,756 million) and represented 9.38% of the total assets which recorded a decline of 2.55% compared to 2014 mainly due to lower interest rates prevailed during the year.

Land and buildings, corporate debts, other assets and reinsurance receivables were the other main asset categories of general insurance business and shareholders which accounted for 6.83%, 5.84%, 5.52% and 4.57% of total assets respectively as at 31st December 2015.

Table 18

## Concentration of Assets of General Insurance Business and Shareholders as at 31st December 2014 &amp; 2015

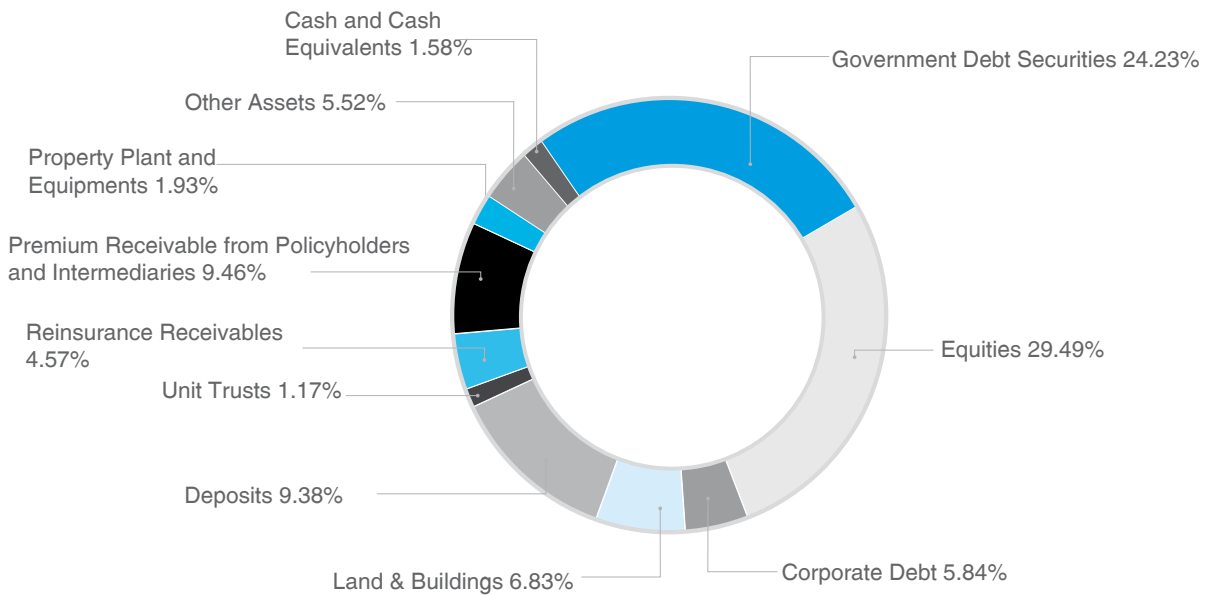
Type of Asset	2014 (a)		2015 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	31,769,804	18.26	38,042,180	24.23
Equities	47,879,441	27.52	46,294,932	29.49
Corporate Debt	7,965,919	4.58	9,170,186	5.84
Land & Buildings	11,996,569	6.90	10,717,660	6.83
Deposits	20,756,018	11.93	14,728,905	9.38
Unit Trusts	2,362,112	1.36	1,831,049	1.17
Investments in Gold	110,491	0.06	2,491	0.00
Reinsurance Receivable	6,590,214	3.79	7,174,876	4.57
Premium Receivable from Policyholders and Intermediaries	13,580,926	7.81	14,854,319	9.46
Property Plant and Equipments	5,234,702	3.01	3,031,498	1.93
Other Assets	23,219,013	13.34	8,671,785	5.52
Cash and Cash Equivalents	2,498,656	1.44	2,481,252	1.58
<b>Total</b>	<b>173,963,865</b>	<b>100</b>	<b>157,001,133</b>	<b>100</b>

(a) Reinstated Audited figures (Except NITF)

(b) Provisional figures

STATISTICAL REVIEW CONTD...

**Chart 17**  
**Concentration of Assets of General Insurance Business and Shareholders - 31st December 2015**



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

As depicted in the Table 19, average investment of general insurance business amounted to Rs.122,895 million in 2015 which increased by 8.36% compared to Rs. 113,411 million recorded in 2014. The total investment income recorded for the year 2015 amounted to Rs. 7,102 million (2014: Rs. 8,759 million) and resulted in an overall investment yield of 5.78% recorded in 2015.

Equities were the largest investment category of the general insurance

business with an average investment of Rs. 47,087 million (2014: Rs. 41,427 million) and generated an investment yield of 3.36% in 2015. Average investment in government securities amounted to Rs. 34,906 million in 2015 (2014 : Rs. 29,966 million) and generated an investment income of Rs. 2,657 million (2014 : 2,973 million). Investment yield ratio of government securities was 7.61% in 2015 recording a decline compared to 9.92% recorded in 2014.

Average investment in deposits in bank and finance companies amounted to Rs. 17,742 million and recorded a

negative growth of 10.64% compared to Rs.19,856 million recorded in 2014. Deposits generated an investment income of Rs. 1,025 million (2014: Rs.1,640 million) which reflected a significant drop of 37.47% when compared to 2014. Investment yield of deposits amounted to 5.78% in 2015 and recorded a decline of 2.48% when compared to the investment yield of 8.26% recorded in 2014.

Further, during 2015 corporate debts, land and buildings, unit trusts and other investments generated investment yield ratios of 11.86%, 0.05%, 6.91% and 62.13% respectively.



## STATISTICAL REVIEW CONTD...

**Table 19**  
**Breakup of Investment Income and Average Investments - General Insurance Business**

Category	2014(a)			2015(b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	2,972,870	29,966,376	9.92	2,657,461	34,905,992	7.61
- Treasury Bonds	1,608,179			1,626,662		
- Treasury Bills	535,623			345,291		
- Others (REPO)	829,068			685,508		
<b>Equity</b>	2,431,584	41,426,961	5.87	1,580,380	47,087,187	3.36
- Capital Gain/Losses	1,061,387			190,854		
- Dividend	1,370,197			1,389,526		
<b>Corporate Debts</b>	1,010,606	6,969,483	14.50	1,016,453	8,568,052	11.86
- Debentures	985,538			991,438		
- Commercial Papers	8,635			21,129		
- Asset backed securities	10,333					
- Other similar financial instruments	6,100			3,886		
<b>Land and Buildings</b>	10,913	11,537,337	0.09	6,050	11,357,114	0.05
<b>Deposits</b>	1,639,876	19,855,959	8.26	1,025,338	17,742,461	5.78
- Bank	1,368,330			782,906		
- Finance Companies	271,546			242,432		
<b>Unit Trust</b>	238,938	2,202,467	10.85	144,797	2,096,580	6.91
<b>Gold</b>	(606)	71,355	(0.85)		56,491	
<b>Others</b>	455,216	1,380,770	32.97	672,011	1,081,601	62.13
<b>Total</b>	8,759,397	113,410,708	7.72	7,102,490	122,895,478	5.78

(a) Reinstated Audited figures (Except NITF)

(b) Provisional figures

**Note:**

Investment income, Average investments belonging to shareholders of composite insurance companies namely ; SLIC, MBSL and Sanasa had been reported under general insurance business.

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

Table 20 illustrates the solvency ratio and technical reserve details recorded by individual general insurance companies as at 31st December 2014 and 31st

December 2015. The average solvency ratio of general insurance business was 2.59 at the end of year 2015 compared to 2.8 in 2014. However, four insurance companies were unable to comply with the solvency margin requirement as at 31st December 2015 and the Board

has taken appropriate action regarding same. Technical Reserves of insurance companies amounted to Rs. 46,756 million at the end of year 2015 (2014: Rs. 40,200 million) and represent a positive growth of 16.31% compared to year 2014.

## STATISTICAL REVIEW CONTD...

**Table 20**  
**Company-wise Analysis of Solvency Position and Technical Reserves as at 31st December 2014 & 2015 - General Insurance Business**

Insurer	2014(a)		2015 (b)			
	Solvency Ratio (ASM/RSM)	Technical Reserves (Rs. '000)	Available Solvency Margin (ASM) (Rs.'000)	Required Solvency Margin (Rs. '000)	Solvency Ratio (ASM/RSM)	Technical Reserves (Rs. '000)
AIA Gen.	3.13	1,833,987	1,419,434	520,089	2.73	2,055,784
AIG	2.78	72,002	97,752	50,000	1.96	37,146
Allianz Gen.	1.44	1,278,412	596,005	414,133	1.44	1,721,995
Amana Gen.	1.01	493,240	235,338	256,999	0.92	548,157
Asian Gen.	1.71	999,641	220,604	357,299	0.62	1,160,041
Ceylinco Gen.	1.48	6,110,117	2,911,584	2,114,069	1.38	6,504,627
Continental	2.52	761,969	808,295	344,545	2.35	1,014,865
Cooperative Gen.	1.24	1,076,600	192,258	331,227	0.58	1,229,298
HNB Gen.	3.24	1,150,323	662,337	441,411	1.50	1,407,205
Janashakthi Gen.	1.71	4,327,793	2,983,964	1,308,855	2.28	4,785,305
LOLC Gen.	1.45	1,326,137	608,241	440,389	1.38	1,885,375
MBSL	1.18	539,107	87,897	123,975	0.71	454,850
Orient	4.05	259,891	297,276	120,344	2.47	432,036
People's	1.60	2,581,583	1,269,729	701,661	1.81	2,870,881
Sanasa	2.84	177,876	82,897	53,966	1.54	162,689
SLIC	3.80	11,929,930	10,490,470	2,743,171	3.82	13,646,766
Union Gen.	3.17	3,152,537	2,722,386	926,530	2.94	3,471,493
NITF	4.90	2,128,643	7,758,204	1,639,840	4.73	3,367,198
<b>Total</b>	<b>2.80</b>	<b>40,199,788</b>	<b>33,444,671</b>	<b>12,888,503</b>	<b>2.59</b>	<b>46,755,711</b>

(a) Reinstated Audited figures (Except NITF)

(b) Provisional figures

## STATISTICAL REVIEW CONTD...

**Details of New, Renewed and Policies In Force- General Insurance Business**

As depicted in Table 21, total number of policies in force of general insurance was 5,123,180 at the end of 2015 and represented growth of 14.88% compared to 4,459,684 policies recorded in 2014. In 2015

motor insurance policies represented 88.57% of the total policies in force and comprised of 2,473,136 third party policies and 2,064,460 comprehensive policies. Fire insurance policies in force have increased to 226,638 in 2015 from 182,808 policies recorded at the end of 2014. Miscellaneous insurance policies including WCI policies and Marine insurance policies in force

represented 3.89% and 3.11% of total policies in force respectively.

During the year, insurance companies have written 2,460,564 new policies which has increased by 23.85% compared to previous year. 2,779,509 policies have been renewed during 2015 compared to 2,615,005 policies renewed during 2014.

Table 21

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

	2014			2015		
	New policies	Renewed Policies	Policies inforce at year end	New policies	Renewed Policies	Policies inforce at year end
Fire	69,731	122,025	182,808	85,041	144,348	226,638
Marine	183,957	2,286	157,806	187,167	3,879	159,563
<b>Motor</b>	<b>1,597,703</b>	<b>2,413,204</b>	<b>3,902,997</b>	<b>2,033,228</b>	<b>2,575,150</b>	<b>4,537,596</b>
3rd party only	895,971	1,329,523	2,227,949	1,079,452	1,393,729	2,473,136
Comprehensive	701,732	1,083,681	1,675,048	953,776	1,181,421	2,064,460
Miscellaneous including WCI	135,390	77,490	216,073	155,128	56,132	199,383
<b>Total</b>	<b>1,986,781</b>	<b>2,615,005</b>	<b>4,459,684</b>	<b>2,460,564</b>	<b>2,779,509</b>	<b>5,123,180</b>

**Reinsurance Business**

National Insurance Trust Fund is the only Sri Lankan body which provides reinsurance cover to primary insurers. As per the government Gazette notification No. 1791/4 of 31st December 2012, all primary insurers are required to cede 30% of their total liability arising out of every general reinsurance to NITF.

During 2015, reinsurance premium income of NITF amounted to Rs. 1,784 million, declining by 12.59% compared to Rs. 2,041 million generated in 2014. This decline in premium income was mainly due to 15.88% decline in total reinsurance premium of general insurance business in 2015 which amounted to Rs. 8,007 million (2014:

Rs. 9,519 million) which resulted in increased retention levels for most sub-classes of general insurance business, particularly in fire insurance business.

Total assets held by the reinsurance business of NITF amounted to Rs. 3,381 million as at 31st December 2015, up by 10.31% compared to assets worth of Rs. 3,065 million recorded at the end of year 2014. As at the end of year 2015, NITF's reinsurance business has invested in government securities amounted to Rs. 2,640 million (2014: Rs. 1,955 million) which generated an investment income of Rs. 186 million (2014: Rs. 79 million). Accordingly, the investment yield ratio amounted to 8.10% in 2015 (2014: 5.74%).

During 2015, NITF received 278 reinsurance claims and claims paid amounted to Rs. 796 million. Further, net claims incurred during 2015 amounted to Rs. 1,265 million (2014: Rs. 774 million) which resulted in a claims ratio of 68.30% (2014: 45.75%).

Reinsurance business of NITF incurred expenses amounted to Rs. 539 million during 2015 recording a significant increase of 93.19% over Rs. 279 million incurred in 2014 and resulted in an expense ratio of 29.10% (2014: 16.43%). Accordingly, the combined ratio which is the aggregate of claims ratio and expense ratios amounted to 97.40% in 2015, increasing significantly by 35.22% over 62.18% recorded in 2014.

## STATISTICAL REVIEW CONTD...

**Insurance Brokering Companies****Performance of Insurance Brokering Companies**

During 2015, fifty seven insurance brokering companies operated in the market and generated a GWP amounting to Rs.16,330 million. Accordingly, total GWP generated through insurance brokering business recorded a growth of 10.96% in 2015 when compared to Rs.14,717 million generated in 2014. This total GWP consisted of premium income generated through long term insurance business and general

insurance business which amounted to Rs.206 million and Rs.16,124 million respectively. Out of the total GWP generated through insurance brokering companies, 98.74% represented GWP of general insurance business and only 1.26% represented GWP of long term insurance business.

Similar to previous years, insurance brokering companies' contribution towards long term insurance business was insignificant in 2015 and only 0.38% of the total GWP of long term insurance business (Rs.53,575 million) was generated from brokers. Insurance

brokering companies have generated 23.43% of the total GWP of general insurance business which amounted to Rs.68,815 million (including SRCC & T premium).

In 2015, twenty three insurance brokering companies procured GWP exceeding Rs.100 million each and these insurance brokers collectively generated GWP amounting to Rs.15,188 million. The remaining thirty four insurance brokering companies generated Rs. 1,142 million as depicted in Table 22.

Table 22

**Gross Written Premium generated through Insurance Brokering Companies -2015**

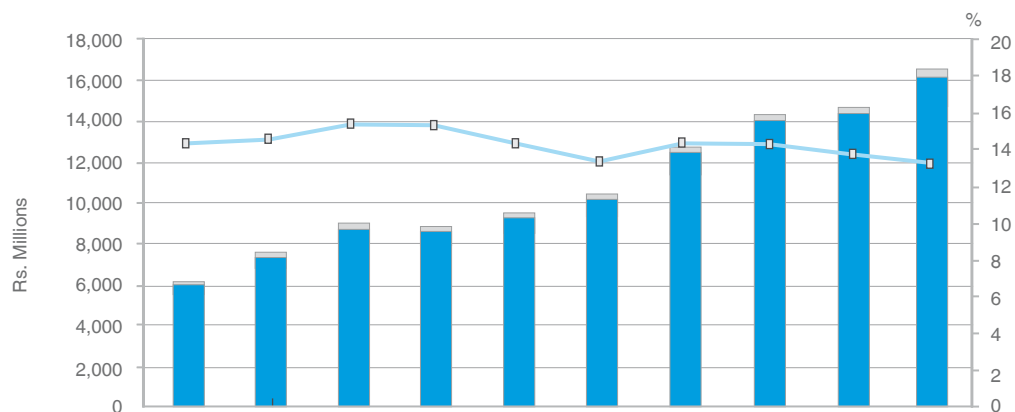
	Name of the Brokering Company	Gross Written Premium (*)					
		Long Term Insurance Business		General Insurance Business		Total	
		Rs.('000)	Market Share (%)	Rs.('000)	Market Share (%)	Rs.('000)	Market Share (%)
1	ADZ Insurance Brokers (Pvt) Ltd.	7,310	3.56	302,331	1.88	309,641	1.90
2	Aitken Spence Insurance Brokers (Pvt) Ltd.	375	0.18	379,527	2.35	379,902	2.33
3	Alfinco Insurance Brokers (Pvt) Ltd.	-	-	555,990	3.45	555,990	3.41
4	Assetline Insurance Brokers Limited.	-	-	1,247,902	7.74	1,247,902	7.64
5	CF Insurance Brokers (Pvt) Ltd.	46	0.02	2,231,407	13.84	2,231,453	13.67
6	Colombore Insurance Brokers (Pvt) Ltd.	1,324	0.64	273,173	1.69	274,497	1.68
7	Commercial Insurance Brokers (Pvt) Ltd.	63,782	31.02	1,946,679	12.07	2,010,461	12.32
8	Delmege Insurance Brokers (Pvt) Ltd.	16,438	8.00	991,549	6.15	1,007,987	6.17
9	Equity Insurance Brokers (Pvt.) Ltd.	-	-	129,878	0.81	129,878	0.80
10	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	16,720	8.13	359,505	2.23	376,225	2.30
11	Finlay Insurance Brokers (Pvt) Ltd.	16,425	7.99	1,389,042	8.61	1,405,467	8.61
12	Foresight Insurance and Reinsurance Brokers (Pvt) Ltd.	-	-	169,173	1.05	169,173	1.04
13	Global Insurance Brokers and Services (Pvt) Ltd.	27	0.01	103,789	0.64	103,816	0.64
14	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	799	0.39	137,610	0.85	138,409	0.85
15	Mercantile Insurance Brokers (Pvt) Ltd.	-	-	174,170	1.08	174,170	1.07
16	Nations Insurance Brokers Ltd.	10,573	5.14	1,223,715	7.59	1,234,288	7.56
17	Procure Insurance Brokers (Pvt) Ltd.	1,299	0.63	219,870	1.36	221,169	1.35
18	Protection & Assurance Insurance Brokers (Pvt) Ltd.	-	-	1,166,721	7.24	1,166,721	7.15
19	Reliance Insurance Brokers (Pvt) Ltd.	11,536	5.61	397,602	2.47	409,138	2.51
20	Senaratne Insurance Brokers (Pvt) Ltd.	5,257	2.56	503,327	3.12	508,584	3.10
21	Senkadagala Insurance Brokers (Pvt) Ltd.	-	-	718,966	4.46	718,966	4.40
22	Strategic Insurance Brokers (Pvt) Ltd.	19,701	9.58	200,934	1.25	220,635	1.35
23	Zenith Insurance Brokers (Pvt) Ltd.	1,084	0.53	192,477	1.19	193,561	1.19
	<b>Sub - Total</b>	<b>172,696</b>	<b>84.00</b>	<b>15,015,337</b>	<b>93.12</b>	<b>15,188,033</b>	<b>93.01</b>
	<b>Other Insurance Brokering Companies (34)</b>	<b>32,889</b>	<b>16.00</b>	<b>1,108,754</b>	<b>6.88</b>	<b>1,141,643</b>	<b>6.99</b>
	<b>Grand total</b>	<b>205,585</b>	<b>100</b>	<b>16,124,091</b>	<b>100</b>	<b>16,329,676</b>	<b>100</b>

\* GWP figures are based on information submitted by Insurance Brokering companies.

## STATISTICAL REVIEW CONTD...

Chart 18

## Gross Written Premium generated through insurance brokering companies from 2006 to 2015



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Long term insurance GWP (Rs. Millions)	144	158	195	188	243	296	195	191	158	206
General insurance GWP (Rs. Millions)	6,028	7,393	8,781	8,698	9,317	10,193	12,532	14,189	14,559	16,124
Brokering Companies Contribution as a % of total GWP	14.34	14.55	15.43	15.44	14.43	12.78	14.03	14.39	13.96	13.34

## Abbreviations for Insurance Companies

AIA Life	: AIA Insurance Lanka PLC	HNB Gen.	: HNB General Insurance Ltd.
AIA Gen.	: AIA General Insurance Lanka Ltd.	Janashakthi Life	: Janashakthi Insurance PLC
AIG	: AIG Insurance Ltd.	Janashakthi Gen.	: Janashakthi General Insurance Ltd.
Allianz Gen.	: Allianz Insurance Lanka Ltd.	LIC	: Life Insurance Corporation (Lanka) Ltd.
Allianz Life	: Allianz Life Insurance Lanka Ltd.	LOLC	: LOLC Asset Holding Ltd.
Amana Gen.	: Amana Takaful PLC	LOLC Gen.	: LOLC General Insurance Ltd.
Amana Life	: Amana Takaful Life Ltd.	LOLC Life	: LOLC Life Assurance Ltd.
Arpico	: Arpico Insurance PLC	MBSL	: MBSL Insurance Company Ltd.
Asian Life	: Asian Alliance Insurance PLC	NITF	: National Insurance Trust Fund
Asian Gen.	: Asian Alliance General Insurance Ltd.	Orient	: Orient Insurance Ltd.
Ceylinco	: Ceylinco Insurance PLC	People's	: People's Insurance Ltd.
Ceylinco Gen.	: Ceylinco General Insurance Ltd.	Sanasa	: Seemasahitha Sanasa Rakshana Samagama
Ceylinco Life	: Ceylinco Life Insurance Ltd.	SLIC	: Sri Lanka Insurance Corporation Ltd.
Continental	: Continental Insurance Lanka Ltd.	Union Life	: Union Assurance PLC
Cooperative Gen.	: Cooperative Insurance Company Ltd.	Union Gen.	: Union Assurance General Ltd.
Cooplif	: Cooplife Insurance Ltd.		
HNB Life	: HNB Assurance PLC		

# REVIEW OF OPERATIONS

## Supervisory Review

### Insurance Companies

#### 1. Review of Returns

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

Insurance companies are required to submit their Annual Statutory Returns and Audited Financial Statements to the Board within six months following the end of the financial year as per the provisions of the Act. Further, insurers who are engaged in long term insurance business are required to submit an Actuarial Report and an Abstract to the Board along with their Annual Statutory Returns. However, segregated insurance companies were required to submit above returns to the Board within four months following the end of the financial year as per the segregation guidelines issued by the Board.

The Board closely monitors the timely submission of the Returns and scrutinizes them for accuracy and compliance with the provisions of the Act and other Rules and Regulations of the Board. Insurance companies are advised to rectify deviations from statutory requirements observed, within stipulated deadlines. Follow up actions are taken by the Board to ensure that insurers comply with the provisions of the Act, other Rules and Regulations of the Board. In addition, the Board addresses material issues observed during the review of returns and onsite inspections conducted at respective insurance companies and at meetings held with them.

##### b) Risk Assessment Summary (RAS)

Insurance companies are required to submit their Risk Assessment Summary (RAS) to the Board on or before 31<sup>st</sup> March of each year. The Board reviews the information disclosed in the RAS pertaining to organizational structure and ownership, business profile, and senior management function such

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

##### c) Review of Reinsurance Arrangements

Insurance companies are required to inform annually their reinsurance arrangements to the Board in terms of Section 31(1) of the Act. Insurers are required to comply with the terms and conditions on reinsurance placements issued by the Board. The Board reviews the said arrangements to ensure that reinsurance covers are obtained from regulated reinsurers who satisfy the rating requirements prescribed by the Board, covers had been obtained for the respective classes, insurer had ceded with NITF etc. Any non-compliance or deviations observed by the Board are informed to relevant companies to take corrective actions within stipulated timelines.

Further, insurance companies are required to submit quarterly all the facultative reinsurance arrangements entered for long term and general insurance businesses. The Board reviews the said arrangements to ensure that facultative covers are obtained from regulated reinsurers who satisfy the rating requirements prescribed by the Board and facultative covers are ceded appropriately including compulsory cession to NITF. Views of NITF are obtained for any non-compliance or deviations observed by the Board which are informed to relevant companies to take corrective actions within stipulated timelines.

##### d) Quarterly Returns

Insurance companies are required to submit their Quarterly Returns to the Board within forty five days after the end of each quarter as per the provisions of the Act. Returns submitted for all four quarters of 2015 were reviewed by the Board to assess their quarterly performance and to ensure compliance with relevant Rules and Regulations of the Act.

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

Also, the financial position of every insurance company for each quarter is analyzed by scrutinizing their asset and liability position and ratios such as solvency, liquidity and capital adequacy. Insurance companies are instructed to rectify, where non-compliance with the Act, Rules, Regulations and discrepancies are observed during the review of Quarterly Returns.

Insurers are required to submit two Compliance Certifications along with the Quarterly Returns to confirm that they comply with the provisions of Act, Rules and Regulations of the Board and the provisions of the Financial Transactions Reporting Act, No. 6 of 2006.

##### e) Monthly Returns

According to the Directions issued by the Board, eight insurance companies are required to submit their Monthly Returns within fifteen days from the end of each month. This is in addition to their Quarterly Return submissions. The Board reviewed the Returns submitted by these companies, in order to ensure that their financial position comply with the Act, Rules and Regulations. Where non-compliances and discrepancies are observed in the returns, the relevant companies are instructed to take appropriate corrective actions within stipulated timelines.

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

According to the Solvency Margin (General and Long Term Insurance Business) Rules, every insurance

## REVIEW OF OPERATIONS CONTD...

company is required to maintain the minimum required solvency margins for both general and long term insurance businesses. Insurers are also required to submit their solvency margin computations together with Monthly, Quarterly and Annual Returns. The Board reviews and analyzes such computations to ensure compliance with the Solvency Margin Rules. If Insurers are unable to fulfill the required Solvency Margin requirement or if the computations are inaccurate, the Board instructs them to take immediate action to comply with the Solvency Margin Rules and rectify the same within stipulated timelines.

### 3. Monitoring Compliance with Investment Specifications

#### a) Investment in Government Securities

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

#### b) Other Investments as per Determinations

Every Insurer carrying on general insurance business or long term insurance business is required to invest the balance assets of the Technical Reserve and of the Long Term Insurance Fund in accordance with the Determination 1 of 1<sup>st</sup> March 2011 and its subsequent amendments issued by the Board. The Board reviews the investments

of the insurers to ensure compliance with Determination 1. If any non-compliances are observed, the Board informs the respective insurers for necessary rectifications within stipulated timelines.

### 4. Financial Evaluations

The Board also carries out financial evaluations in respect of information received as part of the investigations / complaints handled by the Board. Additional financial information is gathered in respect of complaints received and analyzed to facilitate decisions to be taken by the Board. Occasional onsite inspections are also conducted to verify matters alleged in complaints.

### 5. Risk Based Capital (RBC) Capital Adequacy Requirements

In 2009, the Board, with the assistance of the World Bank and FIRST Initiative, commenced developing a risk sensitive minimum capital (RBC) model to monitor capital adequacy requirements of insurance companies.

The RBC Project comprised mainly four phases. Many milestones have been achieved to date as planned. During the year 2015 RBC Project continued to progress. The mandatory parallel run for the implementation of RBC commenced in 2014, continued in 2015 and it is compulsory for all insurers to comply with the capital adequacy requirements stipulated in the Solvency Margin (Risk Based Capital) Rules 2015 from the beginning of the year 2016.

According to the Solvency Margin (Risk Based Capital) Rules 2015, every insurance company is required to maintain a minimum Total Available Capital (TAC) of Rs. 500 million and a Capital Adequacy Ratio (CAR) of 120% for both general and long term insurance businesses. In order to monitor these requirements the Board has designed RBC generic templates and questionnaires to be used

by all insurance companies when submitting RBC returns to the Board. All insurance companies except two insurance companies submitted these templates for life and general insurance businesses together with questionnaires for the four quarters of 2015. The Board reviewed and analyzed such computations to ensure compliance with the Solvency Margin (Risk Based Capital) Rules. Insurers facing problems to fulfill the required capital adequacy requirements or where the computations were inaccurate, the Board instructed them to submit capital plans demonstrating the manner in which the company would comply with RBC Rules within stipulated timelines.

Further, the Board appraises the insurance industry on results of the parallel run, including reported CAR Ratio's, TAC analysis and breakup of risk charges etc., and initiatives taken by the Board and any developments with regard to RBC during quarterly meetings with insurers.

#### Initiatives taken to Ensure Implementation of RBC Regime

#### a) Zero coupon risk free interest rate yield curve

A risk free interest rate yield curve is required for computations under the Solvency Margin (Risk Based Capital) Rules 2015. As per Rule 32, insurers are required either to use a risk free interest rate yield curve developed using an appropriate mathematical model consistent with current Sri Lankan Government Bond rates with the prior approval of the IBSL or use a risk free interest rate yield curve published by the Board.

In the absence of a published risk free interest rate yield curve, insurers were using different yield curves for RBC computations during the two year parallel run. Hence, the Board has requested assistance from the Central Bank to develop a risk free interest rate yield curve which can be used as per Rule 32.

## REVIEW OF OPERATIONS CONTD...

**b) Clarification on requirement for certification - Rule 6(1) of Solvency Margin (Risk Based Capital) Rules, 2015**

Insurance companies had raised a query on Rule 6(1) stating that quarterly valuation could be conducted by in-house / internal actuaries, and that only the year end valuation needed to be performed by the external / appointed actuary. Therefore initiatives are commenced to issue a clarification to the insurance companies to adopt on the Actuarial Certification requirement under Rule 6(1) of Solvency Margin (Risk Based Capital) Rules, 2015 after obtaining comments from them.

**c) Enforcement strategy on RBC**

If insurance companies fail to maintain the proposed capital adequacy requirements based on RBC, the Board will be required to intervene and take corrective actions on such companies for non compliance. Therefore, it was decided to formulate an enforcement strategy on RBC based on the minimum requirements. This will enable the Board to commence supervisory intervention before a significant deterioration of financial condition or solvency concerns leading to a crisis situation.

The purpose of an enforcement strategy is to identify troubled insurance companies at an early stage, so that practical and effective remedies can be introduced to resolve problems before they grow out of proportion and become a significant enforcement issue.

**6. Onsite Inspections**

During the year under review the Board conducted six onsite inspections at insurance companies based on the risk based supervisory methodology. Two onsite inspections were conducted with the participation of the World Bank Consultants as part of Risk Based Supervision (RBS) project. One of the main objectives of conducting

onsite inspections in the year 2015 were to validate insurance company's readiness to comply with RBC rules once implemented. Further, the Board reviewed the operations, systems, policies and procedures of insurers to ensure compliance with the provisions of the Act and other Rules and Regulations issued by the Board. Interviews were conducted with senior officials of the insurers, Internal/External Auditors and the Actuaries in order to gather more information relating to insurers' operations, procedures and systems. Insurance companies' compliance with Anti Money Laundering (AML) guidelines were also verified when conducting onsite inspections.

According to the observations made during the onsite inspections, the Board's recommendations for areas which needed improvements through onsite inspection reports were communicated to respective insurers. Further, appropriate actions were taken for any violations observed during the inspections.

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

Based on the information and statistics collated from the Quarterly Returns, the Board submitted financial information relating to performance of the insurance industry on quarterly basis to the Financial System Stability Department of the Central Bank of Sri Lanka. In order to ascertain the performance of the Insurance industry the Board analyzed total assets, premium income, profitability, liquidity, and ratio analysis etc.

**8. Industry Handbook 2015**

The Board collated information and statistics of the insurance industry submitted for the year ended 31st December 2014 and published an "Industry Handbook" for the benefit of the insurance industry and the stakeholders. Handbook contains

information such as total assets, gross written premium for different classes of insurance business, Statement of comprehensive income and Statement of Financial Position of insurance companies and ratios such as retention ratio, claim ratio, combined ratio, etc.

**9. Segregation of Composite Insurers**

Seven composite insurance companies segregated its insurance businesses with effect from 1st January 2015 and another two composite insurance companies segregated their business operations during the year 2015. These entities are required to submit specified returns prescribed in the segregation guidelines issued by the Board. All the segregated insurance companies have complied with this requirement. The Board reviewed the documents submitted and observations, if any, were communicated to respective insurers for necessary action.

The segregated entities informed the Board that, in order to effectively carry out the transfer of assets from the general / long term insurance businesses, companies need to comply with certain requirements of the Securities and Exchange Commission of Sri Lanka and the Central Depository System. Therefore segregated entities requested for a no objection letter seeking approval to transfer assets belonging to general / long term insurance business. These requests were acceded to and no objection letters were issued.

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

With the assistance of the World Bank and the FIRST Initiative, the Board commenced RBS project during 2013, with an objective of strengthening the supervisory function of the Board. The project work was completed in April 2015, in the areas of supervision,



## REVIEW OF OPERATIONS CONTD...

requirements for reinsurance placements, regulation and supervision on reinsurers, loss adjusters, investments and investment linked products. Further, the project also included the completion of RBC Rule, which was part of the previous RBC project.

### 11. Amendments to Quarterly, Annual and Actuarial Regulatory Reporting Formats

Insurance companies are required to submit Quarterly Returns, Annual Returns and Actuarial Reporting formats according to the relevant Determinations issued by the Board. With the implementation of Risk Based Solvency Margin (Risk Based Capital) Rules commencing from 1<sup>st</sup> January 2016, the aforesaid regulatory reports are also required to be amended appropriately. Therefore, the Board initiated reviewing the reporting formats, with the intention of completing the implementation of the RBC Rule.

### 12. Guidelines on Investments of Insurance Companies and Management of Insurance Funds

The Board conducted a workshop with the support of the Board's Consultant Actuary regarding the management of insurance funds/ investments for life and general insurance companies beginning of the year 2015 to appraise the industry on best practices. More than 140 industry representatives participated for the two sessions conducted. Subsequently guidelines were drafted covering the following aspects:

#### a) Guidelines on Investment of Insurance Companies

This guideline was drafted to specify the qualitative requirements relating to management of risk arising from investment activities as an integral part of the RBC and RBS frameworks.

Insurance companies adopt different approaches to management of investments depending on a wide range of factors, including the size, level of sophistication and complexity of the investment activities. However, basic principles such as accountability and responsibility of the Board of Directors and Senior Management, need for robust risk management policy and adequate monitoring and controls are addressed in the guideline.

#### b) Guidelines on Management of Insurance funds

This guideline was drafted to specify the qualitative requirements relating to proper attribution of assets and liabilities to the business of an insurer through the appropriate segregation of insurance funds and attribution of assets, liabilities and expenses to insurance fund/s etc.

Above guidelines will be finalized after obtaining comments from IASL.

### Insurance Brokering Companies

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

Insurance brokering companies are required to submit their Quarterly Returns and Interim Financial Statements to the Board within 45 days at the end of each quarter in terms of the Gazette Notification No. 1642/16 (First Schedule) of 25<sup>th</sup> February 2010.

Most of insurance brokering companies submitted their Quarterly Returns and Interim Financial Statements to the Board within the deadline. The Board reviewed the Quarterly Returns to ensure that their financial position is sound and compliance with the Act, other Rules and Regulations. Non-compliance or deviations observed by the Board are informed to the respective brokering companies for corrective actions within stipulated timelines.

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

#### 2. Monitoring Premium Collections

As per Section 89 of the Act, insurance premiums collected by insurance brokering companies on behalf of insurers should be remitted to respective insurers within two weeks of collection. The Board closely monitors compliance with the said requirement. Necessary actions are taken by the Board on such insurance brokering companies who did not comply with the said provision.

#### 3. Onsite inspections

During the year 2015 the Board carried out eight onsite inspections at insurance brokering companies to assess compliance with the Rules and Regulations of the Board. Observations made during the onsite inspections together with the Board's recommendations are communicated to the relevant insurance brokering companies for corrective actions. Further, appropriate regulatory actions had been taken by the Board for any violations.

#### 4. Renewal of Registration

Applications were received from the insurance brokering companies requesting for renewal of their annual licenses to carry out operations during the year 2016. The Board analyzed Audited Financial Statements and Quarterly Returns to ascertain their financial position prior to taking actions to renew licenses.

## REVIEW OF OPERATIONS CONTD...

### Regulatory Review

#### Registration of Insurance Companies

Registrations as insurers were granted to three companies, in compliance with Section 53 of Amendment Act, during the year. The Board also received one new application for registration as an insurer. This company has sought the license to carry on Long term Insurance Business and the application is under consideration.

Appendix I: Provides the 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

The Board has temporarily stopped entertaining new applications for registration as insurance brokers with effect from 27th April 2012. Accordingly, no new registrations were granted by the Board during the year. However, one registered insurance broker (for General Insurance Business) requested to register for long term insurance business and the Board granted approval for same.

Applications from 57 insurance brokering companies, seeking renewal of registration for year 2016 were received by the Board during the year, and renewal of registration was granted to all companies for the year 2016 in view of them fulfilling necessary requirements under the Act.

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

#### Enforcement Action

##### Insurance Companies

##### Suspensions

No suspensions were imposed by the Board during the year. However,

the suspension imposed on Ceylinco Takaful Limited, in year 2009, continues to date.

The assessment of insurance claims forwarded by claimants of Ceylinco Takaful Limited was finalized during the year. The settlement of claims would commence once Ceylinco Takaful Limited gets approval from the Registrar General of Companies to amend its Articles of Association and new Director/s are appointed to its Board.

#### Directions

Four Directions were issued by the Board to an insurance company in terms of Section 57 of the Act, which:

- prohibits such company from entering into any transaction with any related party, including any associate, subsidiary or parent company or with members of a group of company of which it is a part of, without obtaining prior written approval of the Board;
- prohibits such company from entering into any transaction with any organization, including a specified entity, without obtaining prior written approval of the Board;
- requires a director to resign from the Board of a shareholding company; and
- requires the company to:
  - (i) furnish Monthly Returns; and
  - (ii) prohibits them from entering into any transaction with entities which comes under the same group, without first obtaining prior written approval of the Board:

The Board issued a Direction to an insurer in terms of Section 57 of the Act, described briefly as follows:

- To provide IBSL with a detailed plan including the following:
  - a) on how it intends to wind up its operations in Sri Lanka; and
  - b) on how it intends to settle all outstanding claims and claims that may arise in the future.
- To first seek IBSL Board approval, in terms of Section 68 of the Act, prior to a winding up application being made to court.

Another Direction has been issued to the same company, in terms of Section 57 of the Act, directing them not to remit money out of Sri Lanka until the legal process is concluded with regard to winding up.

The Board observed that one insurance company has entered in to a mortgage bond with a finance company where future rental receivables are mortgaged. Board issued a Direction, under Section 57 of the Act, requiring the insurer to provide an assurance from their External Auditor that securities assigned (mortgaged properties and relevant future rental receivables) by the finance company is adequate and cover the total mortgaged amount in terms of the aforesaid Mortgage Bond and such assets are free from any encumbrances until the Mortgage Bond is released.

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 warning has been issued to an insurance company for entering into a facultative reinsurance arrangement with a reinsurer violating the compulsory cession requirement specified in Section 31 (1A) of the Act.

In terms of Section 31 (1A) of the Act, every insurer who reinsures shall be required to reinsure with the National Insurance Trust Fund Board, a percentage not exceeding fifty per centum as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured.

As such, Gazette Notification No. 1791/4 states that with effect from 1st January 2013, 30% being the

## REVIEW OF OPERATIONS CONTD...

percentage payable by the insurer on the total liability arising out of every general re-insurance, such insurer is required to re-insure with the NITF excluding long-term re-insurance contracts entered into by the insurer. Prior to this the percentage was 20%.

- A warning has been issued to an insurance company for violating Section 29 and Rule 2 (d) of Gazette Extraordinary No. 1255/3 of September 2002 made under Section 78 (4) of the Act.

Section 29 (1) of the Act states that 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 insurance 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 payment of the loan.

Rule 2 (d) of Gazette Extraordinary No. 1255/3 of September 2002 made under section 78 (4) of the Act states that no person shall be registered as an insurance agent unless he/she has passed the pre recruitment test conducted by the Sri Lanka Insurance Institute or any other body approved by IBSL.

- The Board issued a warning to another insurer for contravening Section 38 (1) of the Act and violating Determination # 1 dated 01/03/2011.

In terms of Section 38 (1) of the Act, every insurer who carries on long term insurance business, whether solely or in addition to general insurance business, shall-

- Maintain a separate fund to be called the "Long Term Insurance Fund" and shall credit all money received in respect of the long term insurance business carried on by such insurer, to that Fund; and
- Keep the assets in respect of the long term insurance business separate from the assets in respect of any other class of insurance business.

According to Determination # 1 of 01/03/2011, every insurer carrying on general insurance business or long term insurance business shall invest the balance assets of the Technical Reserve or of the Long Term Insurance Fund respectively, in the types of investments (as described in detail in Table A therein) subject to the maximum percentage as a percentage of the Technical Reserve or of the Long Term Insurance Fund that could be held in any single investment indicated against such investment described in Table A stated therein.

### Insurance Brokering Companies

#### Suspensions

- An insurance brokering company was suspended for the period 5th November 2015 to 23rd November 2015 by the Board for violating Section 86(2) of the Act.

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

- Another insurance brokering company was suspended for violating Section 84 (1) of the Act and the suspension was extended several times, for them to submit quarterly returns and comply with other conditions issued by the Board. Since they have not submitted quarterly returns or complied with the conditions issued, the Board cancelled their registration with effect from 3rd July 2015.

#### Warnings

Letters of warning were issued to 04 insurance brokering companies by the Board, since the companies failed to comply with Section 86 (1) of the Act.

Section 86 (1) of the Act read with Rule 7 published in Gazette Notification No. 1642/16 of 25<sup>th</sup> 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.

Further, letters of warning were issued by the Board to 02 brokering companies for violating Section 86(2) of the Act.

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

#### Directions

Directions were issued to 02 insurance brokering companies in terms of Section 96A of the Act directing them to infuse capital to maintain the minimum net capital requirement and to report on a monthly basis for a period of six months in view of the negative net capital position.

#### Regulatory/Advisory Measures

1. Approval of the Board was sought by an insurance company for an exemption from the application of Direction No.01 issued to all insurance companies.

In terms of Section 99 (1) of the Act, Advertisements issued by insurers, insurance agents, and brokers shall not contain any information or material which is false, incorrect or is likely to mislead the public. As per the Direction No.01, an insurer is required to submit a confirmation certificate certified by the CEO confirming the compliance of Section 99(1) of the Act. The Board has acceded to the request as the company is in the runoff stage since June 2014 and does not publish any advertisements in the newspapers or broadcast on radio or any other media.

2. An insurance company has sought approval from the Board under Section 12(4) of the Act to enter into a Memorandum of Understanding with an insurance and reinsurance company abroad to provide services in relation to insurance covers issued by the foreign insurer to migrant workers of Sri Lanka working in the Gulf region.

## REVIEW OF OPERATIONS CONTD...

In terms of Sec. 12(4) of the Act, a person registered under the Act shall not carry on any form of business other than insurance business provided that such person may with the prior written approval of the Board, carry on any financial services business which is ancillary or associated with the insurance business for which a registration is obtained under Act.

The said service was considered as a financial service business which is associated with insurance business. Accordingly, the Board has granted approval to same subject to certain conditions.

3. A shareholder of an insurer filed a writ application against the insurer and the Board, seeking an order of Court prohibiting the Board granting registration and licenses to the insurer's two new subsidiaries. However, the said applicant later withdrew the said application.
4. An insurer has issued two bonds with respect to a contract on construction of an apartment complex. Since the insurer has refused to make payments in sums guaranteed, the claimant has referred the dispute to the Board. As per the conditions, the bonds are payable on demand in writing, and the insurer has withheld the payments based on the request of the contractor. Therefore, under Section 98 of the Act, the Board has made an order to the insurer to honor the demands made by the claimant under the bond.  
  
The matter has been resolved as the insurer has honored the demands in full and as agreed between the parties, the claimant has deposited same in a separate account pending direction of the Arbitration Tribunal.
5. The Insurance Association of Sri Lanka has sought a clarification from the Board on the listing requirement for newly formed insurance companies. In terms of Section 15A of the Act, every insurer shall be required, within three years of being issued with a license under Section 15 of this Act, to have itself listed on

a licensed stock exchange which would be applicable to insurers who have obtained a license on or after February 2011. This provision would therefore apply to companies licensed after segregation of composite insurers as well.

Further, in terms of Section 52 of the Amendment Act, an insurer existing as at February 2011 is required to list itself on the Colombo Stock Exchange by February 2016. Furthermore, they have requested that the 5 year restriction for segregated companies to share operational expenses be removed and to permit operational cost to be shared without a time restriction. However, the Board was of the view that it is yet premature to consider the requests and did not accede to it.

6. A query was made by the Insurance Association of Sri Lanka on whether the Act would be amended to permit insurance agents to work for one life insurer and one general insurer who have previously worked for both classes for a composite insurer. Since the proposed amendment which has been proposed as a remedial measure, has not been enacted as at date, the Board decided that agents who were qualified and registered prior to the segregation of a composite insurer be allowed to canvass insurance business for the long term insurer and general insurer of the segregated insurer until the proposed amendment is enacted as law.
7. Approval of the Board was sought by a company to treat its inadmissible leasehold property as an admissible asset for a period of one year and to consider allowing the company to borrow for business reasons against this property, and both the borrowings and the inadmissible assets not be considered when calculating solvency margin rules for the company. The Board refused to grant permission since the company requests are against the rules and regulations of the Board.

8. A former director of an insurer, who has been discharged from a Supreme Court Fundamental Rights case, has requested the Board to direct the insurer to pay the balance amount of his Gratuity. The Board however decided not to accede to the request for the time being pending completion of all investigations.

9. The Board has issued four Directions to an insurance company in the year 2009, which were amended in the year 2014, requiring them to refrain from incorporating any subsidiaries or any other category of companies without the prior written approval of the Board, and to keep the Board informed of opening of any new branch/sub office. Having reviewed the requests made by the insurer, the Board decided to remove the said Direction and to permit the insurer to obtain services from its related companies.

10. Having observed that insurers do not have a standard period within which the policy can be cancelled by the policyholder, which is called the cooling off period for life insurance policies, deliberations were made with the industry to implement a standard cooling off period. Thereafter, the Board granted approval to adopt as the standard cooling off period, a period of twenty one days from the date of receipt of the policy document by the policyholder. Further, it was decided to amend the Guidelines on Linked Long Term Business and Direction No.2 in order to implement the above.

11. The Board has granted approval to a number of applications by insurance companies for appointment of Directors in terms of the new provisions introduced by the Amendment Act.

12. The Board has granted approval to a number of applications by insurance companies and insurance brokering companies seeking approval to appoint Principal Officers in terms of the provisions in the Act.

## REVIEW OF OPERATIONS CONTD...

## INVESTIGATORY REVIEW

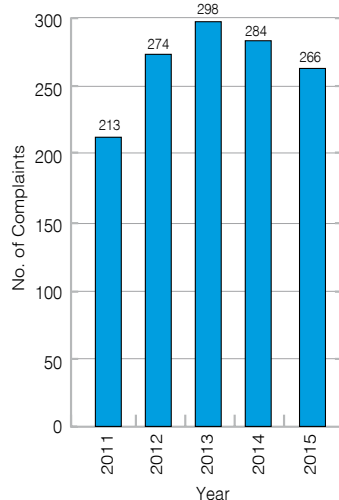
The Board, under its overall objective of safeguarding the interests of existing and potential policyholders, is empowered to investigate into and resolve disputes between insurers and claimants relating to the settlement of claims which are referred to the Board by claimants. The Board also investigates into any other complaint on malpractices or irregularities referred to it against any insurer, broker or agent.

When a dispute or a complaint is referred to the Board (against an insurer, broker or an agent), the other party to the dispute or the party against whom the complaint is made will be given an opportunity to make submissions in order to justify its stand. Further information and clarifications would be obtained from both parties as required. In addition, the Board also consults relevant governmental authorities and independent experts, where required, to arrive at a conclusion.

### Matters referred to and settled during the year 2015

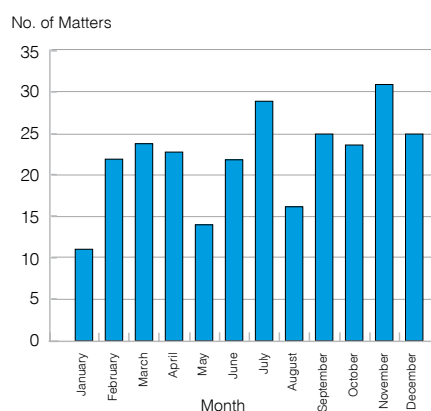
During the year 2015, 266 new matters were referred to the Board. A total of 274 matters were settled/closed during the year. Out of the matters settled, 54 claims were honored by insurers upon the intervention of the Board. Aggregate value of the claims settled during the year 2015, due to the intervention of the Board, is around Rs. 28.3 Million.

Figure 1: Complaints referred to the Board during last five (5) years



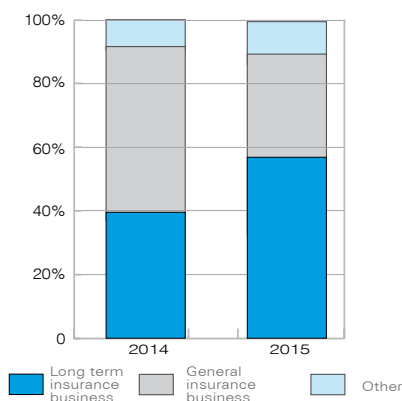
Altogether 1,335 matters have been referred to the Board during the past five (5) year period. As per Figure 1, the highest number of referrals have been recorded in the year 2013 the same have been gradually decreased since then.

Figure 2: Analysis of matters referred to the Board during the year 2015 – Month wise



Month wise breakdown of the number of matters referred to the Board during the year is given in the Figure 2 above. Highest number of referrals (31) has been recorded in the month of November whereas only 11 matters have been referred in the month of January. From Figure 2 it is evident that the monthly referrals have increased towards the latter part of the year. The electronic media awareness campaigns conducted by the Board in the middle of the year and thereafter may have caused such increase in the number of referrals.

Figure 3: Classification of total matters referred in the years 2014 and 2015



A classification of total matters referred to in 2015, along with a comparison of same with respect to 2014, is given in Figure 3. Out of the total matters referred to during the year, 151 (57%) and 86 (32%) were with respect to general insurance business and long term insurance business, respectively. The Board received 29 (11%) matters that were general in nature and could not be categorized into a specific line of business e.g. complaints on qualifications of insurance agents. When compared to 2014, the composition of total matters referred has changed significantly i.e. referrals on long term business has increased to 57% (from 40% in 2014) and the referrals on general business has fallen to 32% (from 52% in 2014).

### Referrals on Long Term Insurance Business

An issue-wise analysis of the matters referred to with regard to long term insurance business is given in Table 1 below. Accordingly, the issues, on which the most number of complaints have been received, are on 'non-acceptance of liability' and 'requests to refund premiums/cancellation or revival of policies'.

Table 1 – Matters on long term insurance business: issue wise

Issue	#	%
Non-acceptance of liability	34	39.54
Request to refund/cancellation or revival	34	39.54
Disagreement with claim/maturity/surrender value	6	6.97
Payment/misappropriation of premiums	4	4.65
Other	8	9.30
<b>TOTAL</b>	<b>86</b>	<b>100.00</b>

The main reason for non-acceptance of liability by insurers with regard to long term policies; has been the non-

## REVIEW OF OPERATIONS CONTD...

disclosure of material facts in the proposal form. From the investigations conducted by the Board, it appears that certain policyholders have not disclosed material facts pertaining to their health or medical history in the proposal form. Since the principle of utmost good faith is the main characteristic of an insurance contract, non-disclosure of material facts by policyholders would lead to termination of the policy and rejection of claims. In some instances, the Board noted that the insurance agent has not clearly explained the importance of full disclosure and repercussions of non-disclosure, at the time of completing the proposal form. However, when it could be justified that an alleged non-disclosure was not intentional or fraudulent and such non-disclosure was not material, the Board was able to intervene and assist the claimants to obtain relief from insurers.

Another significant reason for non-acceptance of liability under long term policies has been the policy being inactive or lapsed, due to non-payment of premium on time, at the time of claim. With regard to disputes where the claimants were able to establish that the premiums were handed over to the insurance agent (who represents the insurer), regardless of whether such payments have been received by insurer or not, the Board intervened and ordered relevant insurers to honor the claims.

Around 7% of the complainants have been on the insurers' rejection of requests to cancel the policy and refund the premiums paid. The main reason for making such requests has been the lack of awareness on the concept of insurance and policy conditions. The long term insurance policies can be cancelled and premiums could be requested to be refunded only within the period specified in the policy under the condition relating to 'cancellation of policy'. Some policyholders had misunderstood that the premium

payments under an insurance policy is similar to bank deposits. It was alleged in some complaints, that insurance agents had given false information and guarantees that amounts paid as premiums could be withdrawn/refunded after a period of three (3) years from the policy commencement date. The other reason for requesting to cancel the policy and to refund premiums, has been the inability of policyholders to maintain the policy as agreed at the commencement, due to financial difficulties. Such policyholders appeared to have agreed to pay unsustainable premiums having considered only the benefits and covers offered and disregarding the long term commitment. The Board was not in a position to assist most of such complainants except in very few occasions on sympathetic grounds.

As an immediate measure to address the aforesaid main issues, the following areas were given special attention when conducting awareness programmes by the Board: importance of understanding the questions in the proposal form and policy conditions prior to signing to an insurance proposal form; importance of disclosure of all material facts in a proposal form; condition pertaining to cancellation of policy; basic concepts of insurance; requirement to pay premiums on time; importance of obtaining only necessary covers considering the ability to pay; and differences in maintaining a bank account and an insurance policy, in its awareness programmes. In addition, measures are being taken to address the same in future regulatory interventions with regard to conduct of business of insurers, brokers and agents.

The Board intervened and provided clarifications/explanations, upon obtaining required details from insurers, with regard to the disagreements with the claims, maturity values and surrender values offered, etc. It is noted that the number of complaints (4) on misappropriation of premiums by intermediaries and payment of

premiums, has considerably reduced when compared to last year (24). Various measures taken by insurers to minimize fraud and to make avail of several payment options to customers along with strict enforcement of rules made by the Board on misappropriation of funds, would have been a contributing factor for this reduction.

### Referrals on General Insurance Business

Out of the total matters referred to on general insurance business, majority (75%) has been on motor insurance. This resembles the share of motor insurance class in the total GWP of general insurance business. An issue-wise analysis of matters referred to the Board on general insurance business is given in Table 2.

Table 2 - Matters on general insurance business: issue wise

Issue	#	%
Repudiation of liability	105	69.54
Disagreement with the claim offered	27	17.88
Delays in settling claims	12	7.95
Other	7	4.63
<b>TOTAL</b>	<b>151</b>	<b>100.00</b>

The 'repudiation of liability' has been the major cause (70%) with respect to the complaints referred to on general insurance business. The main reasons for repudiation of motor claims by insurers have been: drunken driving, driver not having a valid driving license and driver substitution. Insurers take into consideration: the time of accident, time of the claim intimation call and facts collected during same, contents of the statement made to the police station and facts revealed from independent investigations (if any), in determining liability with regard to a motor claim. In general, if the driver was drunk or the vehicle was driven by a person without a valid driving license, there may be unreasonable delays in intimating the loss to insurer and reporting the accident to the nearest police station. Insurer

## REVIEW OF OPERATIONS CONTD...

is not liable to indemnify the insured in both such instances. However, it was noted that aforesaid lapses on the part of claimants, sometimes had resulted in delays in settling genuine claims. Accordingly, importance of the same is being stressed at awareness programmes conducted by the Board. Other common reasons for repudiation of motor claims are: claimant having no insurable interest to the vehicle, excluded usage and the policy being cancelled due to non-payment of premiums.

17.88% of the complaints received on general insurance business were on disagreement with the amount of claim offered by insurers. With regard to total loss claims, the Board was able to facilitate a settlement by requiring insurers to consider another independent valuation of the market value of the vehicle as at the date of accident. With regard to other claims, main reasons for disagreements were: unawareness of owner's contribution or policy excess applicable to the policy and lack of information provided to claimants on adjustments made to estimated cost of repair. Almost all the complaints with regard to delays in settling claims (12) were resolved due to the intervention of the Board. Further, it was observed that certain complaints against insurers and the disputes on claims could have been avoided; by improving the manner, clarity and timing in communicating with the policyholders and claimants.

### Other Referrals

In addition to the referrals categorized under the two main lines of business, 29 other matters were referred to the Board during the year 2015. These include appeals by ex-insurance agents, who were terminated due to financial misappropriation, to join the insurance industry. The Board was not in a position to entertain such appeals in the interest of policyholders. Necessary actions were taken with respect to other referrals, within the scope of the Board specified under the Act.

### Conduct of Business Regulation

- *Agency Issues*

A joint committee was appointed with the membership of the Board, the Insurance Association of Sri Lanka (IASL), the Sri Lanka Insurance Brokers Association (SLIBA) and the Sri Lanka Insurance Institute (SLII) in order to discuss and decide on matters relating to insurance agents. During the year, the committee discussed and reviewed the drafts of 'Termination and Grievance Handling Procedure of Insurance Agents'. A 'Code of Ethics' for insurance agents was also developed and is being finalized for implementation.

- *Guidelines on Complaints Handling by Insurers and Brokers*

Insurance Core Principle (ICP) 19 on Conduct of Business states that the insurance supervisors need to require insurers and intermediaries to have policies and processes in place to handle complaints in a timely and fair manner. Accordingly, after considering the present practices and procedures of insurers, the Board formulated guidelines to be adopted by insurers and brokers with regard to handling of complaints. Draft guidelines will be finalized and issued, in consultation with the industry.

- *Guidelines on Conduct of Investigators*

All personnel involved in the insurance industry have a role to play in protecting/improving the image of industry and their conduct is important in developing the industry by strengthening public confidence. Insurance investigators play an important role in claims management process, by detecting and determining fraudulent claims. However, the Board observed unacceptable practices adopted by certain insurance investigators in the course of their duties e.g.

false-identification that would adversely affect the professionalism envisaged from the persons engaged in the industry. Hence the Board formulated guidelines on the conduct of investigators to introduce minimum standards relating to conducting investigations with a view to enhancing best practices in the insurance business. Draft guidelines will be finalized and issued, in consultation with the industry.

- *Gap analysis and Recommendations with regard to application of ICP 19.1 and 19.2 on Fair Treatment of Customers*

The Insurance Core Principles (ICP), developed by the International Association of Insurance Supervisors (IAIS), provides a globally accepted framework for the regulation and supervision of the insurance sector. The ICP 19 on Conduct of Business specifies requirements that are outcome-focused and cover: fair treatment of customers, pre-sale process and policy servicing. The Board participated in the peer review conducted by IAIS on ICP 19 at the beginning of the year. Based on the outcome of same, the gaps were identified and recommendations were made to align the regulatory framework with the requirements specified under standards 19.1 and 19.2 on fair treatment of customers.

### Other engagements

- *Review of the Internal Complaints Handling Procedure*

The Board reviewed and modified its internal procedure for complaints handling and implemented the same with effect from the month of October.

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**Market Development and External Relations (MDER) Review**

Insurance awareness is a key factor affecting the development of an insurance industry. The general public lacks awareness on the concept of insurance and its benefits as a risk transferring mechanism. In order to make the public aware on benefits of insurance and to build public confidence on same, the Board planned and conducted various awareness creation activities during the year under review. In addition to promoting the insurance market, the awareness programmes were also focused on safeguarding the interest of existing and potential policyholders by making them aware on key factors to be considered when obtaining and maintaining a policy. Policyholders were made aware on their rights and duties under an insurance policy as such awareness is required to receive a satisfactory insurance coverage. The details of activities carried out are presented below under relevant communication channels:

**Awareness Programmes**

**Programmes at Divisional Secretariats**

The Board continued with its awareness programmes at Divisional Secretariats targeting government officials. The programmes were arranged by the Board with the assistance of Divisional Secretariats. The participants were made aware on the role of the Board (as the regulator of the insurance industry), benefits of insurance and rights & duties of policyholders. Conducting of these programmes at Divisional Secretariat level also provided an opportunity for staff of the Board to interact with government field officers, who are aware of the attitude and experiences of people living in suburbs with regard to insurance.

Twelve (12) awareness programmes were conducted on the Divisional Day meetings at Weligama, Attanagalla, Welimada, Panadura, Pannala,



Programme at a Divisional Secretariat

Kanthale, Mawanella, Ambagamuwa, Mirigama, Nagoda, Ehaliyagoda and Medawachchiya Divisional Secretariats covering 866 Grama Niladhari Divisions. Approximately 1,730 government officers including Grama Niladhari, Divinaguma/Samurdhi, Agricultural, Development and Police Officers of the respective areas, participated at these programmes.

**Other Programmes**

In addition to the main awareness programmes conducted at Divisional Secretariat level, the Board conducted the following awareness programmes during the latter part of the year:

- an awareness programme for the business community in the Hambanthota District, in collaboration with the Hambanthota District Chamber of Commerce



Hambanthota Chamber Programme

- an awareness programme was conducted for school children at Susamayawardhana Maha Vidyalaya, Colombo 08

- an awareness workshop was conducted for the students, teachers, entrepreneurs and government servants of the area on a request received from Bentota Pradeshiya Sabhawa

**Awareness through Electronic Media**

The Board has recognized the electronic media as an effective communication channel for public awareness. Officials of the Board participated at the following programmes during the year under review to make the public aware:

- ‘Business World’ (ව්‍යාපාරික ලෝකය), television business news programme broadcasted on Rupavahini
- ‘Nuga Sevana’ (නුග සෙවන), live television discussion broadcasted on Rupavahini
- ‘Subharathi’ (සුභාරථී), radio live discussion telecasted on National Service (ජීවජේෂීය සේවය) of Sri Lanka Broadcasting Corporation (SLBC)

In addition, short messages relating to the protection of existing and future policyholders were aired, ten (10) times a day after the hourly news bulletin, on ‘City FM’ during the months of July and November. An increase in awareness among general public was noted from the increased number of queries and complaints received by the Board.



Radio/TV programme



REVIEW OF OPERATIONS CONTD...

**Awareness through Print Media**

The Board published the following press releases and press notices during the year under review:

**Press Releases**

- Press Release on the “Performance of the insurance industry during the year 2014” - published in July 2015.
- Press Release on the “Performance of the Insurance Industry during the 1st half of 2015” - published in October 2015.

**Press Notices**

- The annual notice on registered insurance companies and insurance brokering companies under the title ‘Be Cautious’ - published in April 2015
- A notice on “Life Insurance” highlighting: the importance of obtaining a life insurance, what to consider when buying a policy, rights & duties of policyholders – published in April 2015

**Media Coverage on 10th Asian Forum of Insurance Regulators (AFIR)**

The Board hosted the above meeting of Asian insurance regulators in Colombo in the month of July. The following were published in print media with regard to the event:

- Introductory article on AFIR
- Press release on hosting the event
- Full page paper supplement on the event with the messages of key invitees/participants
- Press articles on the event

**Publications**

The following publications were printed and distributed, mainly at the awareness programmes:

- Poster on ‘Facts to be considered when buying an insurance policy’, in all three languages

- Brochure on Motor Insurance
- Brochure on ‘Facts to be considered’ when buying an insurance policy
- Brochure on ‘Facts to be aware in filling an insurance proposal form’
- Brochure on ‘Insurance Board of Sri Lanka’



Brochures/Notices

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

**Other Engagements**

**Product Gap Analysis**

All insurance products are filed with the Board, for the purpose of examining whether the interests of policyholders are being adequately safeguarded, in terms of Section 37 of the Regulation of Insurance Industry Act No. 43 of 2000, as amended. Insurance marketing concepts suggest that insurance products are developed in response to specific demands or needs of policyholders. Out of the various products filed, a product category is being studied annually with a view to identify gaps in the benefit structure and policy conditions in order to further develop such products in the interest of the policyholders. Recommendations made, based on the findings of the study, will be implemented in consultation with the industry.

**Responses to Public Queries**

During the year under review, the Board attended to numerous inquiries from general public, policyholders and various other stakeholders requesting information relating to insurance industry.

## REVIEW OF OPERATIONS CONTD...

**Administrative Review****Staff**

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

The Board establishes the organizational structure, identifies necessary functions to discharge its duties towards

achieving the overall objective of ensuring that the insurance industry in Sri Lanka is carried on with integrity with a view to safeguarding the interests of all policyholders and potential policyholders.

The Board took several key initiatives during the year under review to strengthen the human resource

through timely recruitment of required professionals. To meet such initiatives, a Director was recruited to the permanent cadre during the year under review. Total staff strength of the Board stood at 41 as at 31st December 2015.

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

No. of Employees	Educational / Professional Qualifications					
	Post Graduate, First Degree & Professional Qualifications	Post Graduate & Professional Qualifications	Post Graduate & First Degree	First Degree & Professional Qualifications	First Degree	Professional Qualifications
41	05	02	02	10	08	03

**Training**

Focus on training and development covers the broad policy of enhancing the staff to obtain knowledge and job related skills to achieve the goals of the organization. During the year, investments were made as depicted in the table for local as well as overseas training opportunities.

Category	2014 (Rs.)	2015 (Rs.)
Local Training	2,204,709/-	1,752,935/-
Conferences & Foreign Training	7,701,049/-	8,144,101/-

**Staff Welfare**

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

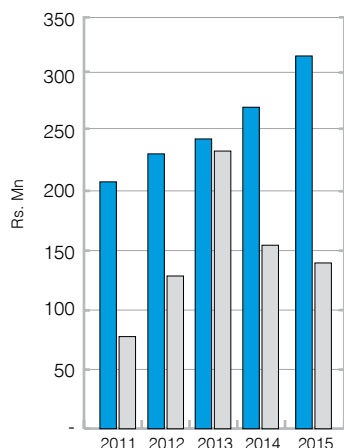
## REVIEW OF OPERATIONS CONTD...

## Financial Review

## Policyholders' Protection Fund (PPF)

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

**Chart 1**  
Cess Income and Investment Income for the period 2011-2015



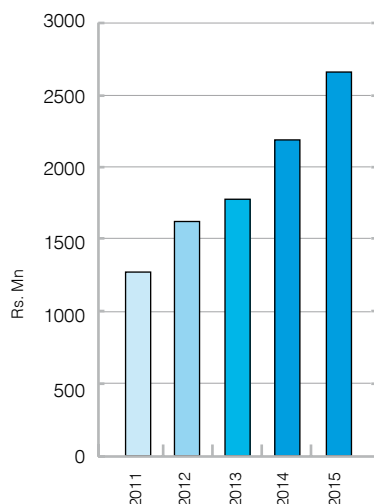
■ Cess Income (Rs. Mn)    ■ Investment Income (Rs. Mn)

	2011	2012	2013	2014	2015
Cess Income (Rs. Mn)	217	237	246	274	322
Investment Income (Rs. Mn)	80	136	236	158	145

Chart 1 illustrates the growth of the Cess income over the last five years. The investment income has shown a slight decrease from 2014 to 2015 due to the reduction of interest rates.

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

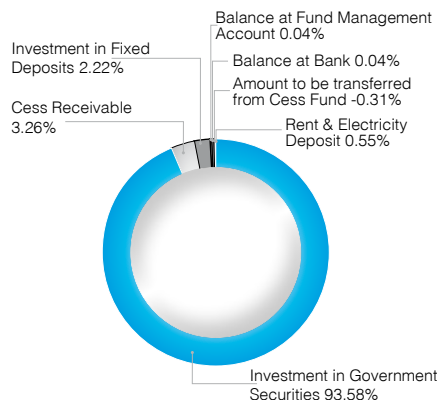
**Chart 2**  
Policyholders' Protection Fund Values for the period 2011 - 2015



	2011	2012	2013	2014	2015
Fund Value (Rs. Mn)	1,276	1,622	1,778	2,183	2,643

The composition of assets of the Fund as at 31st December 2015 is depicted below.

**Chart 3**  
Assets Composition of Policyholders' Protection Fund as at 31 December 2015



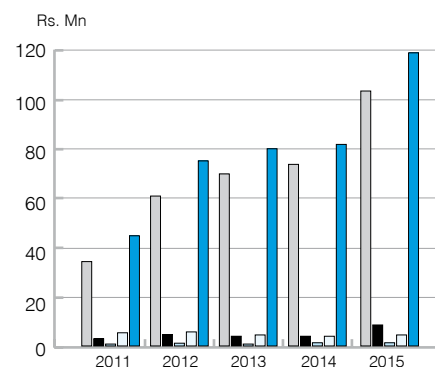
## Income of the Board

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

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

Chart 4 depicts the breakup of overall income received for the period 2011 to 2015.

**Chart 4**  
Income of the Board for the period 2011-2015



	2011	2012	2013	2014	2015
Annual Fees (Rs. Mn)	35	61	70	73	104
Registration & Renewal Fees (Rs. Mn)	3	5	4	4	9
Other Income (Rs. Mn)	1	2	1	2	2
Recognition of Grants (Rs. Mn)	6	7	5	4	5
Total Income (Rs. Mn)	44	75	80	83	119

## REVIEW OF OPERATIONS CONTD...

An increase of annual fee in the year 2015 compared to last year is mainly due to the increase of annual fee chargeable percentage from 0.075% to 0.1%.

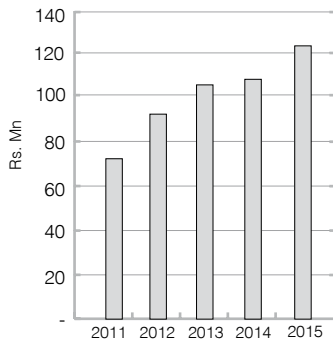
### Expenses of the Board

Total expenses of the Board have increased from 2011 to 2015. The deficit between income and the expenditure 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 2011 to 2015.

#### Chart 5

#### Total Expenses of the Board for the period 2011 - 2015



	2011	2012	2013	2014	2015
Total Expenses (Rs. Mn)	74	94	105	107	123



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## STATEMENT OF FINANCIAL POSITION

As At 31<sup>st</sup> December 2015

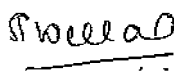
	Notes	As at 31.12.15 Rs.	As at 31.12.14 Restated Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	1	11,274,097	13,501,813
Policyholders' Protection Fund-Rent & Electricity Deposits and Treasury Bonds	2	1,091,418,880	14,759,880
<b>CURRENT ASSETS</b>			
Inventories	3	445,902	274,845
Policyholders' Protection Fund-Investments and Others	2 & 22	1,551,778,353	2,168,146,893
Other Current Assets	4 & 22	21,841,991	26,625,594
Investments in Government Securities		1,000,000	-
Cash and Cash Equivalents	5	575,848	38,313
<b>TOTAL ASSETS</b>		<b>2,678,335,071</b>	<b>2,223,347,338</b>
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES</b>			
Policyholders' Protection Fund	6	2,643,197,233	2,182,906,773
Revaluation Reserve		7,389,652	7,389,652
<b>LIABILITIES</b>			
<b>NON CURRENT LIABILITIES</b>			
Grant	7	4,965,789	6,480,560
Retirement Benefit Obligation	8 & 22	8,035,447	5,757,098
		13,001,236	12,237,657
<b>CURRENT LIABILITIES</b>			
Receipt in Advance		7,526,285	11,726,535
Other Current Liabilities	9	7,220,665	9,086,721
		14,746,950	20,813,256
<b>TOTAL RESERVES &amp; LIABILITIES</b>		<b>2,678,335,071</b>	<b>2,223,347,338</b>

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

The above Statement of Financial position is to be read in conjunction with the accounting policies and notes appearing on pages 80 to 88



**Indrani Sugathadasa**  
Chairperson



**Pushpa Wellappili**  
Member

## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31<sup>st</sup> December 2015

	Notes	Year Ended 31.12.15 Rs.	Year Ended 31.12.14 Restated Rs.
<b>INCOME</b>			
Revenue	10 & 16	113,149,245	77,586,076
Recognition of Grant	7 & 22	4,527,482	4,398,353
Interest Income		1,559,380	1,359,409
Transfer from Policyholders' Protection Fund	6 & 22	3,513,004	24,200,995
Other Income	11	225,376	151,722
<b>TOTAL INCOME</b>		<b>122,974,487</b>	<b>107,696,556</b>
<b>EXPENDITURE</b>			
Staff Costs	12 & 22	(70,205,520)	(59,306,548)
Professional Charges	13	(2,388,225)	(2,181,575)
Operational Expenses	14	(49,986,744)	(45,858,876)
Finance and Others	15	(206,872)	(186,428)
<b>TOTAL EXPENDITURE</b>		<b>(122,787,361)</b>	<b>(107,533,427)</b>
Net Surplus /(Deficit) Before Tax		187,126	163,129
Taxation		(187,126)	(163,129)
Net Surplus /(Deficit) After Tax		-	-
<b>Net Surplus for the Year</b>		<b>-</b>	<b>-</b>

The accounting policies and notes appearing on pages from 80 to 88 form an integral part of the Financial Statements.

## STATEMENT OF CASH FLOWS

For the period ended 31st December 2015

	Notes	Year Ended 31.12.15 Rs.	Year Ended 31.12.14 Restated Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase/(Decrease) for the Period		-	-
Provision for Depreciation		5,214,297	4,696,716
Provision for Retirement Benefit		2,278,349	2,564,617
Profit /( Loss) on Disposal		(15,028)	73,035
Payment made- Retirement Benefit		-	(152,839)
Cost on Revaluation		-	(6,000)
Recognition of Grant		(4,527,482)	(4,398,353)
Income Tax		187,126	163,129
Interest Income		(1,559,380)	(1,359,409)
Net Increase before Working Capital Changes		<b>1,577,882</b>	1,580,897
Change of Working Capital			
(Increase)/Decrease in Inventories		(171,058)	138,207
(Increase)/Decrease of Receivables		4,760,311	(11,520,120)
Increase/(Decrease) of Receipt in advance		(4,200,249)	6,864,118
Increase/(Decrease) of Creditors and Accruals		(1,866,056)	1,087,707
Cash Flow used in Operating Activities		<b>(1,477,052)</b>	(3,430,088)
Net Cash Flows from Operating Activities		<b>100,830</b>	(1,849,192)
<b>Cash Flows from/(used in) Investing Activities</b>			
Investment in Government Securities		(1,000,000)	-
Interest Income		1,395,547	1,226,203
Proceeds from Sale of Property, Plant and Equipment		41,158	3,000
Purchase of Property Plant and Equipments		(3,012,711)	(937,098)
Net Cash used in Investing Activities		<b>(2,576,006)</b>	292,106
<b>Cash Flow from Financing Activities</b>			
Capital transfer from Policyholders' Protection Fund		<b>3,012,711</b>	937,098
Net Cash Flows from Financing Activities		<b>3,012,711</b>	937,098
Net Increase/(Decrease) in Cash and Cash Equivalents		<b>537,535</b>	(619,988)
Cash and Cash Equivalents at the beginning of the year		<b>38,313</b>	658,301
Cash and Cash Equivalents at the end of the year		<b>575,848</b>	38,313
Cash at Bank and in Hand	5	<b>575,848</b>	38,313

The accounting policies and notes appearing on pages 80 to 88 form an integral part of the Financial Statements.



## POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

For the period ended 31st December 2015

	Notes	Year Ended 31.12.15 Rs.	Year Ended 31.12.14 Restated Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase of Policyholders' Protection Fund		460,290,461	405,206,443
Net Increase before Working Capital changes		460,290,461	405,206,443
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities		22,849,356	44,652,630
(Increase)/Decrease of Cess Receivable		(10,300,000)	(15,500,000)
(Increase)/Decrease of Rent Deposit		-	(3,671,220)
Increase/(Decrease) of Balance at Fund Management Account		5,734,821	(4,210,677)
Increase/(Decrease) of Amount to be Transferred From PPF		(8,944,939)	11,373,276
		<b>9,339,238</b>	<b>32,644,009</b>
Net Cash Flows from Operating Activities		<b>469,629,699</b>	<b>437,850,451</b>
<b>Cash Flow from/(used in) Investing Activities</b>			
Investments in Government Securities		(1,677,958,452)	(292,650,451)
Investments in Fixed Deposits		1,208,400,000	(145,200,000)
Net Cash Flows from Investing Activities		<b>(469,558,452)</b>	<b>(437,850,451)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		<b>71,247</b>	<b>-</b>
Cash and Cash Equivalents at the beginning of the year		<b>1,000,000</b>	<b>1,000,000</b>
Cash and Cash Equivalents at the end of the year		<b>1,071,247</b>	<b>1,000,000</b>
Cash at Bank	2	<b>1,071,247</b>	<b>1,000,000</b>

The accounting policies and notes appearing on pages 80 to 88 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 Public Sector Accounting Standards and are in compliance with the said standards.

#### 1.3 EVENTS AFTER THE REPORTING PERIOD

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

#### 1.4 COMPARATIVE FIGURES

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

#### 1.5 TAXATION

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

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

### 1.6 CONVERSION OF FOREIGN CURRENCY

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

### 2. ASSETS & BASES OF VALUATION

#### 2.1 PROPERTY, PLANT & EQUIPMENT

##### *OWNED PROPERTY PLANT & EQUIPMENT*

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

Revaluation was performed on motor vehicles by a professionally qualified entity in year 2014. The Board expects to complete the revaluation process for the all fixed assets categories during the next year of operation.

##### DEPRECIATION

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

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

Depreciation is provided from the date of purchase of the asset. Depreciation is also provided up to the date of disposal. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount.

### 2.2 INVESTMENTS

Investments in the Government securities are stated at lower of cost or face value 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

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. To meet the liability a provision is made, equivalent to half a month salary based on the last drawn salary at the end of the financial year for all employees who have completed one year of service.

##### 3.1.2 DEFINED CONTRIBUTION PLANS - EPF AND ETF

All employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Board contributes

## ACCOUNTING POLICIES CONTD...

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 EXPENDITURE RECOGNITION

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

### 4.3 CASH FLOW STATEMENT

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
<b>COST</b>					
Balance as at 1 January 2015	10,000,000	12,489,186	21,386,791	141,450	44,017,427
Additions	-	1,274,556	1,738,155	-	3,012,711
Disposals	-	(102,552)	(20,758)	-	(123,310)
Balance as at 31 December 2015	10,000,000	13,661,190	23,104,187	141,450	46,906,828
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1 January 2015	893,773	9,991,208	19,489,184	141,450	30,515,615
Charge for the year	2,500,000	1,439,010	1,275,287	-	5,214,297
Disposals	-	(96,042)	(1,139)	-	(97,181)
Balance as at 31 December 2015	<b>3,393,773</b>	<b>11,334,176</b>	<b>20,763,332</b>	<b>141,450</b>	<b>35,632,731</b>
<b>WRITTEN DOWN VALUE</b>					
<b>AS AT 31 DECEMBER 2015</b>	<b>6,606,227</b>	<b>2,327,013</b>	<b>2,340,856</b>	<b>-</b>	<b>11,274,097</b>
<b>WRITTEN DOWN VALUE</b>					
<b>AS AT 31 DECEMBER 2014</b>	<b>9,106,227</b>	<b>2,497,978</b>	<b>1,897,609</b>	<b>-</b>	<b>13,501,813</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD...

	Notes	As at 31.12.15 Rs.	As at 31.12.14 Restated Rs.
<b>2 POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS</b>			
<b>NON CURRENT ASSETS</b>			
Rent and Electricity Deposits		14,759,880	14,759,880
Treasury Bonds		1,076,659,000	-
		<b>1,091,418,880</b>	<b>14,759,880</b>
<b>CURRENT ASSETS</b>			
Investment in the Government Securities	22	1,411,999,903	810,700,451
Investment in Fixed Deposits	22	-	1,208,400,000
Interest Receivable on the Government Securities and Fixed Deposits	22	59,114,564	81,963,920
CESS Receivable	16	86,800,000	76,500,000
Balance at Fund Management Account		952,525	6,687,347
Balance at Bank		1,071,247	1,000,000
		<b>1,559,938,239</b>	<b>2,185,251,718</b>
Less			
Amount to be Transferred from PPF	22	8,159,886	17,104,826
		<b>1,551,778,353</b>	<b>2,168,146,893</b>
Total Assets		<b>2,643,197,233</b>	<b>2,182,906,773</b>
<b>3 INVENTORIES</b>			
Printing, Stationery and Computer Accessories		358,832	261,005
Stamps		87,070	13,840
		<b>445,902</b>	<b>274,845</b>
<b>4 OTHER CURRENT ASSETS</b>			
Deposits		190,744	185,481
Other Receivables		309,684	274,334
WHT Recoverable		1,208,602	1,082,063
VAT Control		815,602	1,239,629
Interest Receivable - Government securities		4,228	-
Staff Loans *		4,948,645	4,911,857
Advance and Pre-payments		1,554,512	1,441,005
Balance at Fund Management Account		4,650,087	386,400
Amount to be transferred from PPF	22	8,159,886	17,104,826
		<b>21,841,991</b>	<b>26,625,594</b>
*Loans Granted to Staff			
Balance as at 1st January		4,911,857	3,682,040
Loans Granted during the year		3,232,000	4,151,000
		<b>8,143,857</b>	<b>7,833,040</b>
Repayments during the year		(3,195,212)	(2,921,183)
Balance as at 31st December		<b>4,948,645</b>	<b>4,911,857</b>
<b>5 CASH &amp; CASH EQUIVALENTS</b>			
Cash at Banks			
Bank of Ceylon		575,848	38,313
		<b>575,848</b>	<b>38,313</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD...

	Notes	As at 31.12.15 Rs.	As at 31.12.14 Restated Rs.
<b>6 POLICYHOLDERS' PROTECTION FUND</b>			
Opening Balance	22	2,182,906,773	1,776,115,148
Cess Received during the year	16	321,747,380	273,912,607
Interest on Treasury Bill Investment		70,257,878	15,155,232
Interest on Repo and Call Account		34,917,246	38,138,752
Interest on Treasury Bond Investment		7,036,326	-
Interest on Fixed Deposits		32,827,399	104,682,472
Interest on Fund Management Account		49,800	57,070
		<b>2,649,742,802</b>	<b>2,208,061,281</b>
Less:			
Transfers for Operational Expenses	22	3,513,004	24,200,995
Transfers for Capital Expenses		3,012,711	937,098
Total transfers- Policyholders' Protection Fund		6,525,714	25,138,093
Bank charges		19,855	16,415
		<b>6,545,569</b>	<b>25,154,508</b>
Closing Balance		<b>2,643,197,233</b>	<b>2,182,906,773</b>
<b>7 GRANT</b>			
Balance at the beginning of the year	22	6,480,560	9,941,815
Capital Expenditure from Policyholders' Protection Fund		3,012,711	937,098
Less: Amortized during the year		(4,527,482)	(4,398,353)
Balance at the end of the year		<b>4,965,789</b>	<b>6,480,560</b>
<b>Note - Recognition of Grant</b>			
The grant has recognized in the Statement of Financial Performance as income at the following rates. (i.e. systematic basis over the useful life of the related asset.)			
Motor Vehicle		25%	
Office Equipment - Others & EDP		25%	
Furniture Fixtures & Fittings		12.5%	
Training Equipments		25%	
<b>8 RETIREMENT BENEFIT OBLIGATIONS</b>			
Balance at the beginning of the year		5,757,098	4,930,502
Provision made during the year		2,278,349	979,434
(-)Payment made during the year		-	(152,839)
Balance at the end of the year		<b>8,035,447</b>	<b>5,757,098</b>
<b>9 OTHER CURRENT LIABILITIES</b>			
Accrued Expenses		6,169,951	8,224,664
EPF Payable		660,714	568,981
ETF Payable		99,108	85,348
PAYE Payable		207,889	194,954
Others		83,003	12,775
		<b>7,220,665</b>	<b>9,086,721</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD...

	Notes	As at 31.12.15 Rs.	As at 31.12.14 Restated Rs.
<b>10 Revenue</b>			
Annual Fees from Insurance Companies		103,811,505	73,440,757
Registration and Renewal Fees		9,337,740	4,145,319
		<b>113,149,245</b>	<b>77,586,076</b>
<b>11 Other Income</b>			
Interest on Vehicle Loan		25,583	28,862
Interest on Distress Loan		142,229	103,325
Profit on disposal		15,028	-
Sundry Income		42,537	19,535
		<b>225,376</b>	<b>151,722</b>
<b>12 Staff Costs</b>			
Staff Salaries		38,492,392	31,045,384
EPF 12%		4,667,638	3,833,446
ETF 3%		1,166,910	958,362
Chairperson - Allowance		1,004,589	900,000
Chairperson - Fuel Allowance		239,090	347,220
Board Members - Sitting Allowance		457,500	413,500
Interns Allowance		91,315	-
Overtime		147,337	123,941
Staff Medical Expenses		1,644,315	1,545,903
Staff Medical Insurance		839,140	655,636
Insurance Fire and Personal		483,391	450,411
Staff Welfare		1,513,780	1,345,887
Staff Training Local & Subscription		1,752,935	2,204,709
Board Members and Staff - Overseas Training & Travelling		8,144,101	7,701,049
Performance Based Incentives		2,047,954	1,754,948
Advertising Recruitment		223,620	324,945
Directors Telephone Residence		220,950	166,410
Leave Encashment		637,964	764,260
Directors Vehicle Allowance		3,291,096	2,925,000
Directors Fuel Allowance		861,154	866,101
Staff Gratuity	22	2,278,349	979,434
		<b>70,205,520</b>	<b>59,306,548</b>
<b>13 PROFESSIONAL CHARGES</b>			
Consultancy Fee		2,388,225	2,181,575
		<b>2,388,225</b>	<b>2,181,575</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD...

	Notes	As at 31.12.15 Rs.	As at 31.12.14 Restated Rs.
<b>14 OPERATIONAL EXPENSES</b>			
Rent		27,740,409	23,976,701
Parking Fees		345,621	332,185
Telephone Expenses & Internet		1,567,818	1,633,011
Electricity		1,327,103	1,356,878
Office Upkeep		402,472	459,213
Printing & Stationary		2,990,021	2,871,798
Public Awareness		3,769,091	1,836,159
Entertainment		91,770	248,237
Traveling - Local		102,658	81,919
Office Equipment Maintenance EDP & Others		1,030,533	1,088,963
International Membership of IAIS(CHF 17,400)		2,541,784	2,487,748
International Membership of IIAP(USD 250)		-	33,125
Advertising - Others		-	109,200
Meeting Expenses		1,812,680	953,295
Subscription Newspapers & Library Books		122,768	139,820
Postage & Courier Charges		187,740	1,039,937
Audit Fees-Auditor General		43,800	470,000
Audit Fees - Internal		(1,035,000)	-
Depreciation		5,214,297	4,696,716
Trade Tax		(17,000)	-
General Expenses		144,618	104,244
Legal Expenses		205,069	166,861
Investigation Expenses		19,314	4,572
Supervision Expenses		199,018	383,293
Vehicle Maintenance		77,159	157,174
Vehicle Insurance		229,143	309,245
Vehicle Running Charges		185,783	270,829
Nation Building Tax		688,075	574,717
Loss on Disposal		-	73,035
		<b>49,986,744</b>	<b>45,858,876</b>
<b>15 FINANCE &amp; OTHER EXPENSES</b>			
Bank Charges		206,872	186,428
		<b>206,872</b>	<b>186,428</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD...

**16. DUES FROM NITF**

As per the Section 12(1) of the RII (Amendment) Act, No. 3 of 2011, NITF shall be deemed to be a person registered under the RII Act and hence NITF is liable to pay Annual fees and cess from year 2011 onwards.

Annual fees and cess amounts for NITF can be ascertained for the year 2011 to 2013. Further, Annual fees receivable for the year 2015 and cess receivable for the years 2014 and 2015 cannot be ascertained since NITF audited accounts have not been finalized for those years.

The amounts that need to be paid by NITF for the period from 2011 to 2013 is still in the discussion stage.

**17. TAXATION**

The Provision for Income Tax has been computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006.

**17.1 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. 149,436/- for the year 2015 has been recognized in the Financial Statement for the year ended 31 December 2015. Interest income from the secondary market

transactions in Government Securities of the Policyholders' Protection Fund has been accounted at the net value.

**18. CAPITAL COMMITMENTS**

There were no capital commitments as at 31st December 2015.

**19. CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31 December 2015.

**20. EVENTS AFTER THE REPORTING PERIOD**

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

**21. RELATED PARTY DISCLOSURES**

Mr. B.D.W.A. Silva, Mr. S.R. Attygalle, Mr. Nalin Attygalle and Mr. Samantha Kumarasinghe rendered their resignation with effect from 20th January 2015, due to the formation of new government. Then the Board was reconstituted as follows.

Mrs. Indrani Sugathadasa - Chairperson

Ms. Pushpa Wellappili - Ex-Officio Member (Deputy Secretary to the Treasury) - from 24th February 2015

Mr. P. Samarasiri - Ex-Officio Member (Senior Deputy Governor - Central Bank) - from 09th March 2015

Mr. D.N.R. Siriwardena - Ex-Officio Member (Registrar General of Companies)

Mr. Jeremy Bolling - from 10th February 2015

Dr. Ali Asger Shabbir Gulamhusein - from 20th March 2015

Mr. Asanga Abeyagoonasekara - from 07th April 2015 to 31st August 2015

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 National Development Bank	Director Director
Ms. Pushpa Wellappili	Bank of Ceylon Vehicle Emission Test Trust Fund University Grants Commission	Director Chairperson Treasury Representative (Observer)
Mr. P. Samarasiri	The Institute of Bankers of Sri Lanka Securities and Exchange Commission of Sri Lanka	Vice Chairman Member (from 29th September 2015)
Mr. D.N.R. Siriwardena	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting & Auditing Standard Monitoring Board The Institute of Chartered Accountants of Sri Lanka	Board Member Board Member Board Member



## AUDITOR GENERAL'S REPORT



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. }  
My No. }

TRE/C/IBSL/2015/23

මගේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

23 November 2016

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 2015 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 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance 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 Regularization 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 issued to the Chairman of the Board on 01 August 2016.

#### 1.2 Management's Responsibility for the Financial Statements

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

#### 1.3 Auditor's Responsibility

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

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

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

#### 1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## AUDITOR GENERAL'S REPORT CONTD...

### 2. Financial Statements

#### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### 2.2 Comments on Financial Statements

##### 2.2.1 Accounting Policies

Even though the Board had, as stated in the accounting policies, that income had been presented on the accrual basis, the Cess income of Rs. 21,788,225 and annual charges income of Rs. 2,911,605 recognized as the receivable from the National Insurance Trust Fund relating to the period from 2011 to 2015 had not been included in the financial statements while the Cess income of Rs. 7,668,309 received from the Fund during the year under review in respect of the preceding years had been included in the accounts as an adjustment made to the income of the current year.

##### 2.2.2 Accounting Deficiencies

Insurance income received in advance in respect of period prior to the year 2014 and from the year 2014 amounting to Rs. 484,511 and Rs. 1,550,060 respectively had not been recognized and brought to account as the income of the Board.

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

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

##### Reference to Laws, Rules and Regulations

(a) Regulation of Insurance Industry Act, No 43 of 2000 and the amendments made thereto

(i) Sub-section 33 (2)

(ii) Section 38 (1) (b)

(iii) Section 103 (2) and Section 10 of the Gazette Extraordinary No. 1412/30 dated 29 September 2005.

(b) Public Enterprises Circulars

##### Non-compliance

In case of receipt of a notification to the Board from an insurer on a proposed appointment, elected appointment or nomination of any person as a director of the insurer, the Board should approve or reject that appointment, election, or the nomination within 30 days from the receipt of that notification. Nevertheless, despite the receipt of requests for such appointments of two insurance companies, action thereon had been delayed over periods ranging from 1 years to exceeding 3 years.

Assets relating to the long term insurance business should be separately maintained from the assets of another class of business insurance, whereas out of the 11 registered insurance companies 8 insurance companies had been separately registered in the year 2015, while 3 companies had not been so registered.

Although the money credited to the Policy Holders Protection Fund should be used for the protection of the policy holders, contrary to that, the Board had obtained sums of Rs. 3,513,004 and Rs. 3,012,711 from the Fund respectively for the operating deficit and the capital expenditure during the year under review.

## AUDITOR GENERAL'S REPORT CONTD...

- (i) Paragraph 9.14 of the Circular No. PED/12 dated 02 June 2003.

Administrative Manual should be prepared and forwarded to the Secretary to the Treasury with the approval of the Board of Directors and the concurrence should be obtained thereto. Despite the non-receipt of the concurrence of the Secretary to the Treasury thereto even by 30 June 2016, festival advance totalling Rs. 1,550,000 at Rs. 50,000 had been paid to 31 officers of the Board as specified therein.

- (ii) Paragraph 3 of the Circular No. PED/2/2015 dated 25 May 2015.

Even though it is specified that the cost of equipment and accessories which should be purchased in obtaining residential telephone, mobile phone or internet facilities should be borne by the officer concerned, the sum of Rs. 111,032 spent by the Board for supply of 4 mobile phone to 4 officers had not been recovered from the officers concerned.

### 3. Financial Review

#### 3.1 Financial Results

Accounting to the financial statements presented, the pre-tax profit of the Board for the year ended 31 December 2015 had been a surplus of Rs. 187,126 as compared with the corresponding surplus of Rs. 163,129 for the preceding year, thus indicating an increase of Rs. 23,997 in the pre-tax profit of the year under review as compared with the preceding year. Although annual charges received from the insurance companies had increased by Rs. 35,563,169 in the year under review as compared with the preceding year, the decrease in the transfers to the Policy Holders Fund by Rs. 20,687,991 and increase in the employees remuneration by Rs. 10,898,972 and operating expenditure by Rs. 4,127,872 had mainly attributed to the above increase.

An analysis financial result of the year under review and 4 preceding years revealed that, despite the decrease of the pre-tax profit in the year 2013 by 38 per cent as compared with the year 2012, it had continuously increased since the year 2013 up to the year under review. When taking into consideration the employees remunerations and the depreciation on the non-current assets, the contribution amounting to Rs. 42,311,901 in the year 2011 had increased up to Rs. 75,606,943 by 79 per cent in the year under review.

### 4. Operating Review

#### 4.1 Performance

In terms of Section 3 of the Regulation of Insurance Industry Act, No. 43 of 2000, the objective and the responsibility of the Board are 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.

The following observations are made on the achievement of the above objectives.

- (a) In case of an issue relating to an insurance claim made by the insured, the Board reserves the statutory powers to investigate the same. Nevertheless, out of complaints received during the year under review, 41 complaints had not been settled even by 27 June 2016.
- (b) In order to conduct awareness programmes on the insurance and insurance industry for the school community, although letters had been sent to the selected 11 schools in the district of Colombo during the year under review, only one programme had been conducted in a school which had not been included therein.

## AUDITOR GENERAL'S REPORT CONTD...

- (c) Having compared the regulatory framework presently used in the insurance industry with the insurance core principles (ICPS) of the International Association of Insurance Supervisors (IAIS), creation of an assurance that fair treatment to the customer (FTC) is a one objective included in the Action Plan. Nevertheless, the report prepared on conducting a study with regard to its creation had been forwarded to the Board of Directors seeking its approval on 08 December 2015, but the relevant future activities had not been completed even by 27 June 2016, the date of audit.

### 4.2 Uneconomic Transactions

Since 1667 copies of Annual Reports costing Rs. 2,277,122 printed from the year 2012 to the year 2014 without properly recognizing the requirement had remained unused, the cost incurred thereon had become a fruitless expenditure.

### 4.3 Operating Inefficiencies

The following observations are made.

- (a) The leaflets titled "The things you should know about the Health Insurance and be knowledgeable on your rights and duties as an insurance policy holder" which had been scheduled to be printed in the first and second quarters of the year under review in order to educate the community on the insurance through the leaflets had been printed in June 2016, whereas awareness activities had not been carried out even by 28 July 2016.
- (b) With a view to improving the insurance policies for the well-being of insurance industry and the policyholders, the recommendations on the fire protection insurance had been selected for reviewing the products of the companies during the year, whereas those activities had not been completed even by the end of the year.
- (c) The Board had imposed a suspension on a private insurance company in the year 2009 and in pursuance of the order made by the Supreme Court at the relevant fundamental right case, the Board had entered into a memorandum of understanding with that company on 06 July 2012 for disposing of the assets of the said company in order to gradually settle the authentic insurance claims made to that company. Nevertheless, the Board had failed even by 16 June 2016 to settle any insurance claim out of the 142 authentic claims made.
- (d) According to a newspaper advertisement published by the Board on 22 April 2012, the registration of insurance brokers had been suspended and despite the suspension had not been terminated even by March 2016, one insurance company which had been registered only for the general insurance had been granted registration of the Board for the long term insurance from May 2015. That company had not dealt with the long term insurance for a period of one year from May 2015 to May 2016 and the registration had not been renewed for the year 2016.
- (e) In terms of the Solvency Test and the Risk Based Capital (RBC) rules being monitored by the Board, all the insurers should maintain minimum solvency margin. Nevertheless, the evidence with regard to taking future actions by the Board on a company, the total capital value of which was continuously dropping and a company, the Solvency Ratio of which existed less than the level due to be maintained in the year 2015 had not been furnished to audit.
- (f) Although an institute had not presented quarterly reports and Compliance Certificate pertaining to the year under review to the Board, the Board had not taken future action in this connection.
- (g) Even though it had been planned to compile a Guideline Manual which can be commonly used for the enquires made by the insured in the institutions, the relevant amended draft report had been referred to the parties related to the insurance industry on 14 June 2016 to obtain their views and as such it had remained inoperable even by 27 June 2016, the date of audit.
- (h) Although the Board had planned to carryout investigations properly on the claims made by the insured through external parties since year 2013, the final approval for the relevant Draft Guideline Manual had not been received even by 28 July 2016.

## AUDITOR GENERAL'S REPORT CONTD...

### 4.4 Staff Administrations

The following observations are made.

- (a) The approval of the Department of Management Services had not been obtained for the Scheme of Recruitment relevant to the posts of the Board.
- (b) An officer had been recruited to the vacant post of Director (Law Enforcement) on contract basis on 18 May 2015 and the age limit shown in the newspaper advertisement published relating to this recruitment had been stated as "from 35 years to 50 years". Out of the applications received in this connection, there were 9 qualified officers and without taking action to recruit a permanent officer from among them, an officer of 33 years of age had been recruited on contract basis.
- (c) Deviating from the Scheme of Recruitment, a female officer had been recruited to the post of Consultant Actuary from October 2012 to February 2016 on an agreement forwarded through the e-mail. Without establishing her arrival and departure, a sum totalling Rs. 7,514,871 had been paid as the salary and allowances from October 2012 to December 2015.
- (d) While an officer had been recruited for the unapproved post of Actuary on a monthly allowance of Rs. 15,000 from June 2015 to June 2016, deviating from the Scheme of Recruitment an officer had been recruited on contract basis for a period of two years on a monthly payment of Rs. 200,000 from 01 January 2016.

## 5. Accountability and Good Governance

### 5.1. Action Plan

In terms of Paragraph 4 of the Public Finance Circular No. 01/2014 dated 17 February 2014, specifies that an Action Plan inclusive of the activities targeted to be achieved the objectives referred to in the relevant Act should be prepared the Board had not so prepared the Action Plan.

### 5.2 Budgetary Control

As over provisions ranging from 15 per cent to 100 per cent existed between the budgeted and actual expenditure of 53 items of the Budget for the year under review, budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Fund Control	Incurring of expenditure irrelevant to the Fund and allocation of funds for the future expenditure,
(b) Staff Administration	Payment of salary increments contrary to the provisions in the Establishments Code and regardless of the date of appointment.
(c) Revenue Control	(i) Repayment of annual fees without an Approval. (ii) Failure to recognize the income on accrued basis.



**H. M. Gamini Wijesinghe**  
Auditor General

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
<b>2.2</b>	<b>Comments made on Financial Statements</b>	
<b>2.2.1</b>	<b>Accounting Standards</b>	
	<p>Even though the Board had, as stated in the accounting policies, that income had been presented on the accrual basis, the Cess income of Rs.21,788,225 and annual charges income of Rs.2,911,605 recognized as the receivable from the National Insurance Trust Fund relating to the period from 2011 to 2015 had not been included in the financial statements while the Cess income of Rs.7,668,309 received from the Fund during the year under review in respect of the preceding years had been included in the accounts as an adjustment made to the income of the current year.</p>	<p>It has been mentioned in the 14(2) (c) draft report, that the cess income amounting Rs. 53,220,457/- and the annual fee of Rs. 10,349,888/- have not been recognized in our accounts. As we have informed the audit in 2015 and January 2016, such a large amount was not recognized due to uncertainty of receipt of said income (i.e. prudence concept). However, details regarding the same were disclosed as a note in accordance with the Sri Lanka Public Sector Accounting Standards.</p> <p>Since the relevant adjustments have already been made for the cess income which was recognized on the accrual basis for the years 2011 and 2012, cess received from National Insurance Trust Fund in 2015 for said two years were adjusted to the income of the current year by considering as a changing estimate in accordance with the Sri Lanka Accounting Standards.</p>
<b>2.2.</b>	<b>Accounting deficiencies</b>	
	<p>Insurance Income received in advance in respect of period prior to the year 2014 and from the year 2014 amounting to Rs.484,511 and Rs.1,550,000 respectively had not been recognized and brought to account as the income of the Board.</p>	<p>The amount of Rs. 1,550,060/- mentioned needs to be corrected as Rs. 1,555,060/-.</p> <p>As per the Sections Nos. 81, 83 of the Regulation of Insurance Industry Act No, 43 of 2000 and as per the rule 2(b) of the extraordinary Gazette No. 1414/19, when an insurance broker / company applies for renewal or registration /registration they have to pay the respective fees along with the application. The money so received would be recorded in receipt in advance account until the Board decides to register/ renew registration of the relevant institute. Once the permission is granted, the relevant amounts are transferred to the income account.</p> <p>An amount of Rs. 1,500,000/- out of Rs. 2,039,571/- that existed on and before year 2014 is consisted of Rs. 500,000 each received as registration fees from 3 insurance companies. The said composite companies need to segregate their business in to general and long term as required by the laws of the Board.</p> <p>One insurance company out of the above has not taken relevant steps for segregation and other insurance companies have not met the required capital levels to segregate. Accordingly, the Board would treat such amounts as income after the registration is granted.</p> <p>Regarding the remaining Rs. 539,571/- now we would refund relevant amounts to the relevant institutes, or set off for the next year fee.</p>



## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	Auditor General's Report	Response made by the Insurance Board of Sri Lanka
<b>2.3</b>	<b>Non-compliance with laws, rules, regulations and management decisions</b>	
(a)	Sri Lanka Insurance Industry Regulation Act No. 43 of 2000 and its Amendment Act.	
(i)	<p>Sub Section 33 (2)</p> <p>In case of receipt of a notification to the Board from an insurer on a proposed appointment, elected appointment or nomination of any person as a director of the insurer, the Board should approve or reject that appointment, election, or the nomination within 30 days from the receipt of that notification. Nevertheless, despite the receipt of requests for such appointments of two insurance companies, action thereon had been delayed over periods ranging from 1 year to exceeding 3 years.</p>	<p>The entity has nominated 5 new members for its Director Board and made a written notice to the Board on 20<sup>th</sup> February 2015. This request was made on the advice of Ministry of Finance to which the entity belonged at that time. But the entity did not send the documents approving the appointment of those Directors to the Board and it was asked to submit them by 27<sup>th</sup> May 2015. But they have only submitted documents relating to 4 Directors by that date and even those were incomplete.</p> <p>After collecting the incomplete documentation and by fulfilling them, on 23<sup>rd</sup> October 2015 the appointment of the said 5 Directors was submitted for approval of the Board.</p> <p>It was decided at the Board meeting the said 5 Directors to the entity should be delayed, as the General Election had just been concluded and the entity was assigned under the Public Enterprise Development Department at that time and there was a trend towards changing of Director Board again.</p> <p>In the meantime, the entity informed by letter dated 20<sup>th</sup> November 2015, as per the request of Public Enterprise Development Department a particular director previously nominated, resigned effective from 5<sup>th</sup> November 2015, and would be appointed another two directors as replacement. After completing documents it is again informed to Board meeting of March 2016 asking approval for appointment of Directors. Further, we informed Director Board of the said entity that the number of executive and non-executive Directors they have currently appointed are not in accordance with the Regulation of Insurance Industry Act. These appointments were approved on 31<sup>st</sup> March 2016.</p>
(ii)	<p>Section 38 (1) (b)</p> <p>Assets relating to the long term insurance business should be separately maintained from the assets of another class of business insurance, whereas out of the 11 registered insurance companies 8 insurance companies had been separately registered in the year 2015, while 3 companies had not been so registered.</p>	<p>Two companies have failed to provide required capital to segregate into two Insurance companies. Accordingly, the Board has given them the final deadline to comply with Section 53 of the amended Act.</p> <p>The other insurance company is a State Insurance company. The relevant Ministries have been informed of the non compliance.</p>

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(iii)	<p>Section 103 (2) and Section 10 of the Gazette Extraordinary No.1412/30 dated 29 September 2005</p> <p>Although the money credited to the Policyholders Protection Fund should be used for the protection of the policy holders, contrary to that, the Board had obtained sums of Rs.3,513,004 and Rs.3,012,711 from the Fund respectively for the operating deficit and the capital expenditure during the year under review.</p>	<p>Operational and capital expenditure of the Board are incurred directly/indirectly in the exercise of its powers, discharge of its functions and performance of its duties. Accordingly, money was spent with a view to safeguarding the policyholder and potential policyholders and to regulate the insurance industry.</p> <p>Operational costs are covered by the rule No.10<sup>th</sup> of the Gazette No. 1412/30 and therefore the money lying to the credit of the Policyholders' Protection Fund (PPF) can be used to defray these expenses. Fund transfers from the PPF are only limited to the amount that cannot be covered by the main income sources (registration fees and annual fees) of the Board, or annual deficit.</p>
(b)		
(i)	<p>Paragraph 9.14 of the Circular No.PED/12 dated 02nd June 2003</p> <p>Administration Manual should be prepared and forwarded to the Secretary to the Treasury with the approval of the Board of Directors and the concurrence should be obtained thereto. Despite the non-receipt of the concurrence of the Secretary to the Treasury thereto even by 30 June 2016, festival advance totalling Rs.1,550,000 at Rs.50,000 had been paid to 31 officers of the Board as specified therein.</p>	<p>Granting of festival advance of Rs. 50,000/- was approved at the Board meeting held on 17<sup>th</sup> December 2009 and it is mentioned in Section 14.1 of our Administration Manual.</p> <p>At the discussion held on 02<sup>nd</sup> December 2014 at the Ministry of Finance regarding the Administration Manual, chaired by Deputy Secretary of Treasury, there was no objection for the payment made since 2009 and IBSL was requested to amend the Manual and submit it for approval based on the advice given by Deputy Secretary of Treasury. The Administration Manual is being prepared to submit as per the advice received.</p>
(ii)	<p>Paragraph 3 of the Circular No.PED/2/2015 dated 25 May 2015</p> <p>Eventhough it is specified that the cost of equipment and accessories which should be purchased in obtaining residential telephone, mobile phone or internet should be bourne by the officer concerned, the sum of Rs.111,032 spenmt by the Board for supply of 4 mobile phones to 4 officers had not been recovered from the officers concerned.</p>	<p>The relevant mobile phone purchasing activities began on 28<sup>th</sup> January 2015 and purchase order was issued on 03<sup>rd</sup> June 2015. This purchase was carried out after following the relevant procurement procedures and after receiving required approval. The Department of Public Enterprises was informed of this purchase and they have stated that since these purchases occurred during the time of the Circular was issued, it is not necessary to recover from the officers concerned.</p>
<b>3.</b>	<b>Financial Review</b>	

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
<b>3.1</b>	<b>Financial result</b>	
	<p>According to the financial statements presented, the pre-tax profit of the Board for the year ended 31 December 2015 had been a surplus of Rs.187,126 as compared with the corresponding surplus of Rs.163,129 for the preceding year, thus indicating an increase of Rs.23,997 in the pre-tax profit of the year under review as compared with the preceding year. Although annual charges received from the insurance companies had increased by Rs.35,563,169 in the year under review as compared with the preceding year, the decrease in the transfers to the Policy holders Fund by Rs.20,687,991 and increase in the employees remuneration by Rs.10,898,972 and operating expenditure by Rs. 4,127,872 had mainly attributed to the above increase.</p> <p>An analysis financial results of the year under review and 4 preceding years revealed that, despite the decrease of the pre-tax profit in the year 2013 by 38 per cent as compared with the year 2012, it had continuously increased since the year 2013 upto the year under review. When taking into consideration the employees remunerations and the depreciation on the non-current assets, the contribution amounting to Rs.42,311,901 in the year 2011 had increased upto Rs.75,606,943 by 79 per cent in the year under review.</p>	An analytical note
<b>4.</b>	<b>Operational Review</b>	
<b>4.1</b>	<b>Performance</b>	
	<p>In terms of Section 3 of the Regulation of Insurance Industry Act, No.43 of 2000, the objective and the responsibility of the Board are 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.</p> <p>The following observations are made on the achievement of the above objectives.</p>	

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(a)	Increase of an issue relating to an insurance claim made by the insured, the Board reserves the statutory powers to investigate the same. Nevertheless, out of complaints received during the year under review, 41 complaints had not been settled even by 27 June 2016.	<p>The current status regarding 41 complaints remaining from the complaints directed to the Board in the year 2015 of which investigations are not completed as at 27.06.2016, is given below:</p> <ul style="list-style-type: none"> <li>• Complaint 11 - The investigations are completed and relevant recommendations are to be referred to the Board for approval (at the Board Meeting of August 2016).</li> <li>• Complaint 08 - The investigations were completed and relevant recommendations have been referred to the Board for approval (at the Board Meeting of July 2016).</li> <li>• Complaint 5 - The relevant disputes were resolved.</li> <li>• Complaint 03 - Information required to continue further investigations are to be received from a 3rd party.</li> <li>• Complaint 05 - Information required to be continued investigations are to be received from Insurance Companies.</li> <li>• Complaint 04 -The facts revealed by the investigation were referred to the complainant to ascertain their views and awaiting their responses for the same.</li> <li>• Complaint 05 - Actions were taken to hold discussions with participation of the relevant parties.</li> </ul>
(b)	In order to conduct awareness programmes on the Insurance Industry for the school community, although letters had been sent to the selected 11 schools in the district of Colombo during the year under review, only one programme had been conducted in a school which had not been included therein.	Awareness Programs are to be conducted for school students regarding the importance of insurance and basic insurance concepts in order to develop insurance industry. When many Principals of major schools of the island (both in Colombo and outstations) were contacted via phone to get an opportunity for the above, the majority response was that since the time of teachers and students has already been allocated for subject wise and external activities, it would be impossible to grant an opportunity to discuss insurance. After discussing this response by the Principals, it was decided as an initiation, to send letters to selected schools around Colombo, by explaining our intention and asking for opportunity to conduct awareness program. Further, this is a programme planned in-addition to the main awareness programme carried out by the Insurance Board by divisional secretariats island wide, it was decided at the outset that it would be more suitable to target 2 or 3 schools annually. Letters were sent to 11 schools to organize 2 or 3 programs. A single program was conducted. However as per the experience so far gained by conducting school awareness programs, it was seen that programs conducted by divisional secretariat levels are more cost effective and useful.
(c)	Having compared the regulatory framework presently used in the insurance industry with the insurance core principles (ICPS) of the International Association of Insurance Supervisors (IAIS), creation of an assurance that fair treatment to the customer FTC is a one objective included in the Action Plan. Nevertheless, the report prepared on conducting a study with regard to its creation had been forwarded to the Board of Directors seeking its approval on 08 December 2015, but the relevant future activities had not been completed even by 27 June 2016, the date of audit.	As per the Action plan of the investigations division for the year 2016, it was scheduled to prepare guidelines on Fair Treatment of Customers. Accordingly as per the recommendation made at the Board meeting held on 8 <sup>th</sup> December 2015 it was scheduled to obtain details about relevant policies and practices implemented by the Insurance companies and intermediaries, needed to prepare these guidelines. Accordingly information was called from Insurance companies and intermediaries and it is being reviewed. After reviewing this information future actions would be taken in this regard.

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
<b>4.2</b>	<b>Non-economic transactions</b>	
	<p>Since 1667 copies of Annual Reports costing Rs.2,277,122 printed from the year 2012 to the year 2014 without properly recognizing the requirement had remained unused, the cost incurred thereon had become a fruitless expenditure.</p>	<p>It can be clearly observed from the relevant quotation, that overhead cost had to be borne to print in all three languages when printing annual reports. When printing 350 Reports in reports in English, the unit cost is Rs. 1,150/- and it has increased to Rs. 3,450/- unit cost when printing in Sinhala and Tamil languages 100 copies each. Therefore, when quantity is decreased the unit costs increased. Accordingly when calling for quotations for year 2014 the number of English copies was decreased to 350 from 500 and number of Sinhala copies was decreased from 200 to 100. There for, action has already been taken to decrease the number of copies.</p> <p>The Insurance Board as the regulatory body for Insurance Industry, printing the annual reports is done with the intention of issuing a quality annual report to insurance companies and intermediaries and it is done according to the procurement procedures.</p> <p>Unused 1,667 annual reports pertaining to several years were given to be converted in to Braille system for the use of children studying in school for the vision impaired. They can prepare the text books needed using these pages with 120 gsm thickness.</p>
<b>4.3</b>	<b>Operational inefficiencies</b> The following observations are made	
(a)	<p>The leaflets titled "The things you should know about the Health Insurance and be knowledgeable on your rights and duties as an insurance policy holder" which had been scheduled to be printed in the first and second quarters of the year under review in order to educate the community on the insurance through the leaflets had been printed in June 2016, whereas awareness activities had not been carried out even by 28 July 2016.</p>	<p>As planned, the English language basic drafts of the relevant brochures were prepared on the first part of the year 2015. The content has to be very carefully considered as a large quantity has to be printed at once. The basic draft had to be changed several times due to changes in the regulatory needs of the industry and changes in practices, from time to time. The services of the external translators were needed to translate the original draft prepared in English to Sinhala and Tamil languages. But after reviewing the translations again to communicate the required meanings, it took until February 2016 to finalize. Afterwards quotations were called to print them; the tender was awarded to the selected printer on April 2016. Accordingly the printing of brochures is now completed.</p>
(b)	<p>With a view to improving the insurance policies for the well-being of insurance industry and the policyholders, the recommendations on the fire protection insurance had been selected for reviewing the products of the companies during the year, whereas those activities had not been completed even by the end of the year.</p>	<p>As planned, review was made regarding fire insurance policies during year 2015 and report with the relevant recommendations was prepared by November 2015. The recommendations contained therein further reviewed with aim to develop a better output before presenting to the Board. The report was referred to the senior management to obtain their views. The final draft of the report containing the recommendations was presented to the approval of the Board on March 2016 and recommendations that were approved have already referred to the companies engaged in the insurance business.</p>

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(c)	<p>The Board had imposed a suspension on a private insurance company in the year 2009 and in pursuance of the order made by the Supreme Court at the relevant fundamental right case, the Board had entered into a memorandum of understanding with that company on 05 July 2012 for disposing of the assets of the said company in order to gradually settle the authentic insurance claims made to that company. Nevertheless, the Board had failed even by 16 June 2016 to settle any insurance claim out of the 142 authentic claims made.</p>	<p>When considering the request to appoint a new director for the relevant company, the Board informed via letter dated 07<sup>th</sup> February 2013 to send a certified copy of the Articles of Association of the company, the procedure of appointing new directors as per those Articles of Association (certified by the Company Secretary), and the documents that need to be supplied as per the Section 33 B (1) of the Act, to be sent to the Board approving the appointment of new directors. Since the Board was late in sending responses a reminder was sent on 8<sup>th</sup> May 2013. We received response from the company on 8<sup>th</sup> May 2013 and has written to the company again on 02<sup>nd</sup> April 2013 by stating shortcomings in the information provided and requesting a copy of the proposal of the Director Board regarding appointment of a new directress. Further, this company has only one functional director, it was informed to change the Articles of Association in order to allow for appointment of a new director and re-inform us after having certified by the Company Registrar.</p> <p>The firm written back only on 02<sup>nd</sup> July 2015. However, the amended Articles of Association was not certified by the Company Registrar, the firm was informed to get it certified, on 05<sup>th</sup> August 2015.</p> <p>However, the company failed to present to the Company registrar, the annual financial reports from 2007 to 2014, and due to the consequent problematic situation arisen by registration of company documents by the Company Registrar, the Board so far is unable to give approval for the appointment of a new director.</p> <p>Accordingly, it is expected to send a letter to the company on July 2016 inquiring about the present status regarding this matter and if the company failed to respond to it, approval of the Board would be sought for liquidation of the company.</p> <p>Further, there is only one functional director in the company, it is only after appointment of a new director by changing the Articles of Association that work could be carried out with the firm regarding title settlement process.</p>

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(d)	<p>According to a Newspaper advertisement published by the Board on 22 April 2012, the registration of insurance brokers had been suspended and despite the suspension had not been terminated even by March 2016, one insurance company which had been registered only for the general insurance had been granted registration of the Board for the long term insurance from May 2015. That company had not dealt with the long term insurance for a period of one year from May 2015 to May 2016 and the registration had not been renewed for the year 2016.</p>	<p>As per the decision taken at the 114th Board Meeting, the Board has temporary suspended registration of new insurance brokers firms effective from 27<sup>th</sup> April 2012.</p> <p>However, insurance brokerage firms (life or general) that already obtained registration for one insurance brokerage business have made requests for registration of the other insurance brokerage business, the Board considered facts and provided the registration.</p> <p>This firm had forwarded an application to obtain registration for a long term Insurance Brokers to the Board towards end of November 2014. This firm with effective from 19<sup>th</sup> July 2007 obtained registration to engage in general insurance brokerage business. Therefore, by approving their application and as they fulfilled requirements under the Regulation of Insurance Industry Act No. 43 of 2000 , as per a decision taken at the 148<sup>th</sup> Board Meeting, the firm was granted registration to engage in long term Insurance Brokerage Business from 20<sup>th</sup> May 2015 to 19<sup>th</sup> May 2016.</p> <p>When this firm has forwarded an application in March 2016 to the Insurance Board to renew the registration for a long term Insurance brokerage business, it was observed that the said firm did not engage in long term insurance brokerage business in the first year. There explanation was called on same, by the letter dated 11<sup>th</sup> April 2016. As a response following reasons were given by the letter dated 18<sup>th</sup> April 2016:</p> <ol style="list-style-type: none"> <li>1) That this firm has registered for a long term Insurance Brokerage Business with the intention of expanding business activities of the firm,</li> <li>2) During the relevant time period this firm has received many new business opportunities for general Insurance Brokerage Business and therefore a greater attention had to provided for that,</li> <li>3) That the firm has recruited an experienced advisor and an agent for long term Insurance Brokerage Business and that opportunity was received to work on Group Life Insurance of the Laughs Company and life insurance policy of another single person,</li> <li>4) That own business premises has been expanded for the convenience of clients and employees.</li> </ol> <p>Considering the above facts, registration for the Long Terms Insurance Brokerage Business was renewed.</p>

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(e)	In terms of the Solvency Test the Risk Based Capital (RBC) rules being monitored by the Board, all the insurers should maintain minimum solvency margin. Nevertheless, the evidence with regard to taking future actions by the Board on a company, the total capital value of which was continuously dropping and a company, the Solvency Ratio of which existed less than the level due to be maintained in the year 2015 had not been furnished to audit.	The Board had inquired regarding the decline in total capital of first firm mentioned by letter dated on 20.10.2015, 12.11.2015, 01.12.2015 and on 17.12.2015. As firms should maintain total Available Capital of more than Rs. 500 million as per the Risk Based Capital Laws effective from 01.01.2016, the Board had obtained a comprehensive Capital Plan regarding it. The Board had obtained the Capital Plan to check the actions taken by the firm to increase the total Available Capital to a value of Rs. 500 million or more by 30.06.2016 and it is being continuously monitored. Actions are already taken regarding this firm under the Act. The Board has taken many actions regarding the fact that Solvency Ratio of second firm is less than the limit it should have been for the year 2015. The Board directed the firm ,under the Section 57 of the Regulation of Insurance Industry Act No 43 of 2000, to present monthly reports in order to better observe their financial position. Further, the Board informed the Private Enterprise Development Ministry of the issues regarding the firm on 16.10.2016. Further the Board informed the stockholding institute of this company of these issues on 06.04.2016. Further the firm was informed to present the Capital Plan to the Board on 16.06.2016 in accordance with the Risk Based Capital laws effective from 01.01.2016. The Board will take a suitable action after studying it.
(f)	Although an institute had not presented quarterly reports and Compliance Certificate pertaining to the year under review to the Board, the Board had not taken future action in this connection.	The relevant entity has been informed in writing of its failure to submit quarterly reports and certificates of conformity to the Board for the year 2015 and was informed to submit them. For an example by the letter of the Board dated 02.09.2015 it was informed to submit first and second quarterly reports for the year 2015. However the entity has not submitted above reports for the year 2015. After the Board issued a directive to the Director Board for the 1st quarter of the year 2016 of the entity, the relevant quarterly reports were submitted to the Board on 20.06.2016.
(g)	Even though it had been planned to compile a Guideline Manual which can be commonly used for the enquires made by the insured in the institutions, the relevant amended draft report had been referred to the parties related to the insurance industry on 14th June 2016 to obtain their views and as such it had remained inoperable even by 27 June 2016, the date of audit.	The guidelines prepared as per Action plan 2016 which was approved by the Board in 2015 to use when conducting investigations relating to claims have been discussed with the companies and scheduled to be reviewed. The final guidelines are to be issued afterwards. The views of the insurance companies were Initially asked by the letter dated 01.12.2015 and their views were received on 06.01.2016. After analyzing these views in a lengthy manner, these reviewed guidelines were referred to the insurance companies for their views by the letter dated 27.04.2016. Again the responses of the Companies were referred to the IBSL on 16.05.2016 and after checking the acceptability and other relevant legal issues it has been referred for approval of the Board.



## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
(h)	Although the Board had planned to carryout investigations properly on the claims made by the insured through external parties since year 2013, the final approval for the relevant Draft Guideline Manual had not been received even by 28 July 2016.	The Draft Guidelines for the resolution of customer complaints by the insurance companies and the intermediaries was approved at the Board meeting on 28.10.2015 and it was referred to Insurance companies and intermediaries for their views on 04.11.2015. The relevant initial Reponses were received on 20.11.2015 and 04.12.2015 and after studying their views and proposals at length, the reponses regarding them was referred back on 15.02.2016 and 27.04.2016. Then further information needed to complete drafting the relevant guidelines was referred to the Board by the insurance firms on 06.07.2016. Therefore, after reviewing the existing guidelines the approval of the Board is to be recieved on third quarter of 2016.
<b>4.4</b>	<b>Staff Administration - Following observations were made</b>	
(a)	Approval of the Department of Management Services had not been obtained for the Scheme of Recruitment relevant to the posts of the Board	The Scheme of Recruitment was submitted to the Treasury along with the Administration Manual, on an earlier instance.
(b)	An officer had been recruited to the vacant post of Director (Law enforcement) on contract basis on 18 May 2015 and the age limit shown in the newspaper advertisement published relating to this recruitment had been stated as "from 35 years to 50 years" Out of the applications received in this connection, there were 9 qualified officers and without taking actions to recruit a permanent officer from among them, an officer of 33 years of age had been recruited on contract basis.	Since, no suitable candidate was found at the interview conducted for recruitment for Director (Law and Enforcement), the relevant officer was recruited on contract basis.
(c)	Deviating from the Scheme of Recruitment, a female officer had been recruited to the post of Consultant Actuary from October 2012 to February 2016 on an agreement forwarded through the email. Without establishing her arrival and departure, a sum totaling Rs.7,514,871 had been paid as the salary and allowances from October 2012 to December 2015.	The relevant air tickets and bills issued for accommodation can be shown as evidence for the visit of the Actuary.
(d)	While an Officer had been recruited for the unapproved post of Actuary on a monthly allowance of Rs.15,000 from June 2015 to June 2016, deviating from the Scheme of Recruitment an officer had been recruited on contract basis for a period of two years on a monthly payment of Rs.200,000 from 01 January 2016.	<p>This officer was recruited as an Intern and analyzes basic information relating to the Actuarial section. Further, the Board hopes to have an Actuarial unit in near future.</p> <p>As the regulatory body of the insurance industry and due to the recent changes, particularly focusing on Risk Based Capital, Risk Based Supervision, segregation of insurance companies, it is imperative to have a full time professionally qualified Actuary.</p> <p>But due the difficulty of obtaining services of a professionally knowledgeable and qualified actuary within Sri Lanka, the Board received consultancy services of an actuary based in India from 2012. But after considering practical difficulties faced by the Board in getting the work done without a full time Actuary, it was decided to engage services of an Actuary with full professional qualification (Fellow of the Institute and Faculty of Actuaries) in this sector and adequate knowledge, with the approval of the Board, on contract basis effective from 01.01.2016.</p>

## RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL CONTD...

	<b>Auditor General's Report</b>	<b>Response made by the Insurance Board of Sri Lanka</b>
<b>5</b>	<b>Accountancy and good governance</b>	
<b>5.1</b>	<b>Action plan</b>	
	In terms of Paragraph 4 of the Public Finance Circular No.01/2014 dated 17 February 2014, specifies that an Action Plan inclusive of the activities targeted to be achieved the objectives referred to in the relevant Act should be prepared the Board had not so prepared the Action Plan.	In accordance with 4 <sup>th</sup> para of the Public Finance Circular No. 1/2014 of 17 <sup>th</sup> February 2014 described in your letter, the Action Plan of IBSL and fulfilling other obligations has been submitted to the audit on 11.12.2015.  While Corporate Plan was submitted in previous years, as per above Circular, the Action plan was prepared after paying attention to fulfill relevant components for 2015 out of the long term goals of IBSL.
<b>5.2</b>	<b>Budgetary Control</b>	
	As over provisions ranging from 15 percent to 100 percent existed between the budgeted and actual expenditure of 53 items of the Budget for the year under review, budget had not been made use of as an effective instrument of management control.	Variances can be seen when comparing budgeted income and expenditure items with actual due to factors beyond the control of the Board. However, the Board will take necessary measures to minimize such variances in the future.
<b>6.</b>	<b>System and controls</b>	
(a)	<b>Fund Control</b>	} We will pay special attention only on those areas that we have to rectify, by consideration your advice.
	Incurring of expenditure irrelevant to the Fund and allocation of funds for the future expenditure.	
(b)	<b>Staff Administration</b>	
	Payment of salary increments contrary to the provisions in the Establishments Code and regardless of the date of appointment.	
(c)	<b>Revenue Control</b>	
(i)	Repayment of annual fees without an Approval.	
(ii)	Failure to recognize the income on accrued basis	

## APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2015

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

## APPENDIX II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2015

No	Name of Broker	Class of 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.	Long Term and General Insurance
6	AMTRUST Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
7	Aquiline Insurance Broker	Long Term and General Insurance
8	Aseki Insurance Brokers (Pvt) Ltd.	General Insurance
9	Assetline Insurance Brokers Ltd.	General Insurance
10	Ax Insurance Brokers (Pvt) Ltd.	General Insurance
11	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
12	Ceyexxe Insurance Brokers Ltd.	General Insurance
13	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance
14	Ceynergy Insurance Brokers (Pvt) Ltd.	General Insurance
15	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
16	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
17	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
18	Daya Sarana Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
19	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
20	E A P - R M S Insurance Brokers (Private) Ltd.	Long Term and General Insurance
21	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
23	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
24	Foresight Insurance & Re Insurance Brokers (Pvt) Ltd.	General Insurance
25	George Steuart Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
26	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance
27	Grand Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
28	Guardian Insurance Brokers (Pvt) Ltd.	General
29	Industrial & Commercial Insurance Brokers (Pte) Ltd.	Long Term and General Insurance
30	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance
31	JF Insurance Brokers (Pvt) Ltd.	General Insurance
32	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance
33	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
34	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance

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35	Mackwoods Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
36	Maxwell Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
37	Mercantile Insurance Brokers (Pvt) Ltd.	General Insurance
38	My Insurance Brokers Private Limited	General Insurance
39	Nations Insurance Brokers Ltd.	Long Term and General Insurance
40	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
41	Procare Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
42	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
43	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
44	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
45	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Rinkoon Lanka Insurance Brokers (Pvt) Ltd	General Insurance
47	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
48	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
49	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
50	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
51	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
52	UN Insurance Brokers (Pvt) Ltd.	General Insurance
53	United Insurance Brokers (Pvt) Ltd.	General Insurance
54	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
55	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
56	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
57	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.

### Bancassurance

An arrangement whereby insurance sell insurance and investment product to bank customers.

### 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.

### Discontinued Operation

Operations of an entire division, subsidiary or segment of a company where a formal plan exists to eliminate it from the company.

### 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.

### Lapsed Policy

A policy terminated at the end of the grace period because of nonpayment of premium.

### 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.

### Loss Ratio

Percentage ratio of claims expenses to earned premiums.

### 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 CONTD...

**Net Claims Ratio or Net Loss Ratio**

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

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

**Net Combined Ratio - General Insurance Business**

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

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

**Net Earned Premium - General Insurance Business**

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

**Net Expense Ratio - General Insurance Business**

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

**Non - Participating Policy - Long Term Insurance Business**

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

**Policy**

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

**Policyholder**

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

**Policy Loan**

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

**Primary Insurer**

An Insurance Company that assumes risks in return for insurance premium and has a direct contractual relationship with the holder of the insurance policy (individual, firm or organization).

**Operating Profit**

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

**Reinsurance**

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

**Reinsurance Commission**

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

**Reinsurance Inwards**

The acceptance of risks under a contract of reinsurance.

**Reinsurance Outwards**

The placing of risks under a contract of reinsurance.

**Reinsurance Profit Commission**

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

**Retention**

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

**Risk Based Capital**

A "risk Based" approach to assess the solvency and is based on the real "cash flows" of the business.

**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.

**Technical Provision**

Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contract can always be met.

**Underwriting Profit**

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

**Unearned Premium**

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

**Unearned Premium Reserve**

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

**Unexpired Risk Reserve**

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

# GENERAL INFORMATION

## **OFFICE ADDRESS**

11, East Tower, World Trade Centre  
Echelon Square, Colombo 1  
Sri Lanka.

Telephone : +94 11 2396184-9  
Fax : +94 11 2396190  
E-mail : [info@ibsl.gov.lk](mailto:info@ibsl.gov.lk)  
Web site : [www.ibsl.gov.lk](http://www.ibsl.gov.lk)

## **LEGAL FORM**

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

## **THE OBJECT AND RESPONSIBILITY OF THE BOARD**

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

## **ACCOUNTING YEAR**

31 December

## **AUDITORS**

The Auditor General

## **BANKERS**

Bank of Ceylon

## **AUDIT COMMITTEE**

Ms. Pushpa Wellappili  
Mr. Jeremy Bolling  
Dr. A. A. Shabbir Gulamhusein



**IBSL**  
INSURANCE  
BOARD OF SRI LANKA



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