

# Fostering Growth



INSURANCE BOARD OF SRI LANKA

ANNUAL REPORT | 2016

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EVERY DAY WE WORK CLOSELY WITH OUR STAKE HOLDERS TO CREATE SOLUTIONS THAT ARE BOTH INNOVATIVE AND PRACTICAL THAT MEET THE CHALLENGES FACING THEIR ORGANIZATIONS

# 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

- 29 Insurance Companies
- 56 Insurance Brokers
- 43,816 (total) Insurance Agents
- Insurance awareness reached 798 Grama Niladhari Divisions in 12 Divisional Secretariats

### Performance of Insurance Industry

	2016	2015	Change %
Gross Written Premium (Rs. Billions)	143	123	16.26%
Total Assets (Rs. Billions)	527	467	12.84%
Penetration as a % of GDP	1.21	1.12	8.03%
Insurance Density (Rs.)	6,743	5,865	14.97%

### Performance of the Board

	2016	2015	Change %
Policy Holders' Protection Fund (Rs. Billions)	3.30	2.64	25%
Cess Income (Rs. millions)	408.20	321.75	26.87%
Annual Fees (Rs. millions)	125.50	103.81	20.89%

**Rs. 527 bn.**

Total Assets of Insurance Industry

**Rs. 143 bn.**

GWP of Insurance Industry



# Management Information



“ As Sri Lanka moves forward being recognized as 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.”

## Chairperson's Message

On behalf of the Board of Directors of the Insurance Board of Sri Lanka (IBSL), I am pleased to present the Annual Report for the year 2016. On our journey to be the benchmark insurance regulator in South Asia, we were able to move up to another progressive level during this year despite the challenges.

One of the biggest challenges faced was the completion of the segregation process as planned and as required by law. As per the terms of RII (amendment) Act No. 03 of 2011 all composite insurance companies were required to segregate their business into two separate legal entities. This requirement which is being practised in many other countries was enacted as a policy measure with the main objective of ensuring better protection for policyholders and also as a principle of good governance. It was heartening to note that nine out of twelve composite companies complied with this requirement by splitting their operations willingly and collaboratively. The three companies, including a state owned insurer which is also a large market player are yet to be segregated complying with the legal requirement.

Year 2016 will be a landmark year in the history of the insurance industry of Sri Lanka due to the declaration of the "National Insurance Day" by the Government. The Cabinet of

Ministers approved this declaration on 22nd November 2016 and accordingly, 1st September of every year will be recognized and celebrated as the National Insurance Day.

### Industry Performance

Despite the challenging environment, the industry recorded a positive growth both in Life and General insurance businesses during the year. It was able to achieve an overall Gross Written Premium (GWP) of approximately Rs. 14.3 billion from both Life and General business operations recording an increase of around Rs. 20 billion in absolute terms and a growth of 16.27%.

Similarly, there was a significant increase in the total assets of the insurance industry including the assets belonging to Life and General insurance companies, and the national reinsurer (NITF). The computed value of total assets as at end 2016 was Rs. 527 billion and recorded a growth of 12.97% compared to the previous year.

The structure of the insurance industry has experienced a notable transformation during the last few years due to the regulatory changes introduced by the Regulator (IBSL). Adoption of Risk Based Capital (RBC) model was one of them. After completing several stages, the implementation of RBC commenced in January 2016. The industry absorbed the new capital model successfully,

## Chairperson's Message

although it was noted that certain issues have arisen during the implementation. We intend to revisit the Solvency Margin Rule in order to address these issues, with the assistance of external experts.

During 2016, the industry witnessed a consolidation process of the local insurance industry, with the acquisition of three General Insurance companies by two big industry players. Through mergers and acquisitions, it is envisaged that the industry would be much better equipped with both operational efficiencies and stronger balance sheets.

The industry experienced an escalation of challenges, which was in addition to the tough competition among the insurers. The adverse weather conditions that prevailed during the year caused severe problems mainly to General insurance companies, as the claims related to floods and accidents increased profoundly.

The promotion of 'National Natural Disaster Insurance Scheme' by the Government and the prompt payment of many flood related claims by insurance companies, may have had a positive impact on the general public in terms of the need and importance of having an insurance cover to protect their lives and property. Also, this situation encouraged insurers to focus on Nat Cat disaster risks and to develop specialized insurance products and solutions that offer coverage for floods and other natural disasters.

### Way Forward

As Sri Lanka moves forward being recognized as 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.

With the declaration of the "National Insurance Day" on 1st September every year, we are optimistic about the increase of insurance penetration as well as the overall growth of the industry. Through numerous promotion activities launched by the industry and the market development activities conducted by the IBSL, we expect that the public will be well informed and educated about the insurance concept and the importance of being insured. This will no doubt facilitate in creating a demand-driven insurance industry in the future.

There are a number of industry initiatives underway, many in collaboration with the IBSL, to enhance insurance penetration in the country. The Mobile insurance scheme, which is gradually growing, has been able to reach a considerable number of people in the low income segments. We are reviewing the existing mobile insurance schemes, with the objective of improving the quality of products and ensuring the protection of the people who are insured through mobile insurance.

Insurance companies can also play a leading role in filling the protection gap of women who represents around 52% of the population. Women can play an important role in explaining and selling insurance products across customer segments, and especially to other women, creating a new customer base. I therefore wish to reiterate that the industry must reassess its capabilities to identify the insurance needs of different segments of the population and develop appropriate financial products to meet their needs.

The IBSL will be a beneficiary of two foreign funded projects which are expected to be approved by the Government, under the Capital Market Development Program (CMDP) of the Asian Development Bank (ADB) and the Financial Sector Modernization Project (FSMP) of the World Bank (WB).

From the WB project, which has several components to improve the financial sector in the country, we expect financial and technical assistance for strengthening the regulatory capacity of the IBSL and also to develop the infrastructure. The ADB will provide technical assistance to develop a strategy to expand financial literacy and also to review the existing complaint handling procedure of the Regulator, as well as the industry, and to develop a comprehensive dispute resolution procedure in accordance with the

international best practices. We are optimistic that these reforms will be instrumental for us, the Regulator, to achieve our vision and mission, and thereby create a more conducive environment for the industry.

During next year, the Regulator of the insurance industry presently known as IBSL will be re-named as the "Insurance Regulatory Commission of Sri Lanka". With almost all formalities being adhered to, we expect the name change to be approved and legalized in the near future.

### In appreciation

In conclusion, I wish to place on record my appreciation for the generous support and valuable contribution made by my colleagues on the Board, whose commitment in deciding on various policy measures that affect the insurance industry remains one of the greatest strengths of the Regulator.

I 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 cordial relationship that they continue to 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 vision and mission in the years to come.

**Indrani Sugathadasa**  
Chairperson

## Director General's Review



“ It is noteworthy to mention that the IBSL is a key recipient of technical assistance on major financial sector development projects initiated by the Government. This demonstrates the Government’s direct involvement to develop the insurance sector in Sri Lanka, with the objective of advancing the entire financial system to international standards ”

It is my pleasure to provide a review of activities undertaken by the IBSL to regulate, supervise and facilitate the development of the insurance sector in Sri Lanka and a commentary on the performance of the insurance industry for year 2016.

The IBSL under the Regulation of Insurance Industry Act is required 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 policyholders and potential policyholders. In order to achieve this objective, the Board implemented certain activities in year 2016 with the prime objective of ensuring greater policyholder protection and to ensure greater performance and stability of the industry.

### Key Regulatory and Supervisory Initiatives

A milestone in the IBSL’s history is the implementation of the Risk Based Capital (RBC) Rules, which was a result of detailed and consistent evaluation of the capital framework designed considering the risks associated with the business. As a further step of evaluation of the rule and the practices post implementation, the IBSL carried out a preliminary review on the effectiveness of implementation of RBC and the efficiency of the RBC Rule with the assistance of the World Bank. This review, we believe will help to further shape the rule and practices of the industry in the future.

During the year, the Board has taken strict enforcement action on significant violations identified,

which includes the suspension of two insurers for not adhering to the minimum capital requirements stipulated in the new Risk Based Capital Regime.

As for reforms introduced to foster policyholder interests, the IBSL having observed certain policyholders complaining that they are not in receipt of the policy documents, issued a direction to insurers to obtain policyholder acknowledgement in writing within a period of fourteen days from the date of issue of the policy documents.

The IBSL also introduced a standard cooling off period of 21 days from the receipt of the policy document for all long term products. This is with the view of giving the opportunity to policyholders to examine the terms and conditions of the policy document once received by them and if not satisfied to cancel the policy.

The IBSL having considered the role and responsibility of the Principal Officers' of insurers and insurance brokers under the Act, reemphasized that Principal Officers' should be responsible for the general control, direction and supervision of the business activities of the company and should therefore, hold the Chief Executive position.

The IBSL was successful in concluding its collaborative activities with the industry in areas, such as, the development of an Enforcement Strategy for RBC, issuing Guidelines on Complaints Handling by Insurers and Brokers with regard to customer complaints, issuing Guidelines on Conducting Investigations on

Insurance Claims, issuing Good Practices in conducting inquiries on alleged wrongful acts of insurance agents, and issuing the Code of Conduct for Insurance Agents.

### Future Initiatives

It is noteworthy to mention that the IBSL is a key recipient of technical assistance on major financial sector development projects initiated by the Government. This demonstrates the Government's direct involvement to develop the insurance sector in Sri Lanka, with the objective of advancing the entire financial system to international standards. One of them is the Financial Sector Modernization Project, assisted by the World Bank. Under this project, the IBSL envisages to revamp the insurance laws to be in line with internationally accepted industry standards and principles. It will also assist the IBSL to achieve full implementation of Risk Based Supervision (RBS) with a sophisticated IT platform. Introduction of a regulatory and supervisory framework for Microinsurance is another major activity identified under the project.

On the development of a regulatory framework on microinsurance, a market survey was conducted with the assistance of the World Bank to understand the ground realities of demand and supply for microinsurance products during the year under review. This study will set the platform to initiate regulatory reforms in this area.

The other major financial sector development project is the Capital Market Development

Project undertaken by the Asian Development Bank. In same, the IBSL will get technical assistance to streamline the policyholder grievance redress system, which is currently carried out by many authorities, including the IBSL, the Consumer Affairs Authority and the Insurance Ombudsman. Upon completion of this project, we expect Sri Lanka to have a centralized process to entertain policyholder grievances. The IBSL will also be receiving technical assistance to carry out a gap analysis on insurance awareness and thereby to develop a robust strategy for greater public awareness on insurance.

### Performance of the insurance sector

Year 2016 saw a growth in both lines of insurance businesses recording a total growth of 16.27% compared to the growth of 16.22% recorded in 2015. However, growth in long term insurance business had declined from 20.40% to 18.26% in 2016. In contrast growth in general insurance business had increased from 13.18% to 14.73% in 2016 recording the highest growth rate from year 2012 onwards.

The reinsurance premium income generated by NITF during the year had a drastic increase of 35.62%. This is mainly due to acceptance of wider range of different sub classes of general reinsurance business and the significant growth depicted in the general insurance sector.

Despite the positive growth rates seen in the industry, penetration levels remained low at 1.21%, 0.54% for long term and 0.67% for general insurance business.

However, it should be noted that the insurance premium generated by the Agriculture and Agrarian Insurance Board and the Sri Lanka Export Credit Insurance Corporation are not considered for the computation of the penetration rate as these two institutions do not come within the supervisory and regulatory purview of the IBSL. Similarly, insurance premium generated by Micro Insurance Institutions and premium charged on loan protection covers given by Micro Finance Institutions are also not considered for the computation of the penetration rate. Insurance density which is represented by the GWP per person has increased to Rs 6,743 from Rs 5,865, recording an increase of 15% in year 2016.

Value of assets of the insurance industry has grown steadily during the years recording a growth rate of 12.97% with a value of Rs 527,228 million as at 31st December 2016 compared to Rs 466,707 million recorded in 2015. Out of this amount, the majority value was held by the Long Term insurers amounting to Rs 345,675 million. However, the growth rate in the Long Term insurance asset value has considerably decreased from 26.6% recorded in 2015 to 10.5% recorded in 2016. In contrast for General Insurance the asset value has increased from a negative 13% in 2015 to a positive 16% in 2016.

The long term insurance business has performed satisfactorily during the year generating a GWP of Rs 63,495 million. The claims paid by Long Term insurers amounted to Rs 22,622 million in 2016 up by 8% compared to Rs 20,934 million in 2015. Out

of the total long term insurance claim payments, maturity benefits amounted the highest being Rs 12,712 million. It is significant to note that disability benefits paid during the year has grown by 37% compared to year 2015 with a total value of Rs 591 million.

Year 2016 also witnessed a high rate in policy lapses. New long term insurance policy lapses amounted to 96,502, increasing by 3.76% compared to 93,008 recorded in 2015. Further, there was an increase in total policy lapses as well depicting a negative sentiment for the long term insurance business.

In the General Insurance Sector, we witnessed a very positive outlook, growing by 14.73% compared to year 2015. We also saw acquisitions and mergers occurring during the year thus consolidating for greater performance.

As usual motor insurance business was dominant in the general insurance sector representing 62% of the total Gross written Premium of the general insurance business. However, we saw a decline in the growth rate from 19.10% to 15.64% for years 2015 and 2016 respectively. Out of the subclasses of the general insurance sector, fire, health, miscellaneous and SRCC&T insurance businesses have grown compared to year 2015.

Repeated natural disasters may have resulted in the growth in the fire insurance segment by 12.79% compared to the business generated in year 2015. Miscellaneous category saw a growth rate of 10.06% from a negative 3.37% recorded in year 2015.

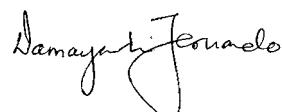
Year 2016 also saw a high rate of claims incurring, an increase in the net claims ratio by 3.83% over 2015 mainly due to floods occurring in many parts of the island.

## Performance of Brokering Business

The Brokering Company's total Gross Written Premium recorded a growth of 8.89% compared to 2015, declining by 2%. The Brokering companies contribution to the total Gross Written Premium too declined to 12.44% from 13.28 recorded in year 2015. This contribution consists of premium income generated through general insurance business and long term insurance business being 98.52% and 1.47% respectively.

## In Appreciation

In conclusion I thank the Chairperson and Members of the Board for guiding and supporting us, which we consider as a source of strength to successfully achieve the objectives of the IBSL. My appreciation is also extended to the Presidents and office bearers of IASL, SLIBA and SLII for the cooperation extended to the Board. Finally, my appreciation goes to my able team of Directors and the experienced staff for their commitment and hard work to achieve the goals identified for the year.



**Damayanthi Fernando**

Director General



# Board Members and Staff

## Members of the Board



- [1] Mrs. Indrani Sugathadasa - Chairperson
- [2] Mr. A. R. Desapriya
- [3] Mr. P. Samarasiri
- [4] Mr. D. N. R. Siriwardena
- [5] Deshabandhu Dr. Ali Asger Shabbir Gulamhusein
- [6] Mr. Jeromy Bolling

## 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). Her 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 as a member 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 Hubert H. Humphrey Fellowship (Fulbright).

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 "Inspirational Woman 2014/15" Award by Women in Management Organization.

### [2] Mr. A. R. Desapriya

Mr. A.R. Desapriya has 30 years of work experience in the public sector. He is now a special grade officer of Sri Lanka Administrative Service (SLAS).

During the period, he worked in different areas of the public sector activities and held various positions of the General Treasury in the capacity of Director and Additional Director General.

Before he assumed the duties of his current position as Deputy Secretary to the Treasury, he worked as Director General of National Budget Department. He is also serving as a Director to the Board of Regional Development Bank and a member of the Welfare Benefits Board.

Mr. A.R. Desapriya has a BSc Degree in Public Administration from the University of Sri Jayawardenapura, Sri Lanka and MBA Degree from University of Lubljana, Slovenia.

### [3] Mr. P. Samarasiri

Mr. P. Samarasiri is currently a Deputy Governor supervising the financial sector regulation and supervision 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 served as the Chairman of the Sri Lanka Accounting and Auditing Standards Monitoring Board (29.01.2009 to 20.01.2015) and Vice Chairman of the Institute of Bankers of Sri Lanka (27.09.2011 to 31.12.2015). At present, he also holds the posts of Chairman of the Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka, a member of the Securities and Exchange Commission of Sri Lanka and the Board of Management of "Api Wenuven Api Fund" operating under the Ministry of Defence.

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 35 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, financial reporting and regional development.

Mr. Samarasiri has authored four books – “මුදල් ගනුදෙනු, බංකු සහ ආර්ථිකය” (2010-Six reprints/One revised edition), “මුත්‍රික ආර්ථික විද්‍යා මුදල්ම විශ්වය” (2011-One reprint/One revised edition), “ආර්ථික විද්‍යා මුදල්ම සහ ප්‍රතිපත්ති” (2013-One reprint) and “A Survey of Financial System” (2017) published by the Central Bank. He has also published several articles on economic and financial topics in various publications and news papers.

#### [4] Mr. D. N. R. Siriwardena

Mr. D.N.R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (LL.B) from the Open University of Sri Lanka and holds a Masters (LL.M) Degree in International Business with Information Technology and Intellectual Property from the Cardiff Metropolitan University, United Kingdom. He is an Attorney-At-Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988. Currently, he holds the

post of the Registrar General of Companies. Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board and 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 M a n a w a h i t h a w a d h i , Lankaputhra” and also serves as a director of 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 Limited, Ceylon and Foreign Trades PLC, Adamexpo (Pvt) Ltd, Spice of Life (Pvt) Ltd, Network

Communications (Pvt) Ltd, Adam Metals (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. Jeromy Bolling

Mr. Jeromy Bolling is an Associate of The Chartered Insurance Institute London and holds a Masters Degree in Business Administration from the University of Sydney.

He counts for over 20 years of experience in the Insurance sector and includes working for both Insurance Companies and Insurance / Reinsurance Brokers spanning across Sri Lanka, Australia and Maldives.

Presently Mr. Bolling is a 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] Mrs. Chaya Vithanawasam ([Director Finance and Administration](#))
- [4] Mr. Ranil Angunawela ([Director Legal](#))
- [5] Mr. Sudheera Senaratne ([Director Investigation](#))
- [6] Mr. Rajan Nirubasingham ([Assistant Director Legal](#))
- [7] Mr. Bimsara Wijesinghe ([Assistant Director Market Development and External Relations](#))
- [8] Mrs. Sarika Wattuhewa ([Assistant Director Supervision](#))

## Staff Members



- [1] Mrs. D. W. S. S. Supulee
- [2] Mrs. Merina Dias
- [3] Mrs. Chandima Kamburugamuwa
- [4] Mrs. Sujeewa Ranasinghe
- [5] Mrs. Thushari Wijegunawardana
- [6] Mrs. Kaushali Dayaratne
- [7] Mr. Ethirraj Srikanthan
- [8] Mrs. Upendra Senevirathne

- [9] Mr. Luxman Wijesinghe
- [10] Mrs. Pavithra Punchihewa
- [11] Mr. Chaminda Lal Kumara
- [12] Ms. Upalakshi Ranasinghe
- [13] Mrs. Lakmali Algama
- [14] Mrs. Ruvini Liyanage
- [15] Mrs. Thanuja Antoney

## Staff Members



- |      |                             |      |                                 |
|------|-----------------------------|------|---------------------------------|
| [16] | Mrs. Lasanthi Thotahewa     | [25] | Mrs. Shanika Nanayakkara        |
| [17] | Mr. Saman Senadeera         | [26] | Mrs. Kokila Siriwardana         |
| [18] | Mrs. Veena Dineka           | [27] | Mr. Charitha Wickramasinghe     |
| [19] | Mr. Roshan De Costa         | [28] | Mrs. Chathuri Bandara           |
| [20] | Mrs. Thilini Wakista        | [29] | Mr. Sanath Udayanga             |
| [21] | Mrs. Vindyani Thulapitiya   | [30] | Mrs. Shashini Premalal          |
| [22] | Mrs. Priyangi De Silva      | [31] | Mr. Nalin Thalagala             |
| [23] | Mrs. Malhari Wickramasinghe | [32] | Mrs. Decika Rathnayaka (Absent) |
| [24] | Mrs. Shyamalie Attanayaka   | [33] | Mrs. Hasini Perera (Absent)     |





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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, No's. 27 of 2007 and 3 of 2011.

#### Subordinate Legislation

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

#### Regulatory Reforms

##### Rules

##### Minimum paid up share capital of an insurance broker

The Board issued minimum stated capital Rules 2016 by Gazette Extraordinary No. 1969/40 of 1st June 2016. This requires any person, who wishes to be

registered as a broker under the Act, to maintain a stated capital of the company of a sum not less than rupees two million five hundred thousand.

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

##### (i) Amendment to Direction No. 2 - acknowledgement of receipt of insurance policy

Having reviewed the industry views on practical difficulties in obtaining the acknowledgement in writing from the policyholder within 7 days from the date of issue of the policy, the Board amended the policy acknowledgement period from 7 days to 14 days, i.e. an insurer has to obtain an acknowledgement in writing from the policyholder within 14 days from the date of issue of the policy.

##### (ii) Direction No. 08 - Standard cooling-off period for long term insurance products

Having observed the non-existence of a standard cooling-off period for long term insurance products, the Board issued a Direction to all long term insurance companies, in terms of Section 96 A of the Act. As such, a long term policyholder shall have 21 days from the date of receipt of the policy document (known as the cooling-off period / free-look period) to examine its terms and conditions to terminate the policy and the insurer shall refund: -

- a) The unallocated premium ;
- b) Value of the units that have been allocated (if any) at unit price at the next valuation date ; and
- c) Any insurance charges and policy fee that have been deducted; medical expenses which may have been incurred.

The above Direction is applicable to all long term insurance products including unit-linked products.

##### (iii) Direction No. 9 - Role and responsibility, and qualifications, of a person to be appointed as the Principal Officer of an insurer and insurance broker

Having considered the industry views on the role and responsibilities of a Principal Officer of an insurer and an insurance broker, the Board issued a new Direction to all insurers and insurance brokering companies, in terms of Section 96 A of the Act, as follows:

*"The Principal Officer of an insurer or an insurance broker shall be the Chief Executive Officer and/or the Managing Director and/or the individual who is responsible for implementing the directions of the Board of Directors of the company."*

Though the above Direction comes into force with immediate effect, insurers and insurance brokers were

given a grace period, until 12th May 2017, to comply with the above.

### Determination # 1

Having reviewed the comments made by the Insurance Association of Sri Lanka (IASL) and an insurer, the Board revised Determination #1

The following important changes have been made to the Determination #1:

- The maximum corporate debt investment as a % of Technical Reserve and Long Term Insurance Fund have been increased from 5% to 10 % and in the case of asset backed securities it has been increased from 5% to 10% of Technical Reserve and Long Term Insurance or 15% of single issue, whichever is lower.

However, in the case of corporate debt, minimum 5% of the technical reserve and Long Term Insurance Fund should be invested in instruments which are rated "A" or above.

- The maximum Unit Trust/ Mutual Fund investment as a % of Technical Reserve and Long Term Insurance Fund have been increased from 5% to 10%. However, minimum 2.5%, should be in instruments which have investment grade rating.
- The maximum investments made in all related companies, as a % of Technical Reserve and Long Term Insurance Fund has been increased from 7.5% to 10 %.

- As a new investment item i.e. deposits with any licensed commercial bank or any licensed specialised bank which are guaranteed by the Government of Sri Lanka in terms of an Act of Parliament, is allowed up to 20% of the Technical Reserve and 20% of the Long Term Insurance Fund or 15% of the shareholders funds of the bank, whichever is lower.

- As a new investment item i.e. investments in one Entity / in or in a group of companies are allowed up to 20% of the Technical Reserve and 20% of the Long Term Insurance Fund, except deposits as stated above.

- (1) Keep the Board informed of the date of launch of a new insurance product;

After having reviewed the request of the IASL, the requirement for the period of submitting policy documents was reduced from 3 months to 45 days prior to launch of the product and was made applicable only to Long Term insurance products. General insurance products should be filed with the Board prior to the launch date of the products.

- (2) Submit documents in relation to the general insurance products (policy documents, proposal form, advertising material, etc.) the Board to the launch date of same; and

- (3) Submit certain documents in addition to items stated in (2) above, in relation to the long term insurance products at least 45 days prior to the launch date of products.

The Board has also specified certain specific documents to be submitted in relation to the long term insurance products at least two weeks prior to the launch date of products:

- a. Any other documents to be signed by policyholders at the point of sale in addition to the Proposal Form;
- b. Brochures and any other sales / marketing material (e.g. quotations, illustrations);
- c. An undertaking from the Principal Officer confirming that all relevant information has been made available to the Actuary providing the Actuarial Certification for the product and that details given

### Circular # 36 - Clarification on Overseas Health Insurance

Having considered the concerns raised by the Sri Lanka Insurance Brokers Association (SLIBA) in respect of the authorization fee provided for in the Circular # 36, and the subsequent information provided, the Board provided the following clarification in respect of Circular # 36:

- (a) That a renewal fee, referred to in Circular #36, will not be charged for the first 3 years after authorization; and
- (b) That the renewal fee thereafter, will be Rs. 25,000/- per annum.

### Circular # 38 and #39 - Submission of policy documents to the Insurance Board of Sri Lanka

These Circulars require all insurance companies to:

in all documents submitted to the Board are consistent with the information contained in the Actuarial Certificate; and

d. A written undertaking from the Principal Officer, confirming that no material change has been made to the documents submitted in respect to said product/s.

### **Revised Terms and Conditions pertaining to reinsurance placements**

The Board revised the Terms and Conditions pertaining to reinsurance placements, to ensure a more streamlined and inclusive approach to the regulatory framework in respect of reinsurance arrangements of insurance companies.

The following important changes have been made to the said Terms and Conditions:

#### **Reinsurance pools**

In order for the Board to consider such arrangement, the suggested reinsurance pool should be backed by reinsurers each carrying a minimum rating specified in the said Terms and Conditions and the said request should be submitted to the Board at least four weeks prior to placement with such reinsurance pool.

#### **Unlimited liability covers**

For all classes and sub-classes, other than third party bodily injury cover under motor policies and liability cover under WCI policies, direct insurers may provide unlimited cover only if they have unlimited reinsurance protection.

#### **Reinsurance / risk transfer programs**

Insures are required to report on their reinsurance/ risk transfer program outlining certain information to the Board on an annual basis.

#### **Threat to financial condition**

An insurer must immediately inform the Board when it becomes aware of its breach of these terms and conditions or of any reinsurance issue that does or could materially negatively affect its financial condition.

#### **Timely completion of contracts**

Insurers must promptly document the principal reinsurance terms agreed and finalise formal reinsurance contracts in a timely manner. Contracts that are not fully effective or not sufficiently legally certain must not be taken as a credit on the balance sheet.

#### **Amendment to Clause 14.4 of the Guidelines on Linked Long Term Business**

Clause 14.4 of the Guidelines on Linked Long Term Insurance Business prevents an insurer from providing surrender value to the policyholder unless the policy has been kept active for at least last 3 years.

However, in terms of Section 40 of the Act, an insurance company is not precluded from paying a surrender value to the policyholder on a discretionary basis, even if the policy has lapsed in the first 3 years.

In order to safeguard the interests of the policyholders and to make the provisions of Clause 14.4 of the Guidelines on Linked Long

Term Insurance Business in line with the provisions of Section 40 (1) of the Act, the Board amended Clause 14.4 of the Guidelines on Linked Long Term Insurance Business, by removing the last sentence of the said Clause "No surrender value is payable to any policyholder unless the policy has run consecutively for at least three years".

### **Market Structure**

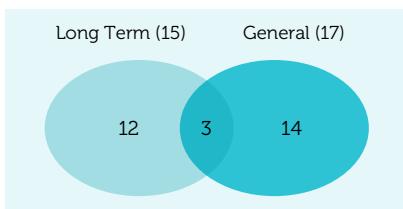
#### **Insurers**

Subject to the provisions of Section 12 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.

29 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 were engaged in. Out of the 29 companies in operation, 3 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 14 companies were carrying on general insurance business.

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



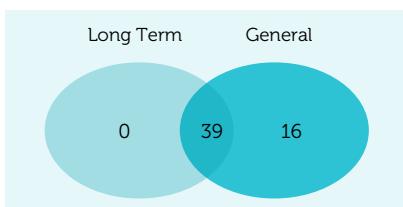
### Insurance Brokers

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

At the end of the year, there were 55 companies registered as insurance brokers. Out of the said companies, 39 companies were registered in both long term and general insurance brokering business while 16 companies were registered only in general insurance brokering business.

Chart 2 depicts the classes of insurance brokering business insurance brokers 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.

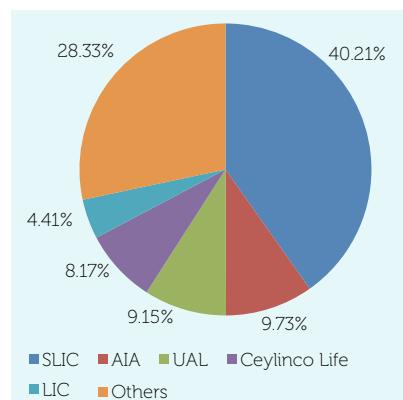
As per Section 34 of the Act, insurance agents are an important distribution channel through which insurers procure insurance business.

As per information given by insurers, the total number of individuals recruited as insurance agents during the year was approximately 13,390, a 20.67% decrease from the previous year (16,879).

The total number of individual insurance agents representing insurers as at the end of year was approximately 43,816, a 3.56 % decrease from the previous year (45,433).

Chart 3 depicts insurance agents (individual) registered with insurance companies.

### Chart 3 Total Agents as at 31.12.2016



There are approximately 386 individual insurance agents

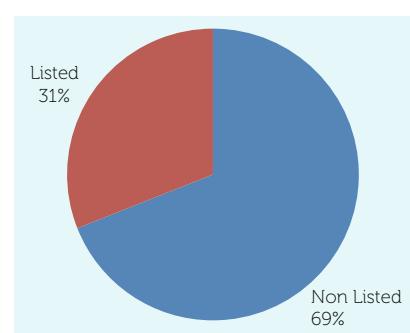
registered with insurance brokering companies during 2016.

### Company Status and Changes in Capital

Of the insurers registered with the Board, 9 companies were listed on the Colombo Stock Exchange, namely: AIA Insurance Lanka PLC, Union Assurance PLC, Softlogic Life Insurance PLC (previously known as Asian Alliance Insurance PLC), HNB Assurance PLC, Amana Takaful PLC, Amana Takaful Life PLC, Janashakthi Insurance PLC, Arpico Insurance PLC and People's Insurance PLC.

Chart 4 depicts the percentage of listed and non-listed insurers.

### 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 were 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 2016 was Rs. 408 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

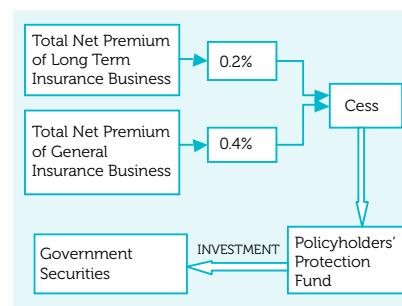
so far as it would be for the benefit of the policyholders and potential policyholders -

- 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 2016, is Rs. 3,292 million; a 24.56% increase from the previous year (Rs 2,643 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 1st 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 reinsurance 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. In terms of Gazette Notification No. 1791/4, every insurer is required, with effect from 1st January 2013, to reinsurance 30%, on the total liability arising

out of every general re-insurance policy, 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 accident.

#### **Financial Sector Oversight Council (FSOC)**

The Inter Regulatory Institutions Council established by the Central Bank of Sri Lanka (CBSL) has been renamed as the "Financial Sector Oversight Council". This high-level committee was 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 CEO's 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 Association of insurance brokers 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:**

1. To create Public awareness of the role of an insurance broker;
2. To enhance the technical knowledge of fellow members and build a high level of competency and professionalism;
3. To encourage and help members to follow insurance courses and obtain professional qualifications; and
4. To maintain goodwill and a 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:**

1. 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;
  2. To conduct courses leading to Diploma and Certificate qualifications in order to develop knowledge about insurance;
  3. To conduct examinations to encourage and assist the professional study of any subject bearing on any branch of insurance through recognized educational institutions;
  4. To hold conferences and meetings for the discussion of professional affairs, interests and duties, the reading of papers and delivery of lectures; to compile lists, registers and records of events and proceedings of interest to the members; and
  5. 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 members of 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.

## Statistical Review

### Abbreviations for Insurance Companies

	Insurance Company Full Name	Annual Report Purpose Company Labels
1	AIA Insurance Lanka PLC	AIA Life
2	AIG Insurance Ltd.	AIG
3	Allianz Insurance Lanka Ltd.	Allianz Gen.
4	Allianz Life Insurance Lanka Ltd.	Allianz Life
5	Amana Takaful PLC	Amana Gen.
6	Amana Takaful Life Ltd.	Amana Life
7	Arpico Insurance PLC	Arpico
8	Softlogic Life Insurance PLC	Softlogic Life
9	Fairfirst Insurance Ltd.	Fairfirst
10	Ceylinco General Insurance Ltd.	Ceylinco Gen.
11	Ceylinco Life Insurance Ltd.	Ceylinco Life
12	Continental Insurance Lanka Ltd.	Continental
13	Cooperative Insurance Company Ltd.	Cooperative Gen.
14	Cooplif Insurance Ltd.	Cooplif
15	HNB Assurance PLC	HNB Life
16	HNB General Insurance Ltd.	HNB Gen.
17	Janashakthi Insurance PLC	Janashakthi Life
18	Janashakthi General Insurance Ltd.	Janashakthi Gen.
19	Life Insurance Corporation (Lanka) Ltd.	LIC
20	LOLC General Insurance Ltd.	LOLC Gen.
21	LOLC Life Assurance Ltd.	LOLC Life
22	MBSL Insurance Company Ltd.	MBSL
23	National Insurance Trust Fund	NITF
24	Orient Insurance Ltd.	Orient
25	People's Insurance Ltd.	People's
26	Seemasahitha Sanasa Rakshana Samagama	Sanasa
27	Sri Lanka Insurance Corporation Ltd.	SLIC
28	Union Assurance General Limited	Union Gen.
29	Union Assurance PLC	Union Life

### Notes to be taken into consideration when interpreting the data of Tables and Charts of Statistical review.

1. (a) Reinstated Audited figures (up to year 2015)  
(b) Provisional figures
2. Reinsurance Premium Income represents the compulsory cession of reinsurance premium of general insurance business ceded to NITF .
3. Financial Statement of crop & loan protection scheme operated by NITF have been eliminated from computation of insurance industry's statistics since 2014.
4. AIA General Insurance Lanka Limited and Janashakthi General Insurance Limited have been amalgamated in 2016.
5. Softlogic Life Insurance PLC was formerly known as Asian Alliance Insurance PLC.
6. Asian Alliance General Insurance Limited was acquired by Fairfax Asia Limited in year 2015 and known as Fairfirst Insurance Limited.
7. Union General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017.
8. AIG Insurance Limited has not been required to submit RBC returns to IBSL.
9. NITF has not submitted RBC returns in year 2016.

## An Overview of the Sri Lankan Insurance Industry

Despite the challenging environment, year 2016 ended with a positive note for the Sri Lankan insurance industry where the total Gross Written Premium (GWP) generated from long term and general insurance sectors collectively recorded a growth of 16.27% (2015 : 16.22%) and generated premium income amounting to Rs. 142,969 million (2015: Rs. 122,962 million). Similar to the previous year, the growth in GWP recorded in 2016 resulted from the increase in premiums of both long term and general insurance sectors which posted growth rates of 18.26% (2015: 20.40%) and 14.73% (2015: 13.18%) respectively as depicted in Chart 1. In 2016, the global long term and general insurance premiums recorded a growth of 5.4% and 2.4% respectively and it is notable that emerging markets, in particular emerging Asia, was the main driver of global premium growth in both long term and general insurance sectors.

*Note :- Swiss Re Global Insurance Review 2016 and Outlook 2017.*

The long term insurance sector generated GWP amounting to Rs. 63,495 million in 2016, up by 18.26% against the GWP of Rs. 53,691 million generated in 2015. This significant growth was attributable to factors such as increased awareness on life insurance, introduction of new life insurance products to cater dynamic customer requirements such as retirement solutions and investment products, enhanced customer service, etc.

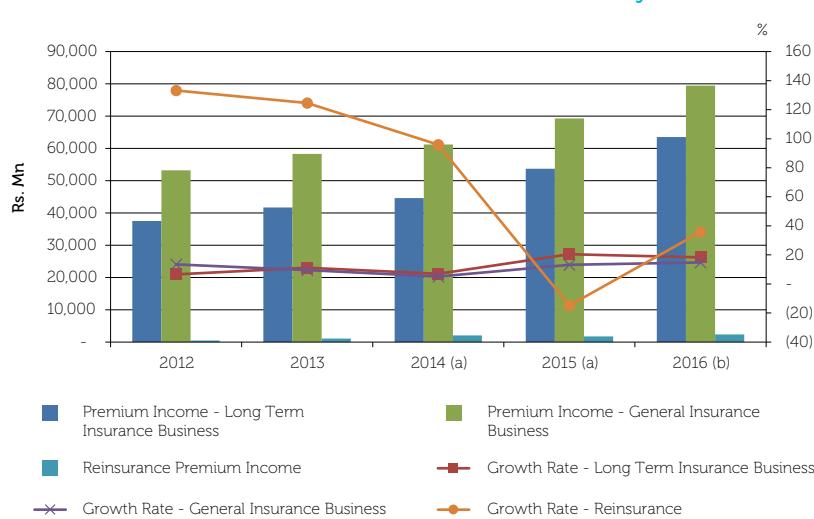
The general insurance sector recorded GWP amounting to Rs. 79,474 million in 2016, posting a growth of 14.73% compared to Rs. 69,271 million recorded in 2015. General insurers were able to increase their premiums steadily year on year amid strong competition prevailing in the general insurance market by means such as focus on niche markets, introduction of innovative general insurance products, implementing Enterprise Risk Management strategies, focusing on risk selection and pricing, etc.

The reinsurance premium income generated by the National Insurance Trust Fund (NITF) from the compulsory reinsurance cession of general insurance business amounted to Rs. 2,357 million during 2016, recording a significant increase of 35.62% against the reinsurance premium of Rs. 1,738 million generated in 2015. NITF's reinsurance premium has risen substantially in 2016 mainly due to acceptance of reinsurance business from a wider range of different classes of general insurance business.

Sri Lanka's Gross Domestic Product (GDP) grew by a moderate rate of 4.38% in 2016 though at a slightly lower rate compared to 4.84% recorded in 2015. The services sector made the highest contribution to GDP similar to previous years which accounted for 57% of the total GDP in 2016 followed by industries, taxes less subsidies and agriculture which accounted for 27.1%, 8.4% and 7.5% of GDP respectively. Agricultural activities had reported a negative growth of 4.2% in 2016 mainly due to the adverse weather conditions prevailed throughout the year.

Insurance penetration which reflects the insurance premium as a percentage of GDP amounted to 1.21% in 2016. Although insurance penetration had increased in 2016 compared to 2015 which was recorded as 1.12%, it is still low compared to most of the other countries in the Asian region. Penetration of the long term insurance business in 2016 stood at 0.54% (2015: 0.49%) and the penetration of

**Chart 1**  
**Premium Income & Growth Rate of the Insurance Industry**



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

	2012	2013	2014 (a)	2015 (a)	2016 (b)
Premium Income - Long Term Insurance Business (Rs. millions)	37,477	41,676	44,596	53,691	63,495
Premium Income - General Insurance Business (Rs. millions)	53,213	58,284	61,202	69,271	79,474
Total Premium Income - Insurance Business (Rs. millions)	90,690	99,960	105,798	122,962	142,969
Growth Rate in Total Premium Income - Insurance Business (%)	10.48	10.22	5.84	16.22	16.27
Reinsurance Premium Income (Rs. millions)	464	1,042	2,041	1,738	2,357
Gross Domestic Product at Current Market Price (Rs. billions)*	8,732	9,592	10,448	10,952	11,839
GDP Growth Rate % *	9.10	3.40	4.90	4.84	4.38
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.04	1.04	1.01	1.12	1.21
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.43	0.43	0.43	0.49	0.54
Penetration % (Premium of General Insurance Business as a % of GDP)	0.61	0.61	0.59	0.63	0.67
Insurance Density - (Total Premium Income - Insurance Business / Population) Rs.	4,440	4,857	5,094	5,865	6,743
Population '000 (Mid Year) *	20,424	20,579	20,771	20,966	21,203

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

the general insurance business was 0.67% (2015:0.63%), both classes recording slight increases compared to the penetration ratios recorded in 2015.

Insurance density reflects the insurance premium income per person of the population and has increased to Rs. 6,743 in 2016 compared to Rs. 5,865 recorded in 2015, growing by 14.97% mainly due to increased premium income against lower increase in population.

### Crop and Loan Protection Scheme of NITF

All Banks, Finance Companies and Insurance Companies registered in terms of the Banking Act, the Finance Companies Act and the Regulation of Insurance Industry Act are liable for the crop insurance levy. Accordingly, these institutions have to pay one percentum of their profit after tax for a year of assessment to the NITF as a crop insurance levy in

compliance with section 14 of the Finance Act No. 12 of 2013. This levy is used for the crop and loan protection scheme established by NITF.

In 2016, NITF has collected levies amounting to Rs. 1,511 million against Rs. 1,259 million collected in 2015. The levies collected are mainly invested in government securities and amounted to Rs. 1,541 million in 2016. Total assets of this segment have drastically improved compared to Rs. 212 million recorded in 2015.

Information pertaining to income, expense, assets and liabilities of crop & loan protection scheme submitted by NITF has been eliminated from Statistical Report analysis.

### Total Assets of Insurance Companies

Total assets of the insurance industry (after eliminating inter segment transactions) which comprise of the assets belonging

to long term and general insurers and the national reinsurer, NITF have amounted to Rs. 527,228 million as at 31st December 2016. This was an increase of 12.97% compared to the assets amounted to Rs. 466,707 million recorded as at 31st December 2015.

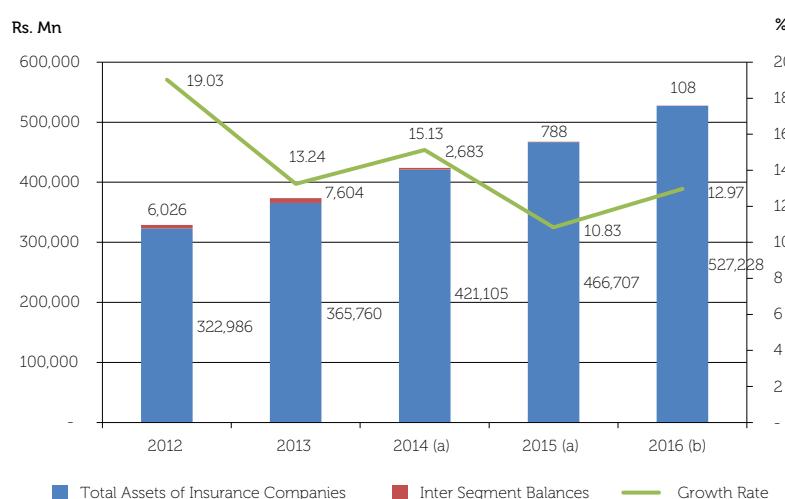
Long term insurers held the majority of total industry assets which amounted to Rs. 345,675 million as at 31st December 2016 (2015: Rs. 312,713 million). Assets of long term insurance business recorded a growth of 10.54% in 2016 compared to 2015. Assets of general insurance business amounted to Rs. 175,745 million as at 31st December 2016 (2015: Rs. 151,177 million) and recorded a growth of 16.25%. NITF held assets amounting to Rs. 5,915 million as at 31st December 2016, belonging to reinsurance business recording a significant growth of 64.12% compared to assets recorded as at 31st December 2015 which amounted to Rs. 3,604 million. The above mentioned increases

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

	2012	2013	2014 (a)	2015 (a)	2016 (b)
Long Term Insurance (Rs. millions)	190,642	216,275	247,061	312,713	345,675
General Insurance (Rs. millions)	137,730	155,636	174,588	151,177	175,745
Reinsurance (Rs. millions)	640	1,453	2,139	3,604	5,915
<b>Total (Rs. millions)</b>	<b>*322,986</b>	<b>*365,760</b>	<b>*421,105</b>	<b>*466,707</b>	<b>*527,228</b>

\* Inter segment transactions have been eliminated.

**Chart 2**  
**Total Assets and Assets Growth Rate of the Insurance Industry**



in assets were mainly attributable to the growth in the premium income of long term and general insurance and reinsurance businesses which have resulted in the expansion of the asset base of insurers and NITF.

### Distribution of Assets of Insurance Companies

The distribution of assets among the insurance companies under long term insurance, general insurance and the reinsurance segment of NITF as at 31st December 2015 and 31st December 2016 is depicted in Table 3. The total assets of insurers as at 31st December 2016 amounted to Rs. 527,228

million (2015: Rs. 466,707 million) excluding an inter-segment transaction balance of Rs. 108 million (2015: Rs. 788 million) of composite insurer, SLIC.

The largest portion of insurance industry's assets as at 31st December 2016, i.e. 33.56% (2015: 35.77%) was held by SLIC which amounted to Rs. 176,933 million (2015: Rs. 166,947 million). The assets of SLIC had grown by 5.98% in 2016 though their share of assets had reduced by 2.21% against the previous year. Assets held by SLIC as at 31st December 2016 under long term and general insurance businesses amounted to Rs. 109,732 million (2015: Rs. 103,093 million) and Rs. 67,308

million (2015: Rs. 64,642 million) respectively.

Ceylinco Life held 18.30% of total assets of the insurance industry as at 31st December 2016 which amounted to Rs. 96,458 million (2015: Rs. 80,235 million) recording a growth of 20.22%. AIA Life, Union Life and Ceylinco General held the third, fourth and fifth largest asset shares as at 31st December 2016 which accounted for 8.79%, 6.77% and 4.44% of total industry assets respectively. AIA Life held assets amounted to Rs. 46,321 million as at 31st December 2016 (2015: Rs. 45,957 million) while Union Life and Ceylinco General held assets amounted to Rs. 35,693 million and Rs. 23,406 million respectively (2015: Rs. 31,013 million and Rs. 19,634 million respectively). These five companies together held 71.86% of the entire insurance industry's assets and the remaining insurers and NITF held the balance 28.14% of the total assets.

### Shareholders' Funds of Insurance Companies

Table 4 depicts the total shareholders' funds of insurance companies which amounted to Rs. 137,406 million as at 31st December 2016 compared to

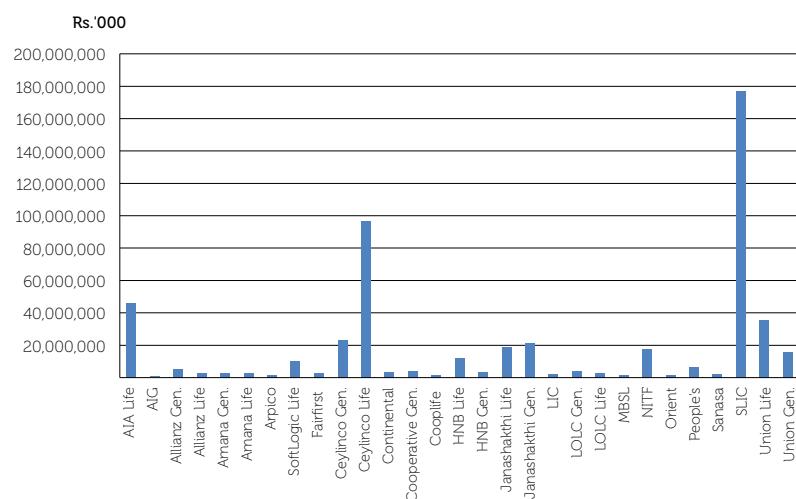
**Table 3**  
**Company wise Analysis of Total Assets**

Insurer	2015 (a)					2016 (b)				
	Long Term Insurance (Rs.'000)	General Insurance (Rs.'000)	Reinsurance (Rs.'000)	Total (Rs.'000)	%	Long Term Insurance (Rs.'000)	General Insurance / Shareholders (Rs.'000)	Reinsurance (Rs.'000)	Total (Rs.'000)	%
AIA Life	45,957,291			45,957,291	9.85	46,320,851			46,320,851	8.79
AIA Gen.		5,987,146		5,987,146	1.28					
AIG		205,104		205,104	0.04		124,979		124,979	0.02
Allianz Gen.		4,106,848		4,106,848	0.88		5,211,062		5,211,062	0.99
Allianz Life	1,947,125			1,947,125	0.42	2,571,072			2,571,072	0.49
Amana Gen.		2,603,687		2,603,687	0.56		2,869,633		2,869,633	0.54
Amana Life	2,405,537			2,405,537	0.52	2,726,295			2,726,295	0.52
Arpico	1,160,691			1,160,691	0.25	1,592,136			1,592,136	0.30
Softlogic Life	9,814,621			9,814,621	2.10	9,917,606			9,917,606	1.88
Fairfirst		2,489,014		2,489,014	0.53		2,945,827		2,945,827	0.56
Ceylinco Gen.		19,634,062		19,634,062	4.21		23,406,292		23,406,292	4.44
Ceylinco Life	80,235,165			80,235,165	17.19	96,458,087			96,458,087	18.30
Continental		2,636,838		2,636,838	0.56		3,584,797		3,584,797	0.68
Cooperative Gen.		3,049,379		3,049,379	0.65		3,761,264		3,761,264	0.71
Cooplife	1,714,017			1,714,017	0.37	1,799,701			1,799,701	0.34
HNB Life	10,022,562			10,022,562	2.15	12,199,440			12,199,440	2.31
HNB Gen.		2,777,034		2,777,034	0.60		3,492,537		3,492,537	0.66
Janashakthi Life	19,323,791			19,323,791	4.14	19,049,957			19,049,957	3.61
Janashakthi Gen.		12,331,132		12,331,132	2.64		21,322,088		21,322,088	4.04
LIC	2,050,066			2,050,066	0.44	2,270,553			2,270,553	0.43
LOLC Gen.		3,100,033		3,100,033	0.66		4,068,265		4,068,265	0.77
LOLC Life	1,943,775			1,943,775	0.42	2,806,697			2,806,697	0.53
MBSL	539,232	1,386,401		1,925,633	0.41	604,563	1,086,971		1,691,534	0.32
NITF		8,417,578	3,604,151	12,021,729	2.58		11,903,131	5,915,066	17,818,197	3.38
Orient		1,108,327		1,108,327	0.24		1,713,218		1,713,218	0.32
People's		6,642,095		6,642,095	1.42		6,718,278		6,718,278	1.27
Sanasa	1,492,252	644,100		2,136,352	0.46	1,932,832	521,765		2,454,597	0.47
SLIC	103,093,318	64,641,960		166,947,465	35.77	109,732,183	67,308,495		176,933,175	33.56
Union Life	31,013,818			31,013,818	6.65	35,693,463			35,693,463	6.77
Union Gen.		9,416,163		9,416,163	2.02		15,706,231		15,706,231	2.98
<b>Total</b>	<b>312,713,263</b>	<b>151,176,901</b>	<b>3,604,151</b>	<b>466,706,502</b>	<b>100</b>	<b>345,675,436</b>	<b>175,744,833</b>	<b>5,915,066</b>	<b>527,227,831</b>	<b>100</b>

Notes:

Total Assets of SLIC has been computed after eliminating inter segment transactions balance of Rs. 108 million as at 31st December 2016 (2015 : Rs. 788 million)

**Chart 3**  
**Company-wise Analysis of Assets as at 31<sup>st</sup> December 2016**



Rs. 136,151 million recorded as at 31st December 2015. Total shareholders' funds recorded a marginal increase of 0.92% at the end of 2016 when compared to the end of 2015. Total shareholders' funds as at 31st December 2016 comprised of stated capital amounted to Rs. 40,911 million and reserves amounted to Rs. 96,495 million.

Similar to previous years, SLIC held the largest portion of total shareholders' funds which amounted to Rs. 58,636 million as at 31st December 2016 (2015:

Table 04

## Total Shareholders' Funds of Insurance Companies

Insurer	2015 (a)		2016 (b)			
	Total Shareholders' Funds (Rs.'000)	%	Stated Capital (Rs.'000)	Total Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA Life	6,362,871	4.67	511,922	4,849,062	5,360,984	3.90
AIA Gen.	1,930,279	1.42				
AIG	(168,098)	(0.12)	812,215	(751,090)	61,125	0.04
Allianz Gen.	986,717	0.72	500,000	473,471	973,471	0.71
Allianz Life	214,407	0.16	739,624	(586,985)	152,638	0.11
Amana Gen.	1,693,459	1.24	1,860,001	(82,163)	1,777,838	1.29
Amana Life	515,594	0.38	500,000	26,119	526,119	0.38
Arpico	647,253	0.48	675,565	18,245	693,810	0.50
SoftLogic Life	2,437,935	1.79	1,062,500	899,667	1,962,167	1.43
Fairfirst	585,389	0.43	1,400,000	(583,433)	816,567	0.59
Ceylinco Gen.	7,882,870	5.79	500,200	8,290,869	8,791,069	6.40
Ceylinco Life	9,446,370	6.94	500,001	11,411,827	11,911,828	8.67
Continental	1,032,611	0.76	750,000	444,534	1,194,534	0.87
Cooperative Gen.	1,515,717	1.11	1,115,368	549,990	1,665,358	1.21
Cooplifelife	537,746	0.39	500,000	(43,798)	456,202	0.33
HNB Life	2,511,343	1.84	1,171,875	1,703,455	2,875,330	2.09
HNB Gen.	922,601	0.68	1,150,000	(178,272)	971,728	0.71
Janashakthi Life	7,756,986	5.70	4,853,752	3,213,237	8,066,989	5.87
Janashakthi Gen.	4,485,180	3.29	5,878,017	2,078,105	7,956,122	5.79
LIC	683,448	0.50	500,000	154,645	654,645	0.48
LOLC Gen.	811,870	0.60	700,000	311,703	1,011,703	0.74
LOLC Life	262,770	0.19	800,000	(216,730)	583,270	0.42
MBSL	333,209	0.24	1,080,022	(988,123)	91,899	0.07
NITF	8,654,939	6.36		7,887,578	7,887,578	5.74
Orient	517,290	0.38	825,000	(207,455)	617,545	0.45
People's	2,250,995	1.65	1,350,000	1,278,367	2,628,367	1.91
Sanasa	850,573	0.62	1,042,846	324,771	1,367,617	1.00
SLIC	63,677,120	46.77	6,000,000	52,635,550	58,635,550	42.67
Union Life	3,464,928	2.54	1,000,000	2,866,192	3,866,192	2.81
Union Gen.	3,346,435	2.46	3,131,949	715,354	3,847,303	2.80
<b>Total</b>	<b>136,150,806</b>	<b>100</b>	<b>40,910,856</b>	<b>96,494,691</b>	<b>137,405,547</b>	<b>100</b>

Rs. 63,677 million) and accounted for 42.67% of the total insurance industry's shareholders' funds (2015: 46.77%). However SLIC's shareholders' funds have decreased by 792% at the end of 2016 compared to end of 2015, mainly due to decrease in retained earnings. SLIC's stated capital amounted to Rs. 6,000 million and total reserves amounted

to Rs. 52,636 million as at 31st December 2016. Ceylinco Life and Ceylinco General accounted for 8.67% and 6.40% of the total shareholders' funds respectively which amounted to Rs. 11,912 million and Rs. 8,791 million as at 31st December 2016 (2015: Rs. 9,446 million and Rs. 7,883 million respectively) and claimed the second and the third position

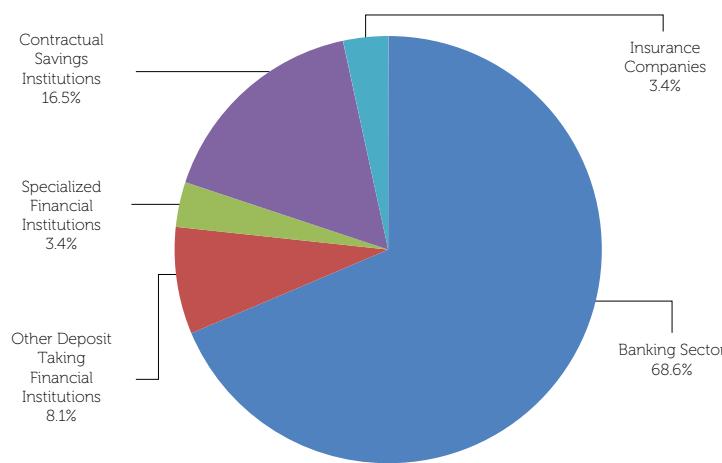
in the total shareholders' funds. Janashakthi Life and Janashakthi General held 5.87% and 5.79% of the total insurance industry's shareholders' funds respectively as at 31st December 2016 by holding shareholders' funds amounted to Rs. 8,067 million and Rs. 7,956 million respectively (2015: Rs. 7,757 million and Rs. 4,485 million respectively) and held the fourth

and the fifth positions in terms of shareholders' funds.

## Distribution of Total Assets among the main Financial Sectors

Total assets of the major financial sectors of the economy as at 31st December 2016 amounted to Rs. 15,411.4 billion and had increased by 11.43% over the assets recorded as at 31st December 2015 which amounted to Rs. 13,830.8 billion. Banking sector held the majority of assets belonging to the financial sector and represented 68.6% of the total assets. Contractual savings institutions held 16.5% of the total financial sector assets by holding assets amounted to Rs. 2,537.2 billion as at 31st December 2016 and recorded an increase of 12.39% compared to Rs. 2,257.5 billion recorded at the previous year end. Other deposit taking financial institutions represented 8.1% of the total assets of the financial sector while specialized financial institutions accounted for 3.4% of the total assets of the financial sector as at 31st December 2016. Insurance sector accounted for

**Chart 4**  
**Distribution of Total Assets of Major Financial Sectors**  
as at 31<sup>st</sup> December 2016



3.4% of the total assets of the main financial sectors (2015: 3.4%) by recording assets amounted to Rs. 527.2 billion as at 31st December 2016 (2015: Rs. 466.7 billion).

## Analysis of Branches, Employees and Agents of Insurers

Various distribution channels are used by insurers to reach customers scattered across the island, such as their branch network and agents. As depicted

in Table 06, insurance companies operated 1,971 branches island-wide as at 31st December 2016, growing up by 5.29% compared to 1,872 branches operated as at 31st December 2015. Highest number of branches were located in the Western province which amounted to 657 and represented 33.33% of the entire branch network. Southern and Central provinces had the second and the third largest branch network with 234 and 196 branches respectively while Uva

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

Financial Sectors	Distribution of Assets									
	2012		2013		2014		2015		2016	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	6,377.0	70.3	7,187.5	69.6	8,442.0	70.3	9,503.7	68.7	10,575.8	68.6
Other Deposit Taking Financial Institutions	621.2	6.9	756.4	7.3	857	7.1	1044.2	7.5	1246.7	8.1
Specialized Financial Institutions	310.4	3.4	378	3.7	441	3.7	557.8	4.0	522.8	3.4
Contractual Savings Institutions	1,429.6	15.8	1,632.5	15.8	1,853.6	15.4	2,257.5	16.3	2,537.2	16.5
Insurance Companies	323.0	3.6	365.8	3.6	421.1(a)	3.5	466.7 (a)	3.4	527.2 (b)	3.4
<b>Total</b>	<b>9,061.2</b>	<b>100</b>	<b>10,320.2</b>	<b>100</b>	<b>12,015.0</b>	<b>100.0</b>	<b>13,830.8</b>	<b>100.0</b>	<b>15,411.4</b>	<b>100.0</b>

Source: Central Bank of Sri Lanka

Note : Assets of insurance companies were reinstated based on data received from insurance companies

province had the least number of branches which amounted to 120. The branch network in the Northern and Eastern provinces had increased by 15.11% and 6.45% respectively in 2016 reflecting the post-war development taking place in the North and East of the country. Branches in all the provinces of the country has increased in 2016 except in the North Western province where the number of branches has decreased to 178 from 188 branches operated in 2015.

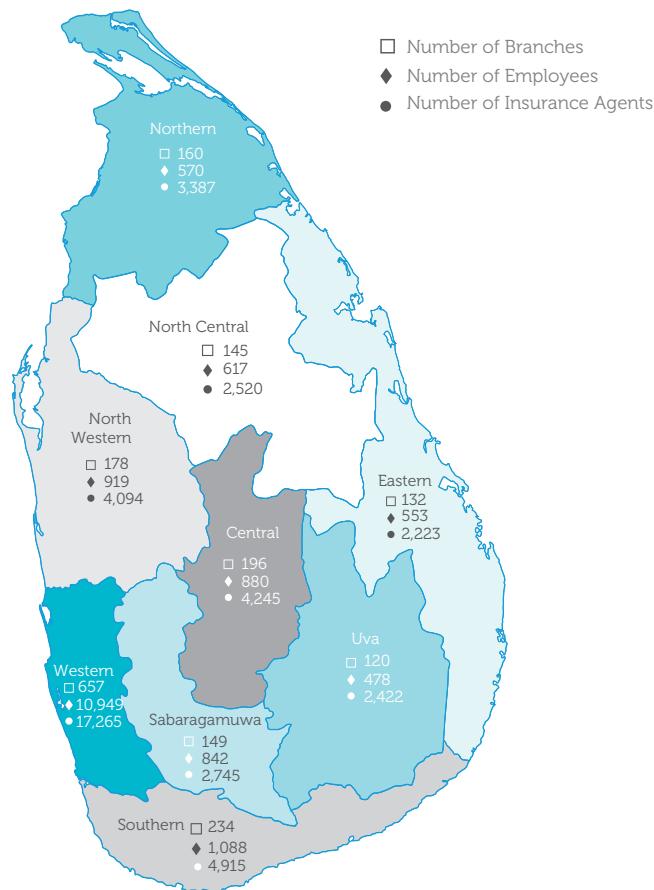
The total number of employees who worked for all insurance companies as at 31st December 2016 amounted to 16,896 (2015: 15,830) recording a growth of 6.73%. Out of the total employees of all insurance companies, 10,949 employees were located in the Western province as at 31st December 2016 (2015: 10,484) which accounted for 64.80% (2015: 66.23%). There were 1,088 and 880 employees working in the Southern and Central provinces respectively as at 31st December 2016 (2015: 986 and 841 employees respectively) recording an increase compared to 2015. Least number of employees were located in the Uva province amounted to 478, which represented only 2.83% of total employees of insurance companies. It is noteworthy that employees working in all the provinces of the country have increased in 2016 compared to 2015.

Total number of agents attached to insurance companies amounted to 43,816 as at 31st December 2016 recording a slight decrease of 0.75% compared to 44,149 agents operated as at 31st December

**Table 06**  
**Number of Branches, Employees and Agents as at 31<sup>st</sup> December 2015 and 2016**

Province	No. of Branches		No. of Employees		No. of Agents	
	2015	2016	2015	2016	2015	2016
Central Province	178	196	841	880	4,433	4,245
Eastern Province	124	132	480	553	2,201	2,223
North Central Province	132	145	579	617	2,642	2,520
North Western Province	188	178	883	919	4,326	4,094
Northern Province	139	160	430	570	3,335	3,387
Sabaragamuwa Province	140	149	687	842	2,845	2,745
Southern Province	232	234	986	1,088	4,827	4,915
Uva Province	108	120	460	478	2,207	2,422
Western Province	631	657	10,484	10,949	17,333	17,265
<b>Total</b>	<b>1,872</b>	<b>1,971</b>	<b>15,830</b>	<b>16,896</b>	<b>44,149</b>	<b>43,816</b>

**Chart 5**  
**Number of Branches, Employees and Agents as at 31st December 2016**



2015. Similar to previous years, highest number of agents were operating in the Western province which amounted to 17,265 as at 31st December 2016 (2015: 17,333) and represented 39.40% of the total agency force

of insurance companies. Least number of agents operated in the Eastern province which amounted to 2,223 agents as at 31st December 2016 (2015: 2,201). The notable fact illustrated in Table 6 is that the majority of

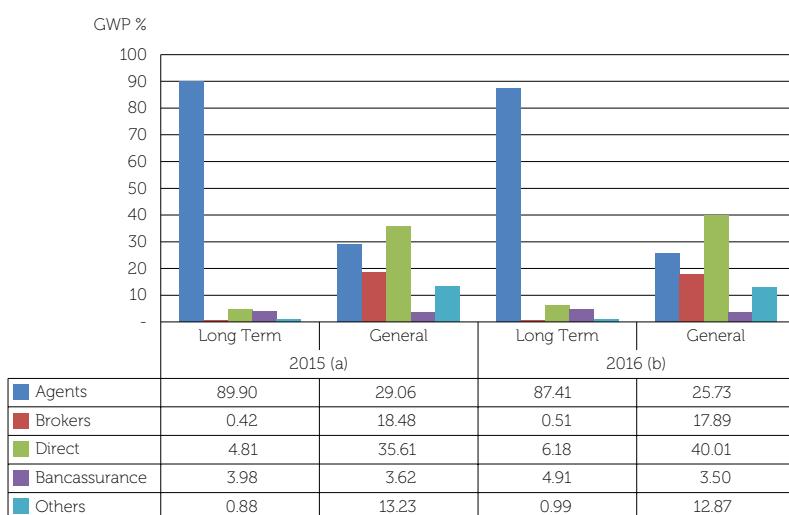
the branches, employees and agents of insurance companies are concentrated in the Western province when compared to other provinces of the island.

## Distribution Channels of Insurance Companies

As depicted in Chart 6, insurers use distribution channels such as agents, brokers, direct marketing, bancassurance and other distribution channels to reach their customers. Agents act as the dominant distribution channel in the long term insurance market. In 2016, agents had generated 87.41% of the GWP of long term insurance business (2015: 89.90%). Direct marketing and bancassurance had been the other important distribution channels of the long term insurance business and had generated 6.18% and 4.91% of GWP respectively in 2016 (2015: 4.81% and 3.98% respectively). Other distribution channels and brokers had generated only 0.99% and 0.51% of long term insurance business.

There are three key distribution channels in general insurance business namely, direct marketing, agents and brokering companies which generated 40.01%, 25.73% and 17.89% respectively in 2016 (2015: 35.61 %, 29.06% and 18.48% respectively). Other distribution channels had generated 12.87% of GWP of general insurance in 2016 slightly lower than the 13.23% recorded in 2015. Bancassurance had generated 3.5% of general insurance GWP, almost similar to 3.62% generated in 2015.

**Chart 6**  
**Distribution Channels of Insurance Companies**



## Long Term Insurance Business

### Gross Written Premium

Long term insurance business had performed well in 2016 by posting a commendable growth rate of 18.26% by generating GWP amounted to Rs. 63,495 million (2015: Rs. 53,691 million). However, this is a slight decline in growth compared to the 20.40% growth achieved in 2015.

Ceylinco Life has continued to be the market leader in the long term insurance market by generating GWP of Rs. 15,028 million in 2016 (2015: Rs. 13,457 million) and accounted for 23.67% of the total GWP (2015: 25.06%). However, Ceylinco Life's market share has gradually declined during the last three years. SLIC and AIA Life claimed the second and the third positions in the life insurance market in terms of GWP in 2016 by recording GWP amounted

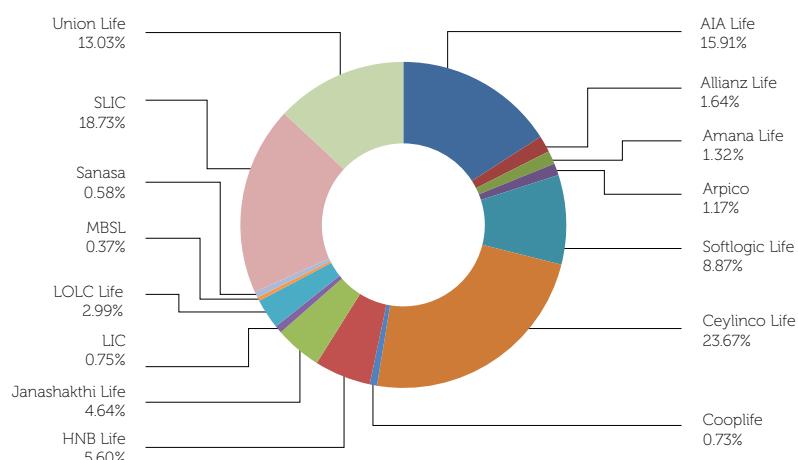
to Rs. 11,894 million (2015: Rs. 10,470 million) and Rs. 10,104 million (2015: Rs. 8,433 million) respectively with a market share of 18.73% and 15.91%. SLIC's market share has dropped by 0.77% in 2016 while AIA Life has been able to marginally gain its market share by 0.2%. Union Life and Softlogic Life had earned GWP worth of Rs. 8,271 million (2015: Rs. 6,964 million) and Rs. 5,636 million (2015: Rs. 4,091 million) respectively and achieved the fourth and the fifth largest market share in the long term insurance market similar to the previous year. The market share achieved by Union Life and Softlogic Life in 2016 was recorded as 13.03% and 8.87% respectively. It is noteworthy that the market share of Softlogic Life had gradually increased during the last five years mainly due to introduction of innovative life insurance products to cater different customer requirements.

Table 7

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

Insurer	2012		2013		2014		2015 (a)		2016 (b)	
	Premium (Rs.'000)	Market Share (%)								
AIA Life	6,495,863	17.33	6,863,047	16.47	7,266,574	16.29	8,433,333	15.71	10,103,915	15.91
Allianz Life	532,142	1.42	828,790	1.99	823,456	1.85	919,144	1.71	1,040,272	1.64
Amana Life	364,759	0.97	542,986	1.30	679,029	1.52	928,294	1.73	843,899	1.32
Arpico	101,900	0.27	206,494	0.50	297,439	0.67	482,447	0.90	745,386	1.17
Softlogic Life	2,034,084	5.43	2,520,283	6.05	3,048,148	6.84	4,091,042	7.62	5,635,701	8.87
Ceylinco Life	10,829,470	28.90	11,122,906	26.69	12,002,524	26.91	13,456,828	25.06	15,027,600	23.67
Cooplife	312,056	0.83	337,623	0.81	402,046	0.90	494,598	0.92	462,159	0.73
HNB Life	1,500,028	4.00	2,014,547	4.83	2,342,867	5.25	2,788,715	5.19	3,554,078	5.60
Janashakthi Life	2,025,075	5.40	2,193,662	5.26	2,170,419	4.87	2,550,782	4.75	2,943,963	4.64
LIC	303,344	0.81	322,268	0.77	348,767	0.78	386,885	0.72	474,312	0.75
LOLC Life	106,238	0.28	274,798	0.66	592,422	1.33	1,209,578	2.25	1,896,558	2.99
MBSL	192,780	0.51	251,720	0.60	294,299	0.66	203,235	0.38	235,533	0.37
Sanasa	203,616	0.54	283,975	0.68	260,867	0.58	311,434	0.58	367,649	0.58
SLIC	7,369,031	19.66	8,397,718	20.15	8,121,159	18.21	10,470,079	19.50	11,893,640	18.73
Union Life	5,106,323	13.63	5,515,063	13.23	5,945,499	13.33	6,964,390	12.97	8,270,751	13.03
Total	37,476,709	100	41,675,880	100	44,595,516	100	53,690,783	100	63,495,416	100
Growth Rate(%)	6.58		11.20		7.01		20.40		18.26	

Chart 7

Company-wise Market Share of Gross Written Premium - Long Term Insurance Business for the Year Ended 31<sup>st</sup> December 2016**Market share of Top five contributors to Gross Written Premium and other insurers – Long Term Insurance Business**

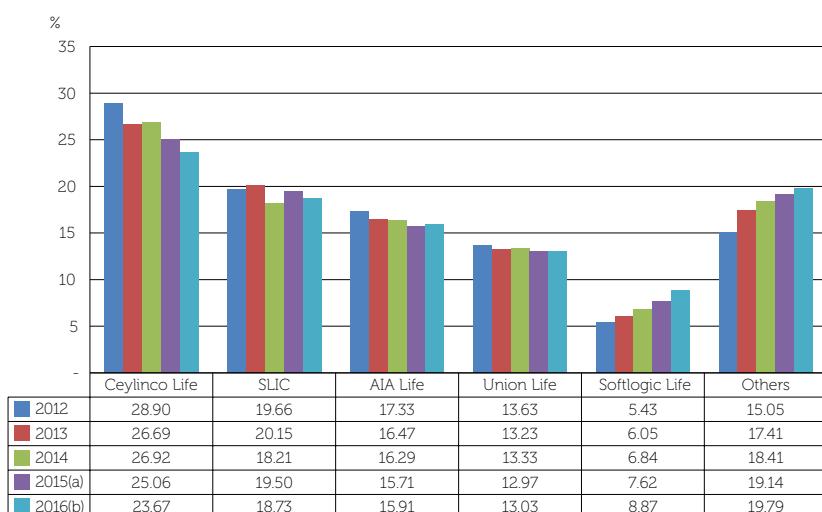
As illustrated in Chart 8, Ceylinco Life, SLIC, AIA Life, Union Life and

Softlogic Life achieved the top five market shares in the long term insurance market in 2016. The top five GWP generators have collectively accounted for 80.21% of the total long term insurance GWP in 2016 almost similar to the 80.86% recorded in 2015. The other ten

players in the long term insurance market had generated 19.79% of the long term insurance GWP in 2016 (2015: 19.14%). The total market share of the smaller players of the long term insurance market had gradually increased during the last five years as depicted in Chart 8.

**Chart 8**

**Market Share of Top Five contributors of GWP and other Insurers for the years 2012 to 2016 - Long Term Insurance Business**



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

Long term insurers incurred total claims amounting to Rs. 22,622 million in 2016, up by 8.06% compared to Rs. 20,934 million incurred in 2015. As depicted in Chart 9, total claims incurred

comprised of disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders. Out of the total claims incurred, maturity benefits represented 56.20% in 2016 recording an increase compared to 55.83% recorded in 2015. Surrender benefits incurred in 2016 amounted to Rs. 5,296 million and

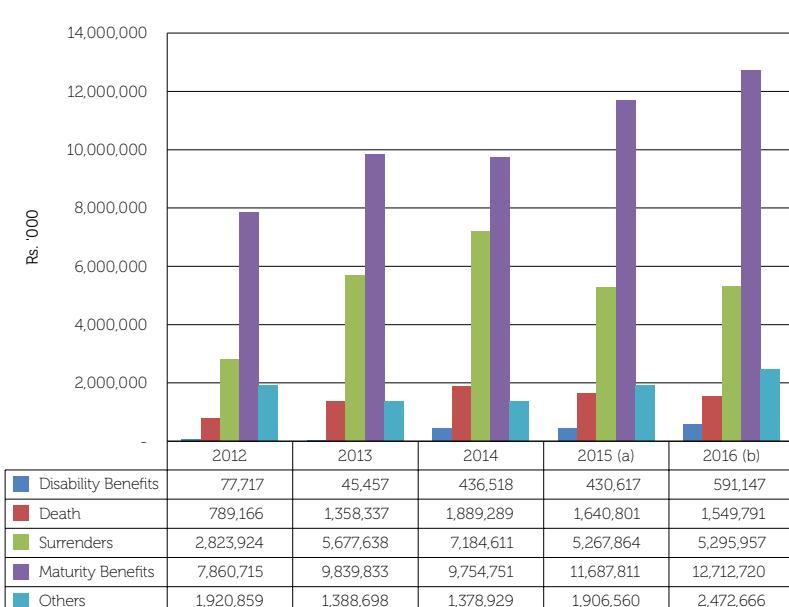
marginally increased compared to Rs. 5,268 million incurred in 2015. Other benefits, death benefits and disability benefits incurred amounted to Rs. 2,473 million, Rs. 1,550 million and Rs. 591 million respectively in 2016. Death benefits had declined in 2016 compared to 2015 while all other types of benefits had increased in 2016 compared to 2015.

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

Table 8 depicts the number of claims reported in long term insurance business which included 316,424 claims in 2016 (2015: 296,640). Out of these total claims, there were 129,241 other benefit claims, 122,788 maturity benefit claims, 46,484 surrender benefit claims, 9,493 disability benefit claims and 8,418 death benefit claims in 2016. Other benefit claims such as funeral expenses, critical illness and survival benefits accounted for 40.84% of the total claims in 2016 (2015: 37.87%). Maturity benefits accounted for 38.80% of the total claims in 2016 (2015: 40.68%). Other benefit claims and maturity claims together accounted for 79.65% of the total claims. It is notable that all types of long term insurance claims have increased in 2016 except disability claims which had declined by 32.58% in 2016.

### Assets of Long Term Insurance Business

Total assets of the long term insurance business amounted to Rs. 345,675 million as at 31st December 2016 compared to Rs. 312,713 million recorded as at



**Table 8**  
**Number of Insurance Claims - Long Term Insurance Business**

	2012	2013	2014	2015	2016
Disability Benefits	578	6,980	8,120	14,081	9,493
Death	4,358	5,284	5,795	6,747	8,418
Surrenders	24,631	41,964	46,312	42,814	46,484
Maturity Benefits	102,465	102,050	107,353	120,661	122,788
Other Benefits	51,773	99,257	84,835	112,337	129,241
<b>Total</b>	<b>183,805</b>	<b>255,535</b>	<b>252,415</b>	<b>296,640</b>	<b>316,424</b>

31st December 2015 as depicted in Table 9. Assets of long term insurance business had grown by 10.54% in 2016 compared to 2015.

Out of the total assets held as at 31st December 2016, Rs. 162,232 million (2015: Rs. 137,144 million) was invested in government debt securities which accounted for 46.93% (2015: 43.86%) of the total asset portfolio of long term insurers and had increased by 18.29% at the end of 2016 against the end of 2015. The Board ensured that long term insurers comply with the requirement to invest a minimum of 30% of the investments of the Long Term Insurance Fund in government securities as required under the Act. Insurers are also required to invest the balance assets of the Long Term Insurance Fund in accordance with Determination No. 1 issued by the Board.

Investments in corporate debts, equities and deposits represented the other main asset categories of long term insurers and represented 20.65%, 12.45% and 8.17% of total assets respectively as at 31st December 2016. Corporate debts as at 31st December 2016 had amounted to Rs. 71,375 million and had recorded a growth of 36.51% over same which amounted

to Rs. 52,284 million as at 31st December 2015.

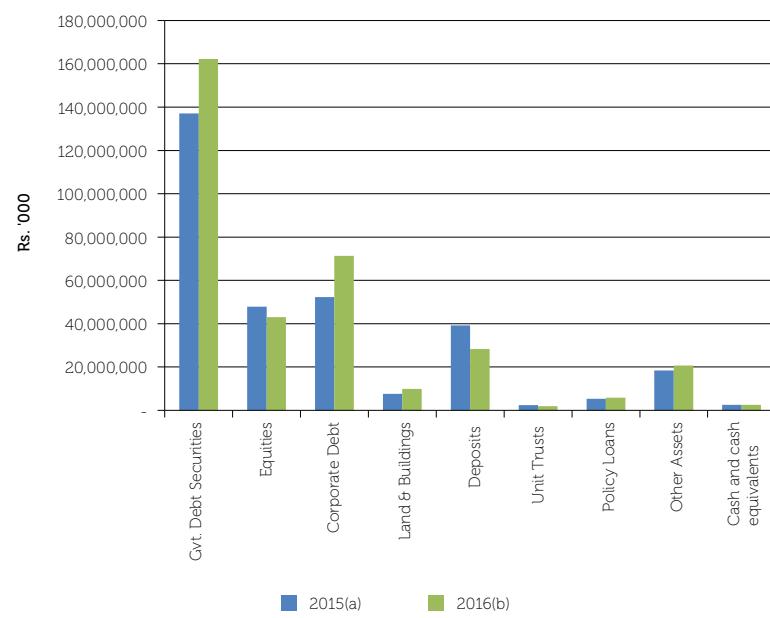
The investment in equities had amounted to Rs. 43,034 million as at 31st December 2016, recording a decrease of 9.96% over equities recoded as at 31st December 2015 which amounted to Rs. 47,794 million reflecting the

**Table 9**  
**Concentration of Assets as at 31<sup>st</sup> December 2015 & 2016 - Long Term Insurance Business**

Type of Asset	2015 (a)		2016 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	137,144,420	43.86	162,232,470	46.93
Equities	47,794,233	15.28	43,034,584	12.45
Corporate Debt	52,284,234	16.72	71,374,515	20.65
Land & Buildings	7,595,272	2.43	9,825,371	2.84
Deposits	39,231,457	12.55	28,243,650	8.17
Unit Trusts	2,393,458	0.77	1,939,392	0.56
Policy Loans	5,349,620	1.71	5,878,223	1.70
Other Assets	18,377,218	5.87	20,681,724	5.99
Cash and cash equivalents	2,543,353	0.81	2,465,505	0.71
<b>Total</b>	<b>312,713,263</b>	<b>100</b>	<b>345,675,434</b>	<b>100</b>

Investments made in Insurance subsidiaries amounted to Rs. 6.8 million also included in the equity investments.

**Chart 10**  
**Concentration of Assets as at 31<sup>st</sup> December 2015 and 2016 - Long Term Insurance Business**



relatively weak performance of the stock market. Deposits had reduced substantially as at 31st December 2016 which amounted to Rs. 28,244 million and recorded a significant decline of 28.01% compared to Rs. 39,231 million worth of deposits recorded as at 31st December 2015.

The main investments categories, namely, government securities, corporate debts, equities and deposits collectively accounted for 88.2% (2015: 88.41%) of the total assets of the long term insurance business and the balance 11.8% (2015: 11.59) was held in land and buildings, other assets, policy loans, etc.

### **Investment Income - Long Term Insurance Business**

As depicted in Table 10, total income generated from

investments of long term insurance business amounted to Rs. 27,652 million in 2016 (2015: Rs. 23,370 million) posting a growth of 18.32% over 2015. Average investments of long term insurance business in 2016 amounted to Rs. 287,291 million (2015: Rs. 243,507 million) recording an increase of 17.98%. The average investment yield of the long term insurers amounted to Rs. 9.63% in 2016, almost similar to 9.60% generated in 2015.

Investments in government debt securities, which represented the majority of investments generated an investment yield of 11.67% in 2016 (2015: 10.71%) and recorded an increase compared to 2015. Investment income generated from equities totaled up to Rs. 66 million in 2016 (2015: Rs. 1,126 million) recording a

drastic decline of 94.14% mainly due to capital losses incurred which amounted to Rs. 1,003 million in 2016 reflecting the weak performance of the stock exchange. Dividend income of long term insurers amounted to Rs. 1,070 million in 2016 and recorded a decline of 21.03% when compared to dividends amounted to Rs. 1,355 million recorded in 2015.

Corporate debts generated an investment income of Rs. 6,712 million in 2016 (2015: Rs. 4,983 million) for an average investment of Rs. 61,829 million (2015: Rs. 46,514 million) which generated an investment yield of 10.86% (2015: 10.71%).

Deposits generated an investment yield of 9.12% in 2016 compared to 9.63 % earned in 2015 which

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

Category	2015 (a)			2016 (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>	13,290,740	124,148,732	10.71	17,465,206	149,688,445	11.67
- Treasury Bonds	11,970,779			15,977,679		
- Treasury Bills	87,053			113,045		
- Others (REPO)	1,232,908			1,374,481		
<b>Equity</b>	1,126,509	19,404,953	5.81	66,180	25,397,883	0.26
- Capital Gain / Losses	(229,010)			(1,003,896)		
- Dividend	1,355,519			1,070,076		
<b>Corporate Debts</b>	4,983,436	46,513,842	10.71	6,712,215	61,829,374	10.86
- Debentures	4,981,814			6,663,836		
- Commercial Papers & others	1,622			48,379		
<b>Land and Buildings</b>	59,670	6,752,377	0.88	72,101	8,710,321	0.83
<b>Deposits</b>	3,692,445	38,352,681	9.63	3,076,907	33,737,553	9.12
- Bank	3,434,582			2,852,632		
- Finance Companies	257,863			224,276		
<b>Unit Trust</b>	115,364	2,307,124	5.00	88,530	2,166,425	4.09
<b>Policy Loans</b>	104,908	5,484,510	1.91	174,662	5,569,566	3.14
<b>Others</b>	(3,432)	542,365	(0.63)	(3,970)	191,702	(2.07)
<b>Total</b>	<b>23,369,639</b>	<b>243,506,586</b>	<b>9.60</b>	<b>27,651,831</b>	<b>287,291,269</b>	<b>9.63</b>

reflects a decrease in interest income from Rs. 3,692 million generated in 2015 to Rs. 3,077 million in 2016. Unit trusts and policy loans generated relatively low investment returns in 2016 with investment yield ratios of 4.09% (2015: 5.00%) and 3.14% (2015: 1.91%) respectively.

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

In 2016, long term insurers had issued 662,701 new life insurance policies decreasing by 10.51% compared to 740,511 new policies issued in 2015. Accordingly, the total life insurance policies in force reached 2,895,542 as at the end of 2016 (2015: 2,889,763). As depicted in Chart 11, the total life insurance policies in force has gradually increased over the last five years reflecting that long term insurance business is continuously expanding in the country. Number of life insurance policies as a percentage of the total population was 13.7% in 2016 though recording a slight decrease compared to 13.8% recorded in 2015. Further, number of life insurance policies as a percentage of the labour force has increased to 36.2% in 2016 from 33.6% recorded in 2015. These statistics reflect the low level of life insurance penetration in the country and the potential that life insurers have to further develop and expand life insurance business.

### Insurance Policy Lapses– Long Term Insurance Business

In 2016, 96,502 new life insurance policies lapsed recording an

**Chart 11**  
**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

increase of 3.76% compared to 93,008 new policy lapses recorded in 2015. Further, there were 403,423 total policy lapses during 2016 compared to 364,567 lapses recorded in 2015 increasing by 10.66%. As depicted in Chart 12, new insurance policy lapses as a percentage of new

insurance policies issued in 2016 was 14.56% recording an increase compared to 12.56% recorded in 2015. Total insurance policy lapses as a percentage of total policies in force was 13.93% in 2016, an increase compared to 12.62% recorded in 2015.

**Chart 12**  
**Number of Policies Lapsed and Lapse Ratio from 2012 to 2016 - Long Term Insurance Business**



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

Solvency Margin (Risk Based Capital) Rules, 2015 came into effect from 1st January 2016. Under RBC Rules 2015, insurers are required to maintain a minimum Total Available Capital (TAC) of Rs. 500 million and a Capital Adequacy Ratio (CAR) of 120% in order to comply capital adequacy requirements. Table 11 reflects the capital adequacy requirements of long term insurance companies as at 31st December 2016 and illustrates the TAC, Risk Capital Required (RCR), Surrender Value Capital Charge (SVCC) and the Capital Adequacy Ratio (CAR).

All long term insurers except MBSL had maintained a TAC more than the minimum requirement of Rs. 500 million as at 31st December 2016. Therefore, MBSL has not complied with the TAC requirement as at 31st December 2016 and necessary action has been taken as per the Enforcement Strategy issued by the Board. All insurance companies had satisfied the minimum CAR requirement of 120% as at 31st December 2016 and all companies except MBSL has recorded a CAR exceeding 160%. The average CAR of long term insurers had amounted to 307% as at 31st December 2016.

## Total Available Capital (TAC) Requirement of Insurance Companies – Long Term Insurance Business.

Table 12 depicts the composition of TAC pertaining to long term

Table 11

**Company - wise Analysis of Solvency Position - Long Term Insurance Business as at 31<sup>st</sup> December 2016**

Insurer	As at 31 <sup>st</sup> December 2016 (b)			
	TAC (Rs'000)	RCR (Rs'000)	SVCC (Rs'000)	CAR (%)
AIA Life	21,107,662	3,755,882	5,853,682	361
Allianz Life	904,050	299,909	110,061	301
Amana Life	558,175	295,943	-	189
Arpico	1,232,234	211,019	63,453	584
Softlogic Life	8,570,469	2,761,510	4,386,958	195
Ceylinco Life	43,094,498	12,847,731	-	335
Cooplifel	710,201	358,399	-	198
HNB Life	5,274,682	1,058,500	1,185,311	445
Janashakthi Life	4,128,936	1,540,195	-	268
LIC	664,289	201,984	44,722	329
LOLC Life	887,316	392,696	-	226
MBSL	105,905	73,229	-	145
Sanasa	962,477	175,114	481,480	200
SLIC	76,297,822	18,502,136	4,591,874	412
Union Life	14,346,884	3,492,978	-	411
<b>Total / Overall</b>	<b>178,845,599</b>	<b>45,967,226</b>	<b>16,717,540</b>	<b>307</b>

insurers as at 31st December 2016. Under RBC Rules 2015, TAC is computed by adding Tier 1 and Tier 2 capital and subtracting items specified as deductions. As per the rule Tier 2 capital cannot exceed 50% of Tier 1 capital. TAC of the long term insurance companies had aggregated to Rs. 178,846 million which comprised of Tier 1 capital amounted to Rs. 197,663 million, Tier 2 capital amounted to Rs. 2,129 million and deductions amounted to Rs. 20,946 million.

Tier 1 capital comprises of items such as issued and fully paid up ordinary shares and share premiums, capital reserves, paid up non-cumulative irredeemable preference shares etc., while Tier 2 capital comprises of cumulative irredeemable preference shares, redeemable preference shares, etc. Few examples for deductions

specified in the RBC Rules, 2015 include goodwill, inadmissible land and building, other immovable property, plant, and equipment, tax receivables, etc.

## Comparisons of Risk Based Capital Required (RCR) by Insurance Companies – Long Term Insurance Business.

Table 13 depicts the company-wise analysis of RCR as at 31st December 2016 which comprises of the main risk categories computed under the RBC framework. Market risk, liability risk and concentration risk had been the three main risk categories of long term insurers. Total market risk of long term insurers had amounted to Rs. 36,078 million while liability risk and concentration risk have amounted to Rs. 12,299 million and 4,388 million respectively.

Market risk accounted for 78.49% of the total risk capital charges after diversification, followed by liability risk capital charge and concentration risk capital charge which accounted for 26.76% and 9.55% respectively. Operational risk capital charge and credit risk capital charge represented 7.40% and 6.64% of the total risk charges. Reinsurance risk represented only 0.04% of the total risk charges.

## General Insurance Business

### Gross Written Premium

In 2016, there were seventeen active insurance companies competing robustly in the general insurance market. The year was filled with opportunities, trends and challenges for general insurers due to growth in the construction industry, higher duties on vehicles, demographic

Table 12

**Company - wise Analysis of Total Available Capital (TAC) as at 31<sup>st</sup> December 2016 - Long Term Insurance Business**

Insurer	As at 31 <sup>st</sup> December 2016 (b)			
	Tier 1 (Rs'000)	Tier II (Rs'000)	Deductions (Rs'000)	Total Available Capital (Rs'000)
AIA Life	22,311,313	706,096	1,909,747	21,107,662
Allianz Life	1,016,314	-	112,264	904,050
Amana Life	599,272	2,169	43,266	558,175
Arpico	1,315,661	-	83,426	1,232,234
Softlogic Life*	9,382,070	24,903	836,504	8,570,469
Ceylinco Life	49,142,742	164,078	6,212,323	43,094,498
Cooplifelife	819,473	28,298	137,570	710,201
HNB Life	7,182,455	-	1,907,773	5,274,682
Janashakthi Life	11,151,926	-	7,022,990	4,128,936
LIC	771,618	-	107,329	664,289
LOLC Life	1,038,669	-	151,353	887,316
MBSL	119,013	-	13,108	105,905
Sanasa	1,148,629	1,221	187,373	962,477
SLIC	76,829,505	47,562	579,245	76,297,822
Union Life	14,834,023	1,154,364	1,641,503	14,346,884
<b>Total</b>	<b>197,662,681</b>	<b>2,128,692</b>	<b>20,945,774</b>	<b>178,845,599</b>

shift, unfavourable weather conditions, and mobile delivered insurance etc. which also put their reinsurance programs in to test. The competition among general insurance market was further

Table 13

**Company - wise Analysis of Risk Capital Required (RCR) as at 31<sup>st</sup> December 2016 - Long Term Insurance Business**

Insurer	As at 31 <sup>st</sup> December 2016 (b) (Rs'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	Total Risk Capital Charge (RCR) before Diversification	Total Risk Capital Charge (RCR) after Diversification
AIA Life	522,912	767,887	2,030,977	-	1,690,531	463,209	5,475,515	3,755,882
Allianz Life	2,383	26,590	237,185	151	135,930	23,405	425,645	299,909
Amana Life	27,764	196,859	65,729	966	44,432	27,250	363,000	295,943
Arpico	18,054	122,189	69,027	108	21,027	15,737	246,142	211,019
Softlogic Life	65,587	298,230	1,846,349	-	1,652,722	98,046	3,960,933	2,761,510
Ceylinco Life	888,650	504,103	11,231,956	10,420	2,129,986	938,552	15,703,667	12,847,731
Cooplifelife	26,005	27,078	281,091	-	129,581	17,905	481,660	358,865
HNB Life	124,489	279,699	410,127	974	664,619	118,356	1,598,264	1,058,500
Janashakthi Life	252,149	391,641	807,429	332	480,274	185,849	2,117,673	1,540,195
LIC	17,884	31,769	143,027	86	56,344	21,541	270,651	201,984
LOLC Life	1,072	1,490	305,867	3,349	237,107	28,020	576,905	392,696
MBSL	4,306	16,065	13,324	-	64,742	5,966	104,403	73,229
Sanasa	33,918	6,138	132,674	931	12,410	18,792	204,862	175,114
SLIC	881,248	1,435,350	15,814,201	-	3,523,200	1,090,956	22,744,956	18,502,136
Union Life	184,021	282,811	2,688,718	357	1,456,248	347,117	4,959,272	3,492,978
<b>Total</b>	<b>3,050,441</b>	<b>4,387,899</b>	<b>36,077,682</b>	<b>17,673</b>	<b>12,299,153</b>	<b>3,400,699</b>	<b>59,233,546</b>	<b>45,967,692</b>

enhanced with the acquisitions and mergers take place between general insurance players. Fairfax Asia Limited entered the general insurance market by holding a majority stake of Union General and by acquiring 100 percent shares of Asian Alliance General in year 2015 and 2016 respectively.

General insurance business showed improved performance during the year 2016 by recording a growth rate of 14.73% (2015: 13.18%) year on year. Further, general insurance business has positively contributed to the industry income by recording GWP of Rs. 79,473 million compared to Rs. 69,271 million recorded in year 2015.

As depicted in Table 14 and Chart 13, Ceylinco General led the market by surpassing SLIC marginally and recorded a premium income of Rs. 15,277 million. Further, the company captured the market share of 19.22% (2015: 18.65%) which showed a growth of 18.22% in premium income compared to Rs. 12,922 million recorded in year 2015. SLIC achieved the second largest market share by recording GWP of Rs. 15,178 million (2015: Rs. 13,583 million) and market share of 19.10% in year 2016. Janashakthi General continued to expand their business further with the acquisition of AIA General and improved GWP by 36.88% to Rs. 10,138 million in 2016.

Union General remained as the fourth largest market player by achieving a market share of 8.26% (2015: 8.02%) in 2016 with premium income of Rs. 6,562 million (2015: Rs. 5,557 million).

NITF showed improved performance by generating premium income of Rs. 6,329 million (2015: Rs. 4,961 million) in 2016 to achieve the fifth largest market share of 7.96% (2015: 7.16%). Accordingly, their premium income has grown by 27.58% year on year.

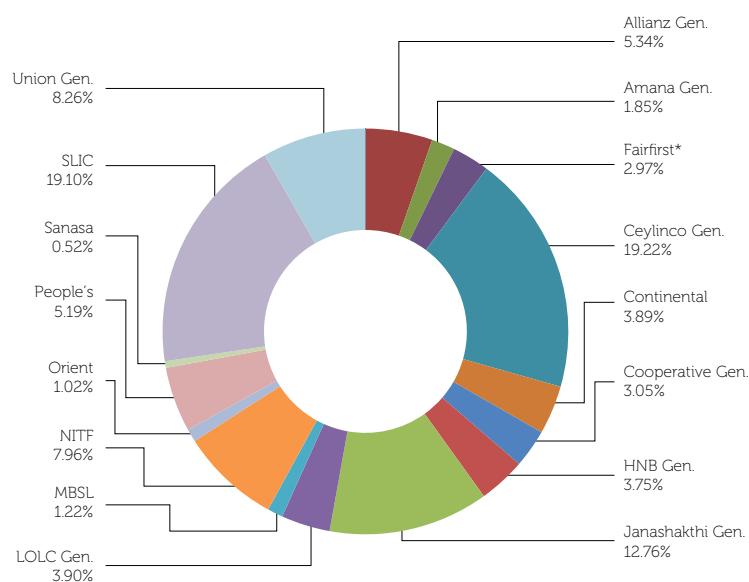
Allianz General and People's Insurance were able to achieve the market share of 5.34% (2015: 4.68%) and 5.19% (2015: 5.25%) respectively in year 2016.

Rapid growth can be seen in the GWP generated by Cooperative

**Table 14****Company - wise Gross Written Premium and Market Share - General Insurance Business**

Insurer	2012		2013		2014(a)		2015 (a)		2016 (b)	
	Premium (Rs.'000)	Market Share (%)								
AIA Gen.	2,143,252	4.03	2,428,675	4.17	2,655,577	4.34	3,297,840	4.76		
AIG	819,448	1.54	880,060	1.51	414,805	0.68	3,141	0.00	(279)	-0.00
Allianz Gen.	1,397,127	2.63	1,964,907	3.37	2,723,406	4.45	3,244,844	4.68	4,247,691	5.34
Amana Gen.	1,125,838	2.12	1,432,135	2.46	1,285,418	2.10	1,438,732	2.08	1,474,186	1.85
Fairfirst	1,133,240	2.13	1,556,386	2.67	1,638,126	2.68	1,908,901	2.76	2,361,614	2.97
Ceylinco Gen.	10,434,917	19.61	10,311,479	17.69	11,431,680	18.68	12,921,561	18.65	15,276,512	19.22
Continental	1,545,225	2.90	1,330,515	2.28	1,761,747	2.88	2,309,413	3.33	3,087,793	3.89
Cooperative Gen.	1,135,011	2.13	1,272,941	2.18	1,358,932	2.22	1,691,705	2.44	2,420,130	3.05
HNB Gen.	1,635,306	3.07	1,767,361	3.03	2,182,915	3.57	2,577,224	3.72	2,982,385	3.75
Janashakthi Gen.	5,773,429	10.85	6,318,626	10.84	6,491,556	10.61	7,406,160	10.69	10,137,864	12.76
LOLC Gen.	1,295,133	2.43	1,485,521	2.55	1,815,486	2.97	2,476,961	3.58	3,096,834	3.90
MBSL	1,049,147	1.97	1,132,789	1.94	961,225	1.57	1,159,208	1.67	972,976	1.22
NITF	3,518,528	6.61	4,973,357	8.53	5,295,759	8.65	4,961,413	7.16	6,329,318	7.96
Orient	308,547	0.58	355,001	0.61	491,127	0.80	746,935	1.08	810,728	1.02
People's	2,795,448	5.25	3,085,041	5.29	3,286,063	5.37	3,637,404	5.25	4,121,918	5.19
Sanasa	308,142	0.58	322,592	0.55	344,041	0.56	349,527	0.50	414,294	0.52
SLIC	12,359,188	23.23	12,549,763	21.53	12,113,994	19.79	13,583,222	19.61	15,177,984	19.10
Union Gen.	4,436,052	8.34	5,116,966	8.78	4,950,741	8.09	5,557,189	8.02	6,561,571	8.26
<b>Total</b>	<b>53,212,978</b>	<b>100</b>	<b>58,284,115</b>	<b>100</b>	<b>61,202,599</b>	<b>100</b>	<b>69,271,380</b>	<b>100</b>	<b>79,473,521</b>	<b>100</b>
Growth Rate (%)	13.39		9.53		5.01		13.18		14.73	

**Chart 13**  
**Company - wise Market Share of Gross Written Premium - General Insurance Business for the Year ended 31<sup>st</sup> December 2016**



General, Continental and Allianz General in 2016 compared to GWP recorded in 2015. These three companies have grown above 30% compared to their GWP recorded in year 2015.

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

Chart 14 illustrates the details of market share of five main contributors and other insurers during the last five years. Despite the severe competition among general insurance market players Ceylinco and SLIC lead the market with aggregate market share of 38.32% in 2016. Ceylinco continued to expand their market share further and was able to achieve the largest market share of 19.22% in 2016.

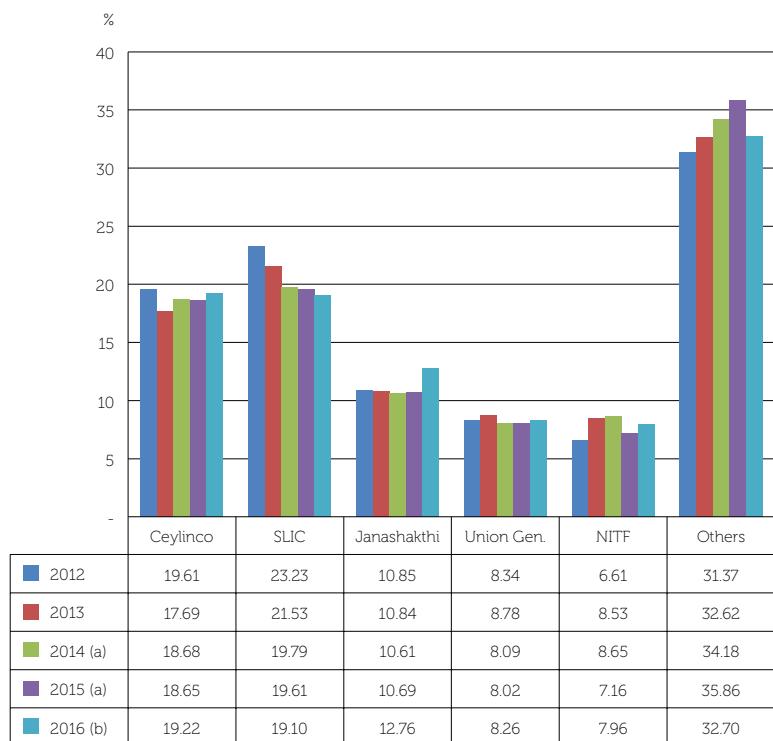
SLIC premium income has grown by 11.74% though there was a slight decline in market share of 19.10% in 2016 compared to 19.61% in 2015

Union General has grown positively with a market share of 8.26% (2015: 8.02%) and became the fourth largest player. NITF was able to secure the fifth position in the market with a share of 7.96% (2015: 7.16%). These five players together contributed 67.30% of the total GWP. The remaining companies aggregated market share has declined by 3.16% year on year to 32.70% mainly due to AIA General merging with Janashakthi General.

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

Class wise analysis of gross written premium during the period 2012 to 2016 is shown in Table 15 and Chart 15. Fire, marine motor, health, miscellaneous and SRCC & T were considered as subclasses for this purpose.

**Chart 14**  
**Market Share of Top Five Contributors to GWP and Other Insurers for the Years 2012 and 2016 - General Insurance Business**



Motor insurance business as the driving force of the general insurance business represented 62.02% of the total GWP. GWP of motor business has increased from Rs. 42,622 million in 2015 to Rs. 49,288 million in 2016. With the imposed tariffs on vehicles, rise in prices has mainly contributed to the growth in motor premium income of 15.64% in year 2016. However, there was a drop in growth rate of motor business compared to 19.10% growth

rate recorded in 2015 with tight conditions in obtaining finance facilities.

With the robust growth in the private sector contribution in health care sector and ageing population has created more opportunities for health insurance products in the recent past. Health & surgical is the second largest subclass of the general insurance market, contributed Rs. 9,972 million (2015: Rs. 8,534 million) to GWP and grew by 16.84% year

on year. The Agrahara medical insurance scheme of NITF which is introduced to public sector employees has contributed Rs. 1,954 million and Rs. 1,637 million in 2016 and 2015 respectively for the health subclass.

Fire insurance has positively contributed to the GWP by recording a growth rate of 12.79% compared to 3.95% in 2015. In 2016, fire insurance business has generated GWP of Rs. 7,449 million (2015: Rs. 6,604 million).

Table 15

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

Class	Gross Written Premium (Rs.'000)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	5,474,094	6,303,725	6,353,292	6,604,074	7,448,714
Marine	1,927,096	1,796,969	1,911,944	1,996,862	2,082,933
Motor	31,844,102	33,331,917	35,786,941	42,622,205	49,287,639
Health	5,948,640	7,292,091	7,593,386	8,534,364	9,971,746
Miscellaneous	5,737,870	7,015,630	6,721,836	6,495,454	7,149,163
<b>Sub Total without SRCC</b>	<b>50,931,801</b>	<b>55,740,332</b>	<b>58,367,399</b>	<b>66,252,959</b>	<b>75,940,195</b>
SRCC & T	2,281,177	2,543,783	2,835,200	3,018,421	3,533,326
<b>Total</b>	<b>53,212,978</b>	<b>58,284,115</b>	<b>61,202,599</b>	<b>69,271,380</b>	<b>79,473,521</b>

Class	Growth (%)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	1.75	15.16	0.79	3.95	12.79
Marine	14.72	(6.75)	6.40	4.44	4.31
Motor	16.40	4.67	7.37	19.10	15.64
Health	5.57	22.58	4.13	12.39	16.84
Miscellaneous	5.66	22.27	(4.19)	(3.37)	10.06
<b>Sub Total</b>	<b>13.38</b>	<b>9.44</b>	<b>4.71</b>	<b>13.51</b>	<b>14.62</b>
SRCC & T	13.69	11.51	11.46	6.46	17.06
<b>Total</b>	<b>13.39</b>	<b>9.53</b>	<b>5.01</b>	<b>13.18</b>	<b>14.73</b>

Class	Percentage Share (%)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	10.29	10.82	10.38	9.53	9.37
Marine	3.62	3.08	3.12	2.88	2.62
Motor	59.84	57.19	58.47	61.53	62.02
Health	11.18	12.51	12.41	12.32	12.55
Miscellaneous	10.78	12.04	10.98	9.38	9.00
<b>Sub Total</b>	<b>95.71</b>	<b>95.64</b>	<b>95.37</b>	<b>95.64</b>	<b>95.55</b>
SRCC & T	4.29	4.36	4.63	4.36	4.45
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

**Chart 15**  
**Class-wise Analysis of GWP from 2012 to 2016**  
**General Insurance Business**



The growth can be explained with the recently experienced natural disasters which created demand to insure risk on natural disasters. Miscellaneous class contribution to GWP amounted to Rs. 7,149 million and represented 9.00% of the total GWP in 2016. Marine insurance business GWP has slightly improved by 4.31% in year 2016 compared to year 2015.

Premiums collected to cover the risk from Strike, Riot, Civil Commotion and Terrorism (SRCC & T) of NITF amounted to Rs. 3,533 million in year 2016. SRCC & T premium represented 4.45% of the total GWP in year 2016 and has grown by 17.06% compared to year 2015.

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

Table 16 shows GWP generated from different insurance segments categorized under miscellaneous insurance business in 2016 and 2015.

reported in year 2015. Accordingly, total premium income from miscellaneous classes has improved by 10.06% year on year basis.

Personal accident, one of the significant business categories of miscellaneous insurance business recorded a slight growth of 5.70% year on year. Moderate growth was visible for few miscellaneous insurance business categories such as travel insurance, banker's indemnity and workmen compensation insurance year on year. There was a noticeable growth in product liability and public liability classes which amounted to Rs. 124 million (2015: Rs. 58 million) and Rs. 384 million (2015: Rs. 244 million) respectively. Air craft hull which represented considerable amount of total miscellaneous GWP has

As depicted in Table 16 total GWP generated from miscellaneous businesses after making relevant adjustments amounted Rs. 7,149 million as against Rs. 6,495 million

**Table 16**  
**Category - wise Analysis of GWP of Miscellaneous Insurance Premium for 2015 & 2016**

Category	GWP Rs.'000	
	2015 (a)	2016 (b)
Title	415,571	494,808
Personal Accident	1,430,133	1,511,589
Contractors' All Risk	221,761	31,073
Professional Indemnity	174,138	183,392
Travel Insurance	383,737	432,136
Fidelity Guarantee	160,492	115,482
Burglary	252,501	340,621
Cash in Transit including Cash in Safe	400,750	434,201
Goods in Transits	75,097	81,776
Products Liability	58,066	124,342
Public Liability	244,081	384,272
Bankers' Indemnity	343,449	396,791
Air Craft Hull	649,067	681,071
WCI	477,939	535,430
Others	1,535,640	1,767,912
<b>Subtotal</b>	<b>6,822,422</b>	<b>7,514,896</b>
Less: Total of SRCC & T due to NITF	(308,223)	(341,091)
Coinsurance Premium	(18,745)	(24,643)
<b>Total Miscellaneous Insurance GWP</b>	<b>6,495,454</b>	<b>7,149,162</b>

marginally grown by 4.93% year on year.

The businesses carried out in terms of other categories were grouped as other business which mainly represented hull all risk, personal insurance products and natural disaster insurance scheme of NITF etc. The National Natural Disaster Insurance Scheme of NITF amounted to Rs. 300 million under other insurance category.

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

Table 17 and Chart 16 illustrate details of reinsurance and level of retention of GWP by insurance companies for main subclasses of general insurance business from 2012 to 2016.

As indicated in table 17, the general insurance business overall retention level was 84.34% out of the GWP (excluding SRCC & T) of Rs. 75,940 million in year 2016. Broadly, the overall retention level has marginally improved during last five years. Total reinsurance placement including compulsory cessions to NITF amounted to Rs. 11,890 million (2015: Rs. 10,419 million) in 2016.

General insurance business which highly depends on motor insurance business, risk is generally retained by insurance companies. Accordingly, motor subclass retention was high as 97.49% and fairly stable during last five years.

Fire subclass recorded the highest cession rate of 80.25% of fire GWP. In 2016, one of the major events that impacted the general insurance business was the flooding and landslides that

caused major damage in several parts of the country. However, this natural disaster which is covered under fire insurance became a manageable challenge for general insurers since risk has been shared and borne mainly by reinsurers.

Marine insurance business also a high risk category is reinsured considerably. Marine insurance business cession rate was 57.99% out of the GWP of Rs. 2,083 million in 2016.

Similar to previous year, miscellaneous class including health business recorded a higher retention and in 2016 the rate was 79.75% of the GWP. Health insurance business which represented around 58.24% of the miscellaneous subclass, retention was above 94% in last few years.

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

As depicted in Table 18 and Chart 17, total net earned premium of general

insurance business including SRCC & T amounted to Rs. 62,729 million compared to Rs. 54,296 million recorded in 2015. The growth in GWP favourably influenced the growth rate of 15.53% recorded in net earned premium.

Net claim ratio which can be explained as net claims incurred as a percentage of net earned premium (excluding SRCC & T) was 68.99% in 2016. The increase in net claims ratio by 3.94% over 2015 can largely be explained with the flood claims incurred during 2016 which is categorized under fire insurance. Fire insurance business which recorded a claims ratio of 23.41% in 2015 has drastically increased to 94.76% in 2016 due to flood claims.

Similar to previous years, motor insurance as the driving force of the general insurance market recorded the highest claims amount of Rs. 29,249 million (2015: Rs. 24,274 million) in 2016. Motor claims including third party claims represented 71.31% of the total claims incurred excluding SRCC & T in 2016. On average

**Chart 16**  
Reinsurance Premium and Retention by Insurers  
General Insurance Business

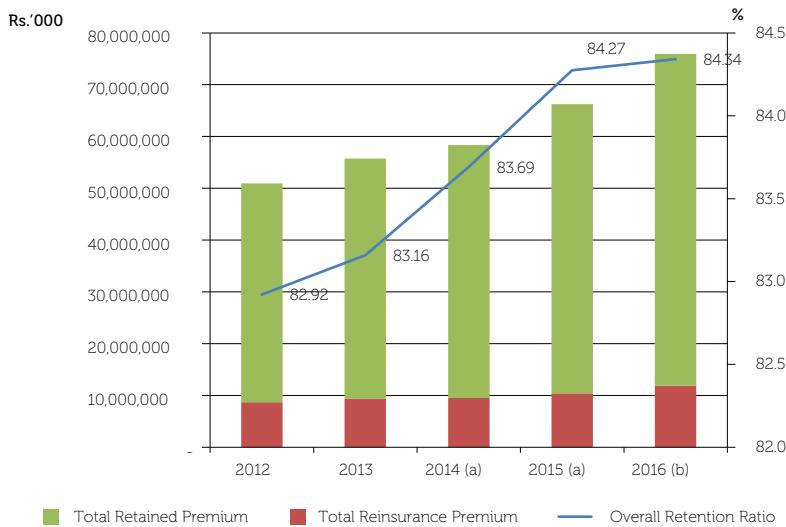


Table 17

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

Class	Gross Written Premium (Rs'000)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	5,474,094	6,303,725	6,353,292	6,604,074	7,448,714
Marine	1,927,096	1,796,969	1,911,944	1,996,862	2,082,933
Motor	31,844,102	33,331,917	35,786,941	42,622,205	49,287,639
Health	5,948,640	7,292,091	7,593,386	8,534,364	9,971,746
Miscellaneous	5,737,870	7,015,630	6,721,836	6,495,454	7,149,163
<b>Sub Total</b>	<b>50,931,801</b>	<b>55,740,332</b>	<b>58,367,399</b>	<b>66,252,959</b>	<b>75,940,195</b>
SRCC & T	2,281,177	2,543,783	2,835,200	3,018,421	3,533,326
<b>Total</b>	<b>53,212,978</b>	<b>58,284,115</b>	<b>61,202,599</b>	<b>69,271,380</b>	<b>79,473,521</b>

Class	Reinsurance Premium (Rs.'000)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	4,140,877	4,823,731	5,075,545	5,137,042	5,977,635
Marine	1,326,369	998,976	1,171,768	1,154,511	1,207,948
Motor	478,478	864,394	636,603	1,115,036	1,237,867
Health					
Miscellaneous	2,752,627	2,700,309	2,634,795	3,012,362	3,466,989
<b>Total Reinsurance Premium</b>	<b>8,698,351</b>	<b>9,387,410</b>	<b>9,518,711</b>	<b>10,418,951</b>	<b>11,890,438</b>

Class	Retention (Rs.'000)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	1,333,216	1,479,994	1,277,747	1,467,033	1,471,080
Marine	600,727	797,994	740,176	842,351	874,985
Motor	31,365,623	32,467,523	35,150,338	41,507,169	48,049,772
Health					
Miscellaneous	8,933,884	11,607,412	11,680,427	12,017,455	13,653,920
<b>Total Net Written Premium</b>	<b>42,233,450</b>	<b>46,352,923</b>	<b>48,848,688</b>	<b>55,834,008</b>	<b>64,049,757</b>

Class	Retention as a Percentage of Gross Written Premium (%)				
	2012	2013	2014 (a)	2015 (a)	2016 (b)
Fire	24.36	23.48	20.11	22.21	19.75
Marine	31.17	44.41	38.71	42.18	42.01
Motor	98.50	97.41	98.22	97.38	97.49
Health					
Miscellaneous	76.45	81.13	81.59	79.96	79.75
<b>Overall Retention Ratio</b>	<b>82.92</b>	<b>83.16</b>	<b>83.69</b>	<b>84.27</b>	<b>84.34</b>

Reinsurance premium details are not applicable for SRCC & T Premiums of NITF

motor claim ratio was 62.80% during last five years.

High cost of health business is also a challenge for all insurance companies where net claim ratio of health business was high as 88.05% in 2016. Net claims incurred for health subclass has doubled during last four years.

Similar to previous year, marine insurance recorded a low claims ratio of 29.38% (2015: 26.33%) compared with other subclasses. Miscellaneous claims also increased considerably and recorded 62.51% in 2016 against 51.30% recorded in 2015.

In 2016, general insurance

companies have recorded highest expense (including SRCC & T) value of Rs. 22,257 million in last five years in absolute terms. Net expenses have increased by 13.43% in 2016 compared to 2015. Net expenses which considered for SRCC & T by NITF have noticeably increased by 34.20% to Rs. 654 million in 2016.

Table 18

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

Class	Net Earned Premium (Rs.'000)				
	2012(a)	2013 (a)	2014 (a)	2015(a)	2016 (b)
Fire	1,452,556	1,405,887	1,241,985	1,283,463	1,163,958
Marine	546,598	806,277	753,643	797,026	866,027
Motor	29,499,705	31,346,284	33,826,829	37,958,834	44,563,153
Health	8,192,094	5,204,603	7,079,162	8,071,777	9,281,651
Miscellaneous		5,640,974	4,402,900	3,270,599	3,579,810
<b>Sub Total</b>	<b>39,690,954</b>	<b>44,404,025</b>	<b>47,304,518</b>	<b>51,381,699</b>	<b>59,454,599</b>
SRCC & T (c )	2,185,222	2,406,477	2,692,730	2,914,630	3,274,297
<b>Total</b>	<b>41,876,175</b>	<b>46,810,502</b>	<b>49,997,248</b>	<b>54,296,329</b>	<b>62,728,895</b>

Class	Net Claims Incurred (Rs.'000)				
	2012(a)	2013(a)	2014(a)	2015(a)	2016 (b)
Fire	506,092	810,281	717,626	300,439	1,102,964
Marine	321,562	432,748	266,560	209,845	254,417
Motor	18,351,251	19,514,319	20,281,109	24,274,415	29,248,879
Health	6,386,324	4,029,410	6,252,704	6,958,816	8,172,403
Miscellaneous		2,133,310	1,522,689	1,677,736	2,237,849
<b>Sub Total</b>	<b>25,565,230</b>	<b>26,920,068</b>	<b>29,040,687</b>	<b>33,421,251</b>	<b>41,016,513</b>
SRCC & T (c )	12,565	-	56,897	780	(1,286)
<b>Total</b>	<b>25,577,795</b>	<b>26,920,068</b>	<b>29,097,585</b>	<b>33,422,031</b>	<b>41,015,227</b>

Class	Net Claims Ratio (%)				
	2012(a)	2013(a)	2014(a)	2015(a)	2016 (b)
Fire	34.84	5763	5778	23.41	94.76
Marine	58.83	53.67	35.37	26.33	29.38
Motor	62.21	62.25	59.96	63.95	65.63
Health	77.96	7742	88.33	86.21	88.05
Miscellaneous		3782	34.58	51.30	62.51
<b>Sub Total</b>	<b>64.41</b>	<b>60.63</b>	<b>61.39</b>	<b>65.05</b>	<b>68.99</b>
SRCC & T(c )	0.57	-	2.11	0.03	(0.04)
<b>Total</b>	<b>61.08</b>	<b>57.51</b>	<b>58.20</b>	<b>61.55</b>	<b>65.38</b>

Description	Net Expenses (Rs.'000)				
	2012(a)	2013(a)	2014(a)	2015(a)	2016(b)
Net Expenses for all classes of General Insurance Business except SRCC & T	14,807,142	17,359,623	19,524,543	19,134,713	21,603,696
SRCC & T (c )	386,071	414,422	466,435	486,985	653,529
<b>Total</b>	<b>15,193,213</b>	<b>17,774,045</b>	<b>19,990,978</b>	<b>19,621,698</b>	<b>22,257,224</b>

Description	Net Expense Ratio (%)				
	2012(a)	2013(a)	2014(a)	2015(a)	2016(b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	37.31	39.09	41.27	37.24	36.34
Net Expense Ratio of General Insurance Business	36.28	37.97	39.98	36.14	35.48

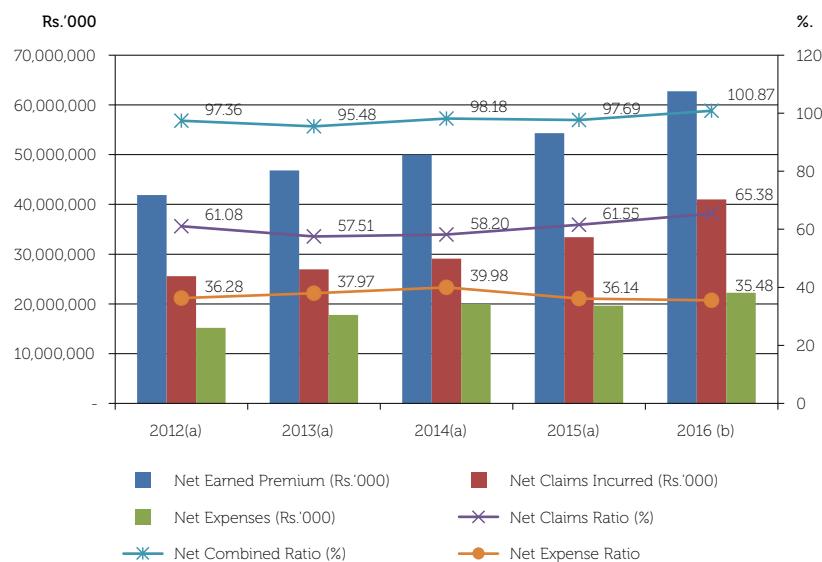
Description	Net Combined Ratio (%)				
	2012(a)	2013(a)	2014(a)	2015(a)	2016 (b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	101.72	99.72	102.67	102.29	105.32
Net Combined Ratio of General Insurance Business	97.36	95.48	98.18	97.69	100.87

The impact of high claim ratio has worsened the industry combined ratio to 100.87% in 2016 as against 97.69% in 2015.

The industry combined ratio of general insurance business has further worsened without SRCC &T and recorded as 105.32%.

Accordingly, higher combined ratio that has pressurized the financial performance of the general insurance companies was

**Chart 17**  
**Net Earned Premium, Net Claims Incurred, Net Expenses, Net Claims Ratio and Net Combined Ratio - General Insurance Business**



managed to some extent with the investment income generated in 2016.

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

As depicted in Table 19, total number of insurance policies which contributed to generate GWP from different sub-classes of general insurance business were 5,842,022 in 2016. The number of total policies have increased by 675,224 in 2016 compared to 2015.

The majority represented the motor subclass which comprised third party insurance policies of 2,619,902 and comprehensive policies of 2,517,583. From the significant number of third party policies it appears that insurance is obtained to fulfill the compulsory requirement rather than to cover own risk. Insurance policies for all subclasses had increased in 2016 compared to 2015.

### Assets of General Insurance Business

Table 20 and Chart 18 demonstrate the concentration of assets of

general insurance business as at 31st December 2015 & 2016. Total assets of general insurance business amounted to Rs. 175,745 million as at 31st December 2016 (2015: Rs. 151,177 million) and recorded an increase of 16.25 % compared to total assets as at 31st December 2015.

Reinsurance receivable has driven the growth in assets of general insurance business in 2016. With the claims incurred from natural disasters and few other large fire claims, receivables from reinsurers have increased more than 180% compared to 2015. Accordingly reinsurance receivable which represented only 4.63% of the total assets in 2015 has increased to 11.18% of the total assets in 2016.

Further, in 2016 NITF has recorded receivables from reinsurers amounting to Rs. 2,600 million on the National Natural Disaster Scheme.

Total value of main financial investments in government securities, listed equities (except subsidiaries and associates), corporate debts, deposits and unit trusts have marginally dropped to Rs. 81,333 million in 2016 against Rs. 81,896 million recorded in 2015.

Government securities have been the main investment category of the general insurance business amounting to Rs. 40,024 million as at 31st December 2016 (2015: Rs. 37,945 million) recording a slight improvement year on year. Throughout the year, the Board ensured that insurance companies invest at least 20% of the Technical Reserves in government securities as stipulated by the Act and the remaining assets in accordance with Determination 1.

**Table 19**  
**Number of Policies Representing Gross Written Premium General Insurance Business**

	2012	2013	2014	2015	2016
Fire	186,478	177,749	188,578	227,800	249,479
Marine	154,528	158,893	186,447	190,720	192,276
Motor	3,473,925	3,795,059	4,004,162	4,531,187	5,137,485
3rd Party Only	1,997,502	2,126,037	2,229,153	2,460,596	2,619,902
Comprehensive	1,476,423	1,669,022	1,775,009	2,070,591	2,517,583
Health	10,262	11,609	13,716	15,053	16,277
Miscellaneous	215,828	186,131	204,285	202,038	246,505
<b>Total</b>	<b>4,041,021</b>	<b>4,329,441</b>	<b>4,597,188</b>	<b>5,166,798</b>	<b>5,842,022</b>

Equity investments represented 22% in 2016 (2015:25.70%) and amounted to Rs. 38,671 million (2015: Rs. 38,857 million). Equity investments comprised of investments in subsidiaries and in associates which amounted to Rs. 21,012 million and Rs.138 million respectively. Investments in segregated companies amounted to Rs.850 million have been included in investment in subsidiaries as a result of segregation process.

Corporate debts continued to be one of the main investment categories which has grown by 31.31% year on year. Investments in deposits and unit trust have considerably dropped by 22.88% and 37.58% respectively year on year.

Premium receivables amounted to Rs. 17,623 million in 2016 represents 10.03% of total assets

of general insurance business and has increased by 16.96% compared to 2015.

Chart 18

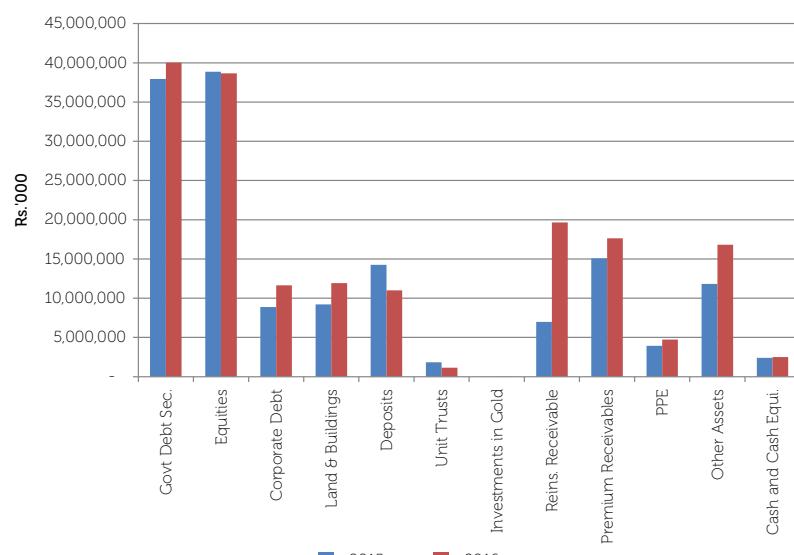
Concentration of Assets of General Insurance Business - 31<sup>st</sup> December 2015 & 2016

Table 20

Concentration of Assets of as at 31st December 2015 &amp; 2016 - General Insurance Business

Type of Asset	2015 (a)		2016 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	37,945,076	25.10%	40,023,689	22.77%
Equities	38,857,477	25.70%	38,671,251	22.00%
Corporate Debt	8,875,048	5.87%	11,653,728	6.63%
Land & Buildings	9,205,309	6.09%	11,929,216	6.79%
Deposits	14,252,282	9.43%	10,991,819	6.25%
Unit Trusts	1,830,044	1.21%	1,142,394	0.65%
Investments in Gold	2,491	0.00%	2,706	0.00%
Reinsurance Receivable	6,994,637	4.63%	19,656,806	11.18%
Premium Receivable from Policyholders and Intermediaries	15,067,357	9.97%	17,623,296	10.03%
Property Plant and Equipments	3,923,283	2.60%	4,725,025	2.69%
Other Assets	11,823,451	7.82%	16,819,619	9.57%
Cash and Cash Equivalents	2,400,448	1.59%	2,505,284	1.43%
<b>Total</b>	<b>151,176,903</b>	<b>100.00%</b>	<b>175,744,834</b>	<b>100.00%</b>

## Investment Income General Insurance Business

Table 21 demonstrates the breakup of investment income and average investment for the year 2016 and 2015. The average investment of general insurance business amounted to Rs. 115,644 million in 2016 which decreased by 3.37% compared to Rs. 120,121 million recorded in 2015. With the challenging economic conditions prevailing in 2016, the general insurance market recorded an investment income of Rs. 13,802 million (2015: Rs. 6,785 million) which resulted in an overall investment yield of 11.94% (2015: 5.65%).

The growth in investment income was mainly due to the dividend income of Rs. 8,315 million generated from equity investments in 2016. This

dividend income was reported by an insurer out of its unlisted subsidiary investment. Except to the aforesaid dividend income, the overall listed equity market showed a poor performance in 2016. Corporate debts continued to be attractive with an investment yield of 10.63%. The average investments in corporate debt had increased to Rs. 10,264 million in 2016 from Rs. 8,420 million reported in 2015.

The largest investment category of the general insurance business was in government securities by recording an amount of Rs. 41,373 million (2015: Rs. 37,141 million). Income generated from the said investment amounted to Rs. 3,607 million in 2016 (2015: Rs. 2,781 million) and resulted in an overall investment yield of 8.72%, slightly higher than the 7.49% recorded in 2015.

Average investments in deposits in banks and finance companies amounted to Rs. 12,622 million and noticeably reduced compared to Rs. 17,504 million recorded in 2015. Deposits generated an investment income of Rs. 1,056 million (2015: Rs. 1,042 million) and an investment yield of 8.36% in 2016 (2015: 5.96%) with the increase in interest rates.

## Solvency position of Insurance Companies- General Insurance Business

In 2016, the Risk Based Capital Framework was implemented by the Board for all insurance companies with the view to further strengthening the supervisory and regulatory governing framework.

Table 22 provides details of Total Available Capital (TAC), Risk

**Table 21**  
**Breakup of Investment Income and Average Investments - General Insurance Business**

Category	2015 (a)			2016 (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>	2,781,455	37,141,315	7.79	3,606,681	41,373,424	8.72
- Treasury Bonds	1,752,572			2,280,620		
- Treasury Bills	269,009			389,743		
- Others (REPO)	759,874			936,318		
<b>Equity</b>	1,193,471	43,368,459	2.75	7,592,784	38,764,364	19.59
- Capital Gain / Losses	95,623			(721,850)		
- Dividend	1,097,848			8,314,634		
<b>Corporate Debts</b>	973,871	8,420,483	11.57	1,091,382	10,264,388	10.63
- Debentures	952,410			1,069,242		
- Commercial Papers	21,129			22,140		
- Asset backed securities	-			-		
- Other similar financial instruments	331			-		
<b>Land and Buildings</b>	6,050	10,600,939	0.06	5,000	10,567,263	0.05
<b>Deposits</b>	1,042,428	17,504,150	5.96	1,055,745	12,622,051	8.36
- Bank	815,653			867,690		
- Finance Companies	226,775			188,055		
<b>Unit Trust</b>	142,907	2,096,078	6.82	93,396	1,486,219	6.28
<b>Gold</b>	-	56,491	-	-	2,599	
<b>Others</b>	644,947	933,475	69.09	357,120	563,319	63.40
<b>Total</b>	<b>6,785,129</b>	<b>120,121,390</b>	<b>5.65</b>	<b>13,802,108</b>	<b>115,643,627</b>	<b>11.94</b>

**Table 22****Company - wise Analysis of Solvency Position as at 31<sup>st</sup> December 2016 - General Insurance Business**

Insurer	As at 31 <sup>st</sup> December 2016 (b)		
	TAC (Rs'000)	RCR (Rs'000)	CAR (%)
Allianz Gen.	716,952	561,811	128%
Amana Gen.	642,596	230,434	279%
Fairfirst	693,250	500,678	138%
Ceylinco Gen.	4,927,626	2,881,910	171%
Continental	981,939	362,136	271%
Cooperative Gen.	947,299	694,984	136%
HNB Gen.	745,532	444,704	168%
Janashakthi Gen.	5,303,227	2,870,381	185%
LOLC Gen.	1,087,551	546,416	199%
MBSL	(112,016)	393,947	-28%
Orient	524,830	219,733	239%
People's	2,642,587	817,615	323%
Sanasa	144,816	81,599	177%
SLIC	24,371,298	13,970,143	174%
Union Gen	1,894,126	1,280,347	148%
<b>Total</b>	<b>45,511,612</b>	<b>25,856,839</b>	<b>181%</b>

Capital Required (RCR) & Capital Adequacy Ratio (CAR) of general insurance companies as at 31st December 2016. The industry average CAR was 181% as at

31st December 2016. All general insurers except two companies have complied with the minimum CAR requirement of 120% and minimum TAC requirement of

Rs. 500 million as at 31st December 2016.

The Board has taken appropriate action against companies which are not complying. Further, companies with the CAR ratio above 120% and with low margins were closely monitored in terms of the enforcement strategy on RBC.

### **Total Available Capital (TAC) requirement of Insurance Companies – General Insurance Business**

Table 23 illustrates Tier 1 capital, Tier 2 capital, Deductions and TAC recorded by individual general insurance companies as at 31st December 2016. Tier 1 capital which represented companies' issued and fully paid-up ordinary shares, capital reserves and other adjustments for retained earnings amounted to Rs. 72,674 million in 2016. As per the rule Tier 2 capital cannot exceed 50% of Tier1 capital.

**Table 23****Company - wise Analysis of Total Available Capital (TAC) as at 31<sup>st</sup> December 2016 - General Insurance Business**

Insurer	As at 31 <sup>st</sup> December 2016 (b)			
	Tier 1 (Rs'000)	Tier II (Rs'000)	Deductions (Rs'000)	Total Available Capital (Rs'000)
Allianz Gen.	999,002	-	282,050	716,952
Amana Gen.	1,713,037	234,332	1,304,773	642,596
Fairfirst	835,174	-	141,924	693,250
Ceylinco Gen.	8,844,082	-	3,916,456	4,927,626
Continental	1,185,551	-	203,612	981,939
Cooperative Gen.	1,482,620	252,906	788,228	947,299
HNB Gen.	931,186	-	185,654	745,532
Janashakthi Gen.	7,441,407	130,046	2,268,227	5,303,227
LOLC Gen.	1,175,044	-	87,493	1,087,551
MBSL	62,351	(16,373)	157,994	(112,016)
Orient	608,852	-	84,022	524,830
People's	2,714,485	-	71,899	2,642,587
Sanasa	254,324	2,873	112,381	144,816
SLIC	40,464,696	8,200,354	24,293,751	24,371,298
Union Gen.	3,962,665	-	2,068,539	1,894,126
<b>Total</b>	<b>72,674,477</b>	<b>8,804,139</b>	<b>35,967,005</b>	<b>45,511,611</b>

**Table 24****Company - wise Analysis of Risk Capital Required (RCR) as at 31<sup>st</sup> December 2016 - General Insurance Business**

Insurer	As at 31 <sup>st</sup> December 2016 (b)							
	Credit Risk (Rs'000)	Concentration Risk (Rs'000)	Market Risk (Rs'000)	Reinsurance Risk (Rs'000)	Liability Risk (Rs'000)	Operational Risk (Rs'000)	Total Risk Capital Charge (RCR) before diversification (Rs'000)	Total Risk Capital Charge (RCR) after diversification (Rs'000)
Allianz Gen.	2,180	237,304	125,373	20,422	406,967	39,619	831,864	561,811
Amana Gen.	15,513	140,204	27,537	6,822	127,351	27,433	344,861	230,434
Fairfirst	-	316,750	25,965	2,586	361,380	29,165	735,846	500,678
Ceylinco Gen.	90,887	1,157,908	995,151	160,111	1,577,597	192,609	4,174,263	2,881,910
Continental	30,840	89,610	113,388	25,043	251,418	30,216	540,514	362,136
Cooperative Gen.	46,195	297,635	271,396	8,005	305,284	37,250	965,766	694,984
HNB Gen.	32,197	147,137	123,060	12,596	312,514	29,638	657,142	444,704
Janashakthi Gen.	227,382	653,929	1,584,176	81,982	1,311,500	171,627	4,030,597	2,870,381
LOLC Gen.	5,119	116,550	247,856	17,959	383,579	35,969	807,031	546,416
MBSL	7,643	319,052	19,556	19,040	147,104	10,870	523,264	393,947
Orient	20,370	130,676	39,334	10,125	88,783	14,058	303,347	219,733
People's	93,365	73,974	375,411	7,187	601,762	62,820	1,214,520	817,615
Sanasa	3,355	24,241	46,220	3,161	26,624	4,916	108,517	81,599
SLIC	129,353	6,889,726	6,599,729	101,869	2,540,763	672,625	16,934,066	13,970,143
Union Gen	29,950	362,984	449,803	169,577	778,664	90,518	1,881,495	1,280,347
<b>Total</b>	<b>734,348</b>	<b>10,957,679</b>	<b>11,043,956</b>	<b>646,485</b>	<b>9,221,289</b>	<b>1,449,335</b>	<b>34,053,093</b>	<b>25,856,838</b>

However, deductions amounted to Rs. 35,967 million which was significant. These deductions comprised of inadmissible loans and advances, prepayments, inventory, pledged assets, deferred income tax assets etc.

### Comparison of Risk Charges incurred by Insurance Companies – General Insurance Business

Table 24 illustrates the company-wise composition of various risk charges relating to the Risk Based Capital requirement.

With the fairly high interest rate environment, the market risk represented 32.43% of the total risk capital charges before diversification which followed by the concentration risk in 2016. Few companies have higher concentration on investments like land and buildings exceeding

the admissible percentages which resulted in an increase in overall concentration risk charges to Rs. 10,958 million. Liability risk charge which consists of premium and claims liability represented 27.08% of the total risk charges.

The credit risk charge was comparatively low as general insurance companies have invested mainly in rated and fairly low risk investments. Reinsurance risk also recorded a low risk charge of Rs. 646 million.

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

As depicted in Table 25, total number of policies in force of general insurance was 5,647,512 at the end of 2016 and represented a growth of 11.84% compared to 5,049,846 policies recorded in 2015. In 2016 motor

insurance policies represented 88.70% of the total policies in force and comprised of 2,627,651 third party policies and 2,381,620 comprehensive policies. Fire insurance policies in force have increased to 236,422 in 2016 from 199,257 recorded at the end of 2015. During the year, insurance companies have written 2,716,625 new policies which have increased by 14.06% compared to previous year. 3,175,007 policies have been renewed during 2016 compared to 2,807,505 policies renewed during 2015.

### Reinsurance Business

The National Insurance Trust Fund operates as the only Sri Lankan entity which provides reinsurance covers to primary insurers. All primary insurers are required to cede 30% of their total liability arising out of every general reinsurance to NITF as per the Government Gazette notification

**Table 25****Details of New, Renewed and Policies in Force - General Insurance Business**

	2015			2016		
	New policies	Renewed Policies	Policies inforce at year end	New policies	Renewed Policies	Policies inforce at year end
Fire	79,430	164,512	199,257	104,523	182,708	236,422
Marine	158,616	18,893	149,844	165,754	24,821	162,518
Motor	1,994,966	2,561,100	4,504,969	2,250,464	2,882,007	5,009,271
3 <sup>rd</sup> party only	1,074,995	1,392,811	2,464,924	1,168,151	1,452,760	2,627,651
Comprehensive	919,971	1,168,289	2,040,045	1,082,313	1,429,247	2,381,620
Health	8,012	7,718	13,990	8,829	7,377	15,401
Miscellaneous	140,756	55,282	181,786	187,055	78,094	223,900
<b>Total</b>	<b>2,381,780</b>	<b>2,807,505</b>	<b>5,049,846</b>	<b>2,716,625</b>	<b>3,175,007</b>	<b>5,647,512</b>

No. 1791/4 of 31st December 2012.

During the year 2016, NITF has earned Rs. 2,357 million as reinsurance premium income, increasing by 35.64% compared to Rs. 1,738 million generated in 2015. This increase in premium income is mainly due to acceptance of reinsurance business from a wider range of different classes of general insurance business.

NITF has placed retrocession reinsurance arrangement for the reinsurance liabilities accepted during the year 2016 incurring a cost of Rs. 384 million.

During the year 2016, reinsurance premium of general insurance business has increased by 14.12% and amounted to Rs. 11,890 million (2015: Rs. 10,419 million). This was mainly due to decreased retention levels particularly in fire insurance business.

Further, 14.12% increase in reinsurance premium of general insurance business in 2016, amounted to Rs. 11,890 million (2015: Rs. 10,419 million) as a result of decreased retention levels particularly in fire insurance business.

Total assets held by the reinsurance business of NITF amounted to Rs.

5,915 million as at 31st December 2016, up by 64.12% compared to assets worth Rs. 3,604 million recorded at the end of year 2015. As at the end of year 2016, NITF's reinsurance business has invested in government securities amounted to Rs. 1,863 million (2015: Rs. 2,915 million) which generated an investment income of Rs. 221 million (2015: Rs. 186 million). Due to the payment of high claims resulted a decline in investments made in government debt securities during the year.

During 2016, NITF received 295 reinsurance claims and gross claims paid amounted to Rs. 6,832 million. Further, net claims incurred during 2016 amounted to Rs. 3,432 million (2015: Rs. 1,243 million) which resulted in a claims ratio of 195.37% (2015: 67.41%). This was mainly due to the severe flood experienced in the country in May 2016.

Reinsurance business of NITF incurred expenses amounted to Rs. 581 million during 2016 recording an increase of 14.55% over Rs. 507 million incurred in 2015 and resulted in an expense ratio of 33.01% (2015: 27.5%). Accordingly, the combined which is the aggregate of claims ratio and expense ratio amounted to

228.38% increasing significantly by 133.47% over 94.91% recorded in 2015. This severe combined ratio resulted due to the claims and expenses incurred for the flood experienced during the year 2016.

### Insurance Brokering Companies

During 2016, fifty-eight insurance brokering companies operated in the market and generated a Gross Written Premium (GWP) amounting to Rs. 17,781 million. Accordingly, total GWP generated through insurance brokering business recorded a growth of 8.89% in 2016 when compared to Rs. 16,330 million generated in 2015. This total GWP consisted of premium income generated through long term insurance business and general insurance business which amounted to Rs. 263 million and Rs. 17,518 million respectively. Out of the total GWP generated, 98.52% represented GWP of general insurance business and only 1.48% represented GWP of long term insurance business.

Similar to previous years, insurance brokering companies' contribution towards long term insurance business was insignificant in

2016 and only 0.41% of the total GWP of long term insurance business (Rs. 63,495 million) was generated through brokers. Insurance brokering companies have generated 22.04% of the total GWP of general insurance

business which amounted to Rs. 79,474 million (including SRCC & T premium).

In 2016, twenty five insurance brokering companies procured GWP exceeding Rs.100 million each and these insurance

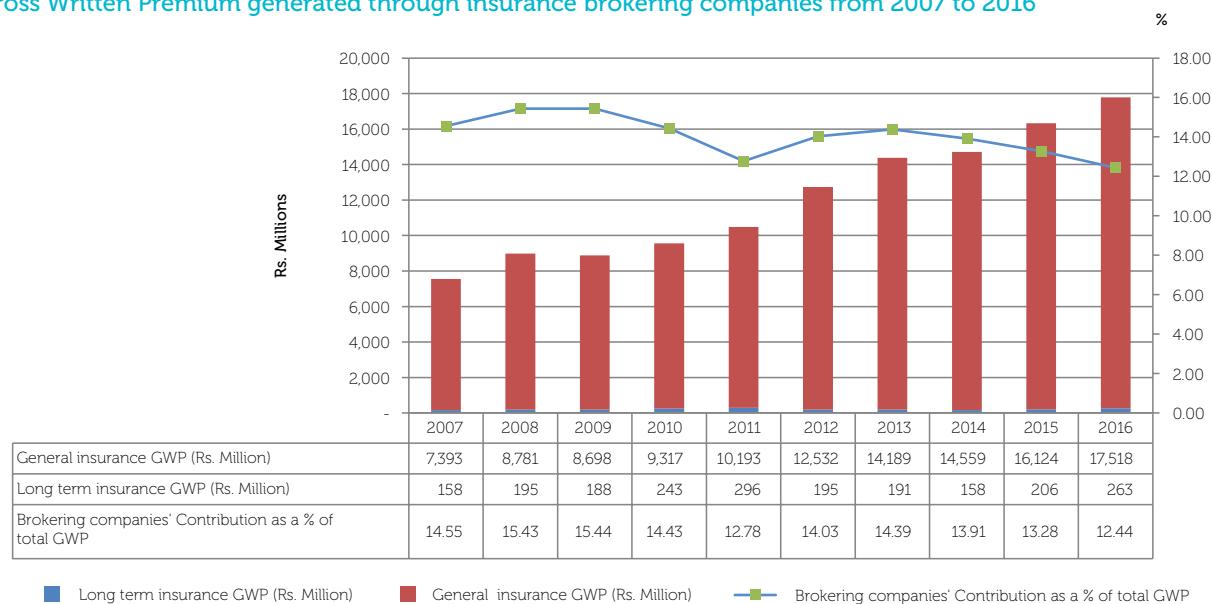
brokering companies collectively generated GWP amounting to Rs.16,722 million. The remaining thirty three insurance brokering companies generated Rs. 1,059 million as depicted in Table 26.

**Table 26****Gross Written Premium generated through Insurance Brokering Companies - 2016**

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.	13,896	5.29	399,937	2.28	413,833	2.33
2 Aitken Spence Insurance Brokers (Pvt) Ltd.	779	0.30	472,843	2.70	473,622	2.66
3 Alfinco Insurance Brokers (Pvt) Ltd.	126	0.05	613,059	3.50	613,185	3.45
4 Allion Insurance Brokers (Pvt) Ltd.	21,812	8.30	85,599	0.49	107,411	0.60
5 Assetline Insurance Brokers Ltd.		-	1,303,079	744	1,303,079	7.33
6 CF Insurance Brokers (Pvt) Ltd.	150	0.06	2,429,095	13.87	2,429,245	13.67
7 Colombo Insurance Brokers (Pvt) Ltd.	5,745	2.19	221,790	1.27	227,535	1.28
8 Commercial Insurance Brokers (Pvt) Ltd.	45,467	17.30	2,231,903	12.74	2,277,370	12.81
9 Delmege Insurance Brokers (Pvt) Ltd.	21,174	8.06	981,334	5.60	1,002,508	5.64
10 E A P - R M S Insurance Brokers (Pvt) Ltd.		-	118,583	0.68	118,583	0.67
11 Equity Insurance Brokers (Pvt) Ltd.		-	104,787	0.60	104,787	0.59
12 Essajee Carimjee Insurance Brokers (Pvt) Ltd.	20,742	7.89	397,284	2.27	418,026	2.35
13 Finlay Insurance Brokers (Pvt) Ltd.	22,758	8.66	1,388,300	7.93	1,411,058	7.94
14 Foresight Insurance & Re Insurance Brokers (Pvt) Ltd.		-	433,209	2.47	433,209	2.44
15 Global Insurance Brokers and Services (Pvt) Ltd.	68	0.03	116,011	0.66	116,079	0.65
16 Life & General Insurance Brokers Ceylon (Pvt) Ltd.	1,125	0.43	195,184	1.11	196,310	1.10
17 Mercantile Insurance Brokers (Pvt) Ltd.		-	292,692	1.67	292,692	1.65
18 Nations Insurance Brokers Ltd.	6,608	2.51	1,309,517	748	1,316,125	7.40
19 Procure Insurance Brokers (Pvt) Ltd.	2,103	0.80	265,416	1.52	267,518	1.51
20 Protection & Assurance Insurance Brokers (Pvt) Ltd.		-	653,102	3.73	653,102	3.67
21 Reliance Insurance Brokers (Pvt) Ltd.	25,507	9.71	474,854	2.71	500,361	2.81
22 Senaratne Insurance Brokers (Pvt) Ltd.	6,699	2.55	821,427	4.69	828,127	4.66
23 Senkadagala Insurance Brokers (Private) Ltd.		-	889,079	5.08	889,079	5.00
24 Strategic Insurance Brokers (Pvt) Ltd.	23,319	8.88	92,194	0.53	115,513	0.65
25 Zenith Insurance Brokers (Pvt) Ltd	1,150	0.44	212,212	1.21	213,361	1.20
<b>Sub total</b>	<b>219,228</b>	<b>83.44</b>	<b>16,502,490</b>	<b>94.20</b>	<b>16,721,718</b>	<b>94.05</b>
<b>Other Insurance Brokering Companies (33)</b>	<b>43,517</b>	<b>16.56</b>	<b>1,015,285</b>	<b>5.80</b>	<b>1,058,802</b>	<b>5.95</b>
<b>Grand total</b>	<b>262,745</b>	<b>100</b>	<b>17,517,775</b>	<b>100</b>	<b>17,780,520</b>	<b>100</b>

Chart 19

Gross Written Premium generated through insurance brokering companies from 2007 to 2016



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

The Board monitors the timely submission of the Returns and scrutinizes them to ensure their accuracy and compliance with relevant rules and regulations of the Act. The Board communicates deviations from statutory requirements observed during the review of Returns to respective companies and advises to rectify same within stipulated deadlines. Further, certain matters that are observed during the review of Returns are also addressed during the onsite inspections conducted by the Board.

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

Insurance companies are required to file its Risk Assessment Summary (RAS) with the Board on or before 31st March of each year. The Board reviews the information

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

##### c) Reinsurance Arrangements

In terms of the Section 31(1) of the Act, Insurance companies are required to inform its reinsurance arrangements to the Board annually. Insures are required to comply with the terms and conditions on reinsurance placements issued by the Board. The Board reviews the reinsurance arrangements of the Insures to ensure that reinsurance covers are obtained from regulated reinsurers who satisfy the rating requirements prescribed by the Board, covers are obtained for the respective classes, insurers have 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.

In addition, all insurers are required to submit its facultative reinsurance arrangements quarterly. 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

In 2016, insurance companies were required to submit its Quarterly Returns according to the revised quarterly return formats introduced by the Board under the Risk Based Capital (RBC) framework, which was implemented with effect from 1st January 2016. Quarterly RBC Returns that were submitted during the year 2016 were reviewed by the Board to assess their performance and to ensure compliance with relevant Rules and Regulations of the Act.

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

The financial position of all insurers at the end of each quarter is continuously monitored throughout the year by analyzing their assets and liability positions, capital adequacy ratio (solvency), liquidity and capital adequacy. Any non-compliance, discrepancies observed during the review of Quarterly Returns were communicated relevant companies to rectify within given deadlines.

Insurers are required to submit 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

During 2016, eight insurance companies were required to submit their Monthly Returns under RBC framework within 21 days after the end of each month. This decision was taken due to non compliances reported by these companies and therefore to scrutinize their financial position and compliance with Rules and Regulations in a frequent manner. Accordingly, performance and financial position of relevant insurers were continuously monitored. Where non-compliance with regulations and discrepancies are observed, the Board has taken appropriate action within stipulated timelines.

### 2. Monitoring Compliance with Solvency Margin Rules

According to the Solvency Margin (Risk Based Capital) Rules 2015, every insurance company is required to maintain a minimum required Capital Adequacy Ratio (CAR) and a Total Available Capital for both General and Long term insurance businesses. Insurers are required to submit their Solvency Margin computations together with Monthly, Quarterly and Annual Returns and such computations are reviewed by the Board to ensure compliance with the Solvency Margin (Risk

Based Capital) Rules. If Insurers are unable to fulfill the Solvency Margin requirement or if the computations are inaccurate, the Board instructs them to take immediate action to comply with the Solvency Margin (Risk Based capital) Rules and to rectify the same within stipulated timelines.

### 3. Monitoring Compliance with Investment Specifications

#### a) Investment in Government Securities

Insurers are required to invest not less than 20% of the assets of the Technical Reserves and not less than 30% of the assets of the Long Term Insurance Fund in government securities as per section 25 of the Act. The Board monitors compliance with the said provision on Monthly, Quarterly and Annual basis based on the Returns submitted. To ensure ownership and accuracy of investments in government securities, the Board reviews the Statements of Holding issued by the Central Bank of Sri Lanka. Where discrepancies are detected, such companies are instructed to rectify the situation within stipulated timelines.

#### b) Other Investments as per Determinations

Every insurer needs to invest the balance assets of Technical Reserves and the Long Term Insurance Fund in accordance with the Determination 1 of 1st March 2011 and its subsequent amendments. The Board reviews the investment details of Technical Reserves and Long Term Insurance Fund to ensure compliance with Determination

- If any non-compliances are observed, the Board informs the respective insurers for necessary rectifications within stipulated timelines.

### 4. Enforcement strategy on RBC

If insurance companies fail to maintain the capital adequacy requirements based on RBC, the Board intervenes and take corrective actions on such companies for non compliance. The Board has implemented an enforcement strategy on RBC based on the minimum requirements. Accordingly, five insurance companies who did not comply with the capital adequacy requirements were required to comply with the enforcement strategy during the year 2016. This will enable the Board to commence supervisory intervention before a significant deterioration of financial condition or solvency concerns leading to a crisis situation.

### 5. Onsite Inspections

During the year 2016 the Board conducted five onsite inspections at insurance companies based on the risk based supervisory methodology. One of the main objectives of conducting onsite inspections in the year 2016 was to validate and understand the Enterprise Risk Management (ERM) function within the companies. In addition, the Board reviewed the operations, systems, policies and procedures of insures to assess their 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 insures' operations, liability valuation, procedures and systems. Compliance with Anti Money Laundering (AML) guidelines of Insurance companies were also verified during the onsite inspections.

Observations made during the onsite inspections were communicated to the respective insurers together with Board's recommendations for improvement in order to obtain their responses.

## **6. Submission of information to the Central Bank of Sri Lanka**

The Board submitted financial information regarding the performance of the insurance industry on quarterly basis to the Financial System Stability Department of the Central Bank of Sri Lanka.

The performance of the insurance industry is assessed based on the information gathered from the Quarterly Returns, such as premium income, profitability, liquidity, etc.

## **7. Industry Handbook 2015**

The Board collected information and statistics of the insurance industry submitted for the year ended 31st December 2015 and published the "Industry Handbook" for the benefit of the insurance industry and the stakeholders. The 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.

## **8. Actuarial Certification**

The Board decided to request insures to obtain a certification from the Appointed Actuary for the Quarterly Returns (under the Solvency Margin (Risk Based Capital) Rules 2015 ) as at 31st March 2016 or 30th June 2016 for both Long term and General insurance businesses. This was required as the Board was of the view that it would be beneficial for insurers to be aware of capital adequacy positions at the commencement of compliance with the RBC Rules. Except for one insurance company all the other insurers complied with the requirement.

## **9. Insurance Supervisory Capacity Building**

The World Bank has conducted a short term project on "Insurance Supervisory Capacity Building" during the period of 22nd August to 2nd September 2016. The main objectives of the project were to assist the Board on effective implementation of RBC and RBS reporting processes, improve practices and capacity of supervisory staff following the adoption of the RBC regime and RBS framework. The Board has conducted three onsite inspections with the participation of the World Bank Consultants as part of the project and the Board conducted a workshop for industry players to address

implementation issues in RBC rule. The main issues that were discussed, included treatment over one off surplus created from changes in valuation bases, negative reserves, deferred acquisition cost, risk charges, stress testing etc.

## **10. Technical Assistance project of the World Bank**

As part of the proposed 'Sri Lanka Financial Sector Modernization' project, the World Bank team conducted preparation missions at the Board during 2016. The purpose of the missions were to advance the discussion with the Board's Officials regarding components of the project on 'Insurance Supervision Capacity Building', implementation arrangements and other relevant issues related to project design etc.

## **Insurance Brokering Companies**

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

Insurance brokering companies are required to submit its Quarterly Returns to the Board within 45 days from the end of each quarter as per the Gazette notification No. 1642/16 (First schedule) of 25<sup>th</sup> February 2010.

Most of the insuring brokering companies submitted their Quarterly Returns to the Board within the deadline. The Board reviewed the Quarterly Returns in order to evaluate the financial position and the performance of insurance brokering companies. Deviations from regulatory requirements were communicated

to respective companies for rectifications.

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 were communicated to the respective insurance brokering companies for rectification.

## **2. Monitoring Premium Collections**

As per the Section 89 of the Act insurance brokering companies are required to remit the premium

collected by them within two weeks of collection. During the year, the Board closely monitored compliance with Section 89 of the Act through the review of Quarterly Returns and during the onsite inspections. If any non compliances were observed actions were taken by the Board against such insurance brokering companies.

## **3. Onsite Inspection**

During the financial year, the Board conducted eight onsite inspections at insurance brokering companies to assess the compliance with the rules and regulations of the Board. Observations made during the

onsite inspections were brought to the notice of the respective insurance brokering companies with recommendations for corrective actions and where necessary regulatory actions were taken. Appropriate regulatory actions were taken by the Board for any violations.

## **4. Renewal of Registrations**

Applications were received from insurance brokering companies to renew their annual licenses for the year 2017. The Board analyzed Audited Financial Statements and Quarterly Returns to ascertain their financial position prior to renewal of licenses.

## Regulatory Review

### Registration of Insurance Companies

New registrations were not granted by the Board during the year. Accordingly, the number of registered insurers remained at 29.

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

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

The temporary halt in entertaining new applications for registration as insurance brokers was removed by the Board during the year. Accordingly, the Board received 5 new applications for registration as insurance brokers and 3 new registrations were granted by the Board during the year. Further, 2 registered insurance brokers (for General Insurance business) have requested to register for long term Insurance business.

Applications from 55 insurance brokering companies, seeking renewal of registration for year 2017 were received by the Board during the year, and renewal of registration was granted to all companies for the year 2017 in view of them fulfilling necessary requirements under the Act.

Appendix II: Provides names of all insurance brokering companies registered with the Board, the class/ classes of insurance brokering business they are

permitted to carry on and the period of Registration.

### Enforcement Action Insurance Companies Suspensions

One insurance company was required to provide a written confirmation from their Actuaries that the projected RBC computations are not materially different from the actual RBC computations and that they are compliant with RBC Capital Adequacy requirements. However, since the company failed to demonstrate compliance with the required solvency margin amount, the said insurance company was suspended from 25th July 2016 to 15th August 2016.

The Board has suspended another insurance company, from 4th October 2016 to 25th October 2016, for failing to fulfill the requirements set out by the Board and to demonstrate compliance with Solvency Margin (Risk Based Capital) Rules, segregation requirements etc. Aforesaid suspension was further extended on 26th October 2016 until the said company complies with the requirements stipulated by the Board. In the meantime, the parent company has submitted an undertaking, guaranteeing the payment of any insurance claim, in an event, that the aforesaid insurance company is unable to honor. Accordingly, Board decided to remove the suspension, only with respect to the renewal of existing general insurance policies

and endorsements. Further to the aforesaid undertaking, parent company has submitted another Board Resolution and an undertaking, guaranteeing to continue the payment of any insurance claim in the event that the insurance company is unable to honor same, until the divestment of their shareholding. Accordingly, Board has removed the suspension on 9th January 2017.

The suspension imposed on Ceylinco Takaful Limited in year 2009 continues. Assessment of insurance claims forwarded by claimants of Ceylinco Takaful Limited was finalized during the year but the settlement of claims could not be concluded since there were ongoing cases against Ceylinco Takaful Limited.

In terms of Section 18 (1) of the Act, the Board may cancel or suspend the registration of an insurer, either wholly or in respect of a particular class or sub-class of insurance business, inter alia for failing to maintain the solvency margin of such amount as determined by the Board and has contravened any provision of the Act or any regulation or rule made there under or any condition imposed or any direction given or determination made by the Board under the Act.

### Warnings

- (1) The Board (IBSL) has warned the members of the Board of an insurance company for providing false and inaccurate information in their quarterly

returns submitted to IBSL for quarters ended 31st March, 30th June and 30th September 2015.

(2) In terms of Section 57 of the Act, Board has issued a Direction to an insurer in 2015, requiring them to furnish Monthly Returns within a period of 15 days from the end of each month. However, the company has failed to submit same for the month of April 2016 and Board has warned the company for violating the provisions of the Act, particularly the direction issued previously.

## Enforcement Action

### Insurance Brokering Companies

#### Suspensions

- An insurance brokering company's registration was suspended for the period 04th August 2016 to 05th October 2016, in terms of Section 84(1) of the Act, for non submission of quarterly returns. The said registration was suspended again during the month of November, in terms of Section 84 (1) of the Act, for non submission of audited financial statements. Since the company continued to fail to submit its audited financial statements, the Board cancelled its registration with effect from 24th November 2016.

In terms of Section 84(1) of the Act, the Board may suspend or cancel a registration issued to a broker for reasons listed there-under.

- An insurance brokering company's registration was suspended for non submission of quarterly returns, in terms of Section 84(1) of the Act. Since the company continued to fail to submit its quarterly returns, the Board cancelled its registration with effect from 16th June 2016.
- Another two insurance brokering companies registrations were suspended from 04th October 2016 in terms of Section 84(1) of the Act, for non submission of quarterly returns and the suspensions were removed when the companies submitted same.

company for the sole purpose of carrying on insurance broking business and not for any other business.

### Regulatory/Advisory Measures

- The Board temporarily stopped entertaining new applications for Insurance Brokers from 27th April 2012, until further notice is published. Having noted the receipt of large number of requests seeking registration as Insurance Brokers, the Board decided to remove the temporary halt on same during the year.
- The Board issued certain directions to an insurance company in the year 2015, prohibiting them from entering into any transaction with any related party, including any associate, subsidiary or parent company or with members of a group company of which it is a part of, without obtaining prior written approval of the Board. The said insurance company sought approval of the Board to grant an extension to comply with one of the said directions. The Board, considering the request, granted the final extension.
- The Board granted approval to a number of requests made by prospective insurance agents, on their qualifications to sit for the pre-recruitment test conducted by the Sri Lanka Insurance Institute, in terms of Rule 2 (c) (ii) of the Gazette No. 1255/3 of 23rd September 2002 as amended by Gazette Extraordinary No. 1674/4 of 5th October 2010.

In terms of Rule 2 (c) (i) of Insurance Agents qualification Rules (Gazette No.1255/3 of 23rd September 2002, as amended by Gazette Extraordinary No. 1674/4 of 5th October 2010), one of the minimum qualifications specified to be registered as an insurance agent is to pass the GCE (O/L) Examination with an ordinary pass in either Mathematics or Arithmetic and Sinhala or Tamil or English languages. However, in terms of Rule 2 (c) (ii), any person qualified in any other relevant discipline, at an equal or higher level than specified in Rule 2 (c) (i), may be considered as an equivalent discipline with the level specified in the Insurance Agents Qualifications Rules, by the Board, on a case by case basis.

4. The Board approved the qualifications "Fellow of the Institute of Actuaries of France" (FIAF) and "Fellow of the Casualty Actuarial Society in the United States of America" (CAS), to carry out actuarial valuations of an insurer. FIAF and CAS were not recognized under Section 114 of the Act previously. The said approvals were granted to two insurers for the proposed new appointments of their Consultant Actuaries.

As per Section 114 (1) of the RII Act, an "Actuary" means –

(a) A Fellow of the Institute of Actuaries in England or of the Faculty of Actuaries in Scotland or a Fellow of any other professional Actuarial Institute, approved by the Board; or

(b) An Associate of any of the professional Actuarial Institutes referred to in paragraph (a), with not less than ten years post qualification experience in relevant actuarial matters.

5. The Board acceded to the request made by Sri Lanka Insurance Institute (SLII) to use the word "Insurance" as part of its name, as SLII was in the process of incorporating itself by an Act of Parliament.

In terms of Section 96 of the Act, no person, other than an insurer, a broker registered under the Act or an insurance agent of such an insurer or broker, shall, without the written approval of the Board, use as part of its name, title or description, the word "insurance" or any of its derivatives or any other similar word in any language, to indicate that such person carries on insurance business in Sri Lanka in that name, title or description, or make any representations to such effect in any bill head, letter head, notice or advertisement;

Provided that nothing of the above Section shall prohibit an association of insurers or brokers from using the word "insurance" or any of its derivatives or similar word in any language as part of its name, title or as description of its activities.

6. The Insurance Institute of India (III), has requested the Board to recognize and accept the Associate and Fellowship qualification, conferred by the III, as being an equivalent

qualification to the Associate qualification conferred by the Chartered Insurance Institute (CII), in terms of Section 94 read with Rule 8 (2) (a) and Section 32 of the Act.

Having observed that the credits given for Associate and Fellowship qualification conferred by III are comparatively less, the Board decided that the said qualifications cannot be considered equal to the Associate and Fellowship qualification conferred by the Chartered Insurance Institute of the United Kingdom.

7. An insurance company sought the approval of the Board to invest Rs. 250 million each, in two of its subsidiaries, stating that the said investments would be made out of the shareholders' fund.

In terms of a Direction which was previously issued by the Board under Section 57 of the Act, the Holding company of the applicant was not permitted to make any investments in its group of companies, in the form of equity, debt instrument etc.

On a previous occasion, the Board had decided that directions issued to composite insurance companies, prior to segregation, will, *mutatis mutandis*, apply to new insurance companies as well. However, the Board, having specifically considered that the applicant maintains the Capital Adequacy Ratio (CAR) and Total Available Capital (TAC) well above the required limit, and as well as other relevant

- details, granted approval for the aforesaid investment.
8. Two General Insurance companies had requested the Board to provide its observations, as required under Section 102 of the Act, to be submitted for the perusal of the District Court, in order to obtain the approval of the District Court for the amalgamation of the said companies. The Board issued its observations for the amalgamation.
- As per section 102 of the Act, all transactions relating to any transfer and amalgamation of insurance business shall be approved by a District Court, and when applying for such approval, a copy of the observations of the Board on such transfer and amalgamation should also be submitted to Court for its perusal.
9. A company informed the Board that they intended to create an 'insurance information hub' under the domain name 'einsurance.lk' by collecting data from various insurance companies in Sri Lanka with their consent, and sought the approval of the Board under Section 96 of the Act to use the word "Insurance" as part of its name.
- After verifying the information provided by the applicant and further having obtained views from IASL & SLIBA on same, the Board decided that the proposed website / business model cannot be considered as an insurance broker or as an insurance agent, and as such, did not assent to their request.
10. An insurance company made a request to enlist a Maldivian Insurance Company as a reinsurer. However, considering the fact that the proposed foreign insurer does not have a rating as required under the Terms and Conditions to be complied with by insurers under Section 31 (1) of the Act, the Board, did not accede to their request.
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 in the Amendment Act.
12. The Board has granted approval to a number of applications by insurance companies and insurance broking companies seeking approval to appoint Principal Officers in terms of the provisions in the Act.
13. Approval of the Board has been granted to insurance companies to appoint Valuers in terms of the Risk Based Capital Rules.

## Investigatory Review

The Board, under its overall objective of safeguarding the interests of policyholders, is empowered to investigate into and resolve disputes between insurers and claimants relating to the settlement of claims which are referred to the Board by claimants. The Board also investigates into complaints pertaining to market conduct of any insurer, broker or an agent.

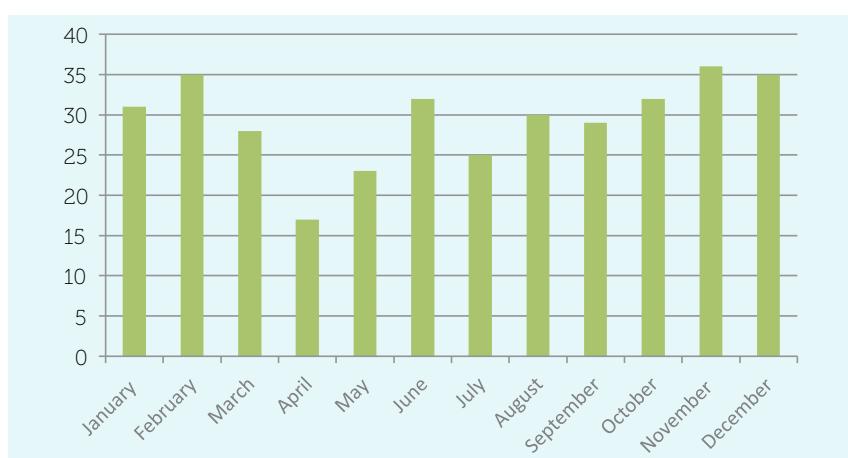
When a dispute or a complaint is referred to the Board (against an insurer, broker or an agent), the party against whom the complaint is made will be given an opportunity of being heard. If required, further information or clarifications are obtained from parties to the dispute. In addition, where required, the Board also consults relevant governmental authorities and independent experts in arriving at a decision.

### Total referrals during the year 2016

During the year under review, 353 new matters were referred to

**Chart 2**

**Month wise analysis of referrals during the year 2016**



the Board. A total of 345 matters were settled or closed during the year. Out of the matters settled, 72 claims were honoured by insurers upon the intervention of the Board. Aggregate value of the claims settled during the year 2016, due to the intervention of the Board, is around Rs. 21.5 million.

During the past five (5) year period, a total of 1,475 matters have been referred to the Board. As per chart 1, the highest number of referrals have been recorded in

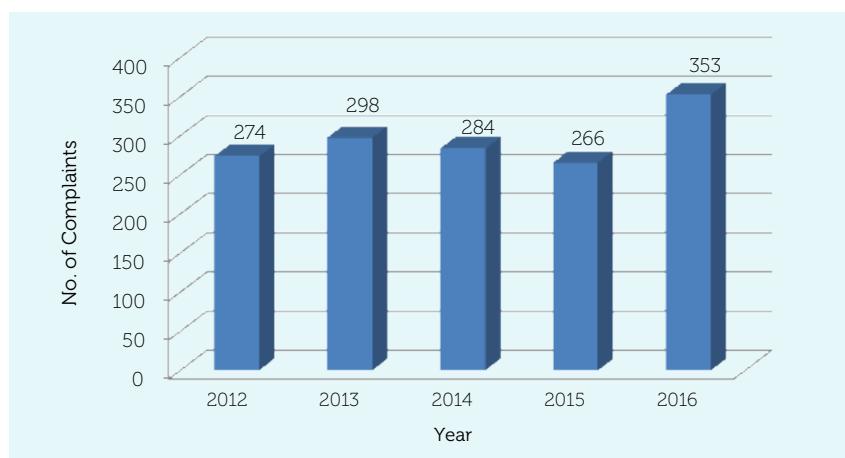
the year under review. Increased awareness among the general public, resulted from various awareness campaigns conducted by the Board, may have been the reason for increased number of referrals during the year.

Chart 2 shows the month-wise breakdown of the number of matters referred to the Board during the year 2016. Highest number of referrals (36) has been recorded in the month of November whereas the month of April has recorded the lowest referrals (17). 30 matters per month, on average, have been referred to the Board during the year under review and the months of January, February, June, October, November and December have recorded referrals above average.

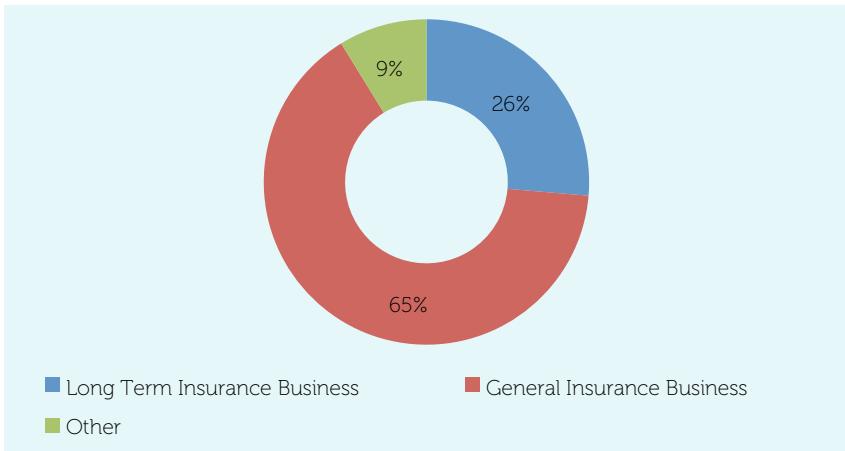
The composition of total matters referred to in 2016 is given in chart 3. Majority of referrals i.e. 229 (65%) in the year under review were with respect to general insurance business and 93 (26%) referrals were relating to long term insurance business.

**Chart 1**

**Total annual referrals during last five (5) years**



**Chart 3**  
**Classification of total matters referred in the year 2016**



The balance 31 (9%) referrals are general in nature and cannot be categorized into a specific line of business. The composition of total referrals has not been significantly changed in 2016, when compared to previous year.

### Referrals on Long Term Insurance Business

The Table 1 shows an issue-wise analysis of the matters referred with regard to long term insurance business.

As shown in Table 1, the most number of complaints referred to were pertaining to long term insurance business and have been on the non-acceptance or repudiation of liability. As per disputes referred to the Board, the main reason for repudiation

of liability has been the non-disclosure or misrepresentation of material facts at the commencement of the policy or at revival.

Insurance contracts are governed by the legal principle of utmost good faith. Each party to an insurance contract (i.e. insurer and policyholder) has a duty to disclose to the other party, the material facts that would influence the decision to enter into the contract and the relevant terms. Particularly, in long term insurance contracts, the proposer has a duty to provide all the information required by the insurer and to take reasonable care in ensuring that the information provided is full and accurate. It has been observed, from the contents of

complaints received and feedback received during awareness programmes conducted by the Board, that there is a lack of general awareness among public on the aforesaid duty of disclosure when obtaining an insurance cover. Steps are being taken to address this issue through public awareness and by improving the standards of information delivery at the point of sale, in consultation with the industry. With regard to claim repudiations, the Board could intervene and assist the claimants where it is justified that a particular non-disclosure or misrepresentation was neither fraudulent nor deliberate.

Claims have also been rejected as the policies being lapsed at the time of claim due to failure to settle the premium before the due date. The insurance policy indicates the period within which the premium has to be paid and hence the policyholders have a contractual duty to ensure that they pay the premium within specified time limits. Insurers are required to acknowledge the receipt of any moneys paid as premiums and such acknowledgment is the only acceptable proof that can be produced by policyholders in the case of any dispute. With regard to matters referred to, the Board could assist only where timely payment of premiums have been made.

The main cause of disagreements on the values offered as benefits has been the misunderstanding of policy wording and the inadequacy of clarifications and explanations provided by insurers.

**Table 1**  
**Referrals on long term insurance business: issue wise**

Issue	#	%
Repudiation of claim	32	34.40
Disagreement with benefits offered	23	24.73
Request to cancel or revive	20	21.50
Other	18	19.35
<b>TOTAL</b>	<b>93</b>	<b>100.00</b>

To resolve the disagreements, the required explanations were provided to claimants either directly or through relevant insurer. In few instances where it was revealed that the benefits offered were not in line with policy conditions or the basis of calculation was not disclosed in the policy document, the Board advised insurers to review their offers for the benefit of claimant.

Some policyholders request to cancel the policy and refund the premiums during the term of the policy, mainly due to misconceptions and financial difficulties. However, the policyholders of long term insurance policies are not entitled to obtain a refund of the amounts paid as premiums, unless the policy is cancelled within the cooling off period i.e. within 21 days from the receipt of the policy document. Except in few instances where the insurers agreed to grant a relief considering the hardships faced by policyholders, the Board was not in a position to intervene with regard to such requests.

Upon identifying the root causes for disputes referred to above, actions have been taken to address the same through awareness programmes (to narrow the gaps in knowledge) and relevant regulatory interventions (to improve the quality of market

conduct practices of insurers and intermediaries).

### Referrals on General Insurance Business

An issue-wise analysis of matters referred to the Board on general insurance business is given in Table 2.

Misrepresentation of facts relating to the claim and the breach of relevant conditions or warranties were the main reasons for repudiation of claims. Majority of matters referred to under general insurance business were relating to 'Motor' class resembling its percentage share in GWP. The main reasons for repudiation of motor claims were late claim intimation, driver substitution and policy not being in-force due to non-payment of premium within the credit period. With regard to claim repudiations, the Board could assist the claimants only when there were no fraud and deliberate or reckless misrepresentation of facts relating to the claim.

Lack of clarity and detail in written communications by insurers informing their decision was the main cause for the disagreements on the benefits offered. Most of related disputes could be resolved by facilitating provision of required explanations by insurers on their decisions. All disputes relating to

delay in settlement of claims were settled due to the intervention of the Board.

### Other Referrals

Other matters (31) referred to Board during the year under review were mainly on unfair termination and educational qualifications of agents. Actions were taken, where possible, in terms of the powers conferred on the Board under the Act.

### Conduct of Business Regulation

#### 1. Guidelines on Complaints Handling by Insurers and Brokers

The Board issued guidelines, to be effective from 1<sup>st</sup> October 2016, on the procedure to be adopted by insurers and brokers in handling customer complaints. The objective of these guideline is to facilitate that policies and procedures are in place for timely and fair handling of complaints by insurance companies and insurance brokering companies, in order to ensure fair treatment of customers.

The guidelines require the companies to put in place a complaints management policy and to publish a complaints handling procedure for the information of consumers. Guidelines also require insurers and brokers to maintain records of complaints and to analyze root causes for same in order to further improve their quality of service. Issuance of these guidelines is also in line with the object and responsibility of the Board to ensure that the

**Table 2**

**Matters on general insurance business: issue wise**

Issue	#	%
Repudiation of claim	146	63.75
Disagreement with the benefits offered	45	19.66
Delays in settling claims	13	5.67
Other	25	10.92
<b>TOTAL</b>	<b>229</b>	<b>100.00</b>

insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interest of the policyholders.

## **2. Guidelines on Conducting of Investigations on Insurance Claims**

The Board issued guidelines, to be effective from 1<sup>st</sup> January 2017, specifying minimum standards for conducting investigations in respect of insurance claims, with the objective of promoting professionalism in the industry. As per the guidelines, insurance companies are expected to ensure that investigators perform their duties in an independent and impartial manner while maintaining confidentiality and being mindful of the interests of both the insurers and claimants. Guidelines also require investigators to take greater care in dealing professionally with claimants, witnesses, informants, etc.

## **3. Joint Committee to look into matters pertaining to Insurance Agents**

A joint-committee was formed with the representation of the Board, Insurance Association of Sri Lanka (IASL), Sri Lanka Insurance Brokers' Association (SLIBA) and the Sri Lanka Insurance Institute (SLII) to discuss and decide matters relating to insurance agents. Matters discussed and actions taken during the year under review are presented below:

### **Verification of educational qualifications**

The Board approved the proposal formulated by IASL to regularize the process of verifying educational qualifications of persons registering as insurance agents. Accordingly, verification of the G.C.E. Ordinary Level examination results of prospective agents will have to be obtained from the Department of Examinations, by the respective insurer or broker. The certificate containing results of the agents' pre-recruitment test conducted by SLII would be issued only after the verification of G. C. E. O/L results.

### **Good practices in conducting inquiries**

The Board approved the good practices, developed by the joint-committee, to be adopted by insurers and brokers in conducting inquiries pertaining to alleged wrongful acts of insurance agents. The good practices are effective from 1<sup>st</sup> October 2016 and were issued with the objective of standardizing the industry practices and to ensure a due process is adopted in conducting inquiries. The insurers and brokers are expected to have a clearly defined procedure for conducting inquiries, of which these good practices should be an integral part.

### **Qualifications of permanent staff who canvass business**

Having considered the deliberations made at the joint-committee, the Board decided that all new recruits to the permanent cadre of insurers and brokers, to be engaged in sales/sales management, need to be given training similar or higher than that of insurance agents and such recruits should possess the minimum educational qualifications applicable to insurance agents.

### **Code of conduct**

Based on the deliberations made at the joint-committee, the IASL, in consultation with the Board, developed a Code of Conduct setting out principles of professional and ethical standards that all insurance agents must follow in the course of their professional duties. The code was approved by the Board in March 2017.

## **4. Motor insurance**

Issuance of policies based on the proposal forms filled by finance/leasing companies (absolute owners of vehicles)

Having observed the instances where insurance covers being issued based on the proposal forms not signed by the policyholders and filled by finance/leasing companies, with respect to leased vehicles, the Board requested IASL to come up with a mechanism to ensure that the interests of

policyholders are not affected in obtaining claims in such instances. In response, the members of IASL (general insurers) agreed that the claims will not be rejected based on the facts presented in proposal forms where such forms have not been signed by policyholders.

#### **Disputes on valuation with regard to total loss claims**

The Board approved the mechanism proposed by IASL i.e. to obtain an alternative valuation from a panel of valuation companies (to be selected and published on IASL website), in the case of any dispute on valuation with regard to a total loss motor claim. Further, the Board decided that the alternative valuation shall be obtained by the customer (at his cost) and if the value is lower than the original offer made by insurer, such lower value should not be considered by insurer.

#### **Delivery of policy documents**

Industry informed the practical difficulties in delivering the policy documents to policyholders, with respect to insurance covers issued

through brokers, finance companies, leasing companies and banks. Having considered the same, the Board amended the Direction #02 on Supply of Policy Documents allowing the insurers to deliver the policy documents to such institutions (with a copy) subject to a copy is supplied to the policyholder without delay. A requirement was also imposed on insurers to make the policyholders aware, through the certificate of insurance and/or the policy schedule, that a copy of the policy document can be obtained from any branch of insurer on request.

#### **5. Contents of advertisements**

As per Section 99 of the Act, the advertisements published by insurers shall not contain any information or material which is false, incorrect or likely to mislead the public. Having observed certain advertisements, published by mobile network operators who market insurance products on behalf of insurers, containing information that is likely to mislead the public, the relevant insurers were directed to take immediate measures to rectify the same. The advertisements were modified accordingly.

## Market Development and External Relations (MDER) Review

Insurance plays a crucial role in sustainable growth of an economy as it is a unique and important financial instrument that is used to cover the risks in the society. Insurance products are still not being used widely in Sri Lanka as in other developed countries, despite the importance of insurance for an economy and as a tool for risk mitigation. 'Insurance Awareness' has a pivotal role to play in ensuring that the general public are equipped with the knowledge that they require when making important decisions for themselves and their families. Creating awareness on insurance enables the general public to improve their understanding of insurance products and concepts and to develop the skills necessary to be aware of risks and opportunities and to make informed decisions in respect of insurance to suit their particular needs.

Imparting knowledge on insurance amongst the general public is an area the Board has allocated a significant quantum of resources as it is the belief that opportunities in the insurance market should be enjoyed by all citizens, irrespective of social, educational and cultural backgrounds.

With the objective of building an 'insurance literate community' the Board planned and conducted numerous programmes to create awareness on insurance during the year under review. The details of such programmes conducted via different channels of communication are presented below:

### Awareness Programmes

#### Programmes at Divisional Secretariats

The Board continued with conducting awareness programmes at Divisional Secretariats, the target group being the government officials such as Grama Niladharies, Police, Divineguma, Development, Agricultural and Field Officers, who are attached to the relevant Divisional Secretariats. The Board, with the assistance of the Divisional Secretaries and administrative staff of the particular Divisional Secretariats, arranged and conducted awareness programmes for the government officers. The participants were made aware on the role of the Board (as the Regulator of the insurance industry), importance of having insurance policies to cover the risks to life and property and key factors to be considered when purchasing and maintaining an insurance policy. The interaction with the government officials, who serve at the grass root level of the public service, provided an opportunity for the staff of the Board to receive feedback about the mindset and experiences of the general public in respect of matters relating to insurance.

Twelve (12) awareness programmes were conducted on the Divisional Day meetings at Matara, Homagama, Polgahawela, Uhana, Kegalle, Hali-Ela, Dompe, Wennapuwa, Badalkumbura, Dikwella, Walallavita and Dimbulagala Divisional Secretariats covering

798 Gramaseva Niladari Divisions. Approximately 1858 government officers of the respective areas participated at these programmes.



*Programme at a Divisional Secretariat*

#### Other Programmes

The Board conducted the following awareness programmes for business community, school children and undergraduates in addition to the mainstream awareness programmes conducted for the government officers:

- An awareness programme for the business community at the National Chamber of Commerce of Sri Lanka (NCCSL) on 31st March 2016. The programme was coordinated and organised jointly by the NCCSL and the Board.
- An awareness programme was conducted for the students and teachers in the Advanced Level Commerce Stream of Prince of Wales College and Princess of Wales College, Moratuwa. The programme was organised by the Old Boys' Association of Prince of Wales College, Moratuwa.
- Upon a request made by Benthota Pradeshiya Sabha, a workshop on insurance was

conducted for the students and teachers in the Advanced Level Commerce Stream of the schools in Elpitiya Educational Zone. The workshop was held at Gamini Central College, Bentota.

- On a request received from the Management Faculty of Sabaragamuwa University, the Board organised an awareness session on contemporary issues on insurance for a group of undergraduates of B.Sc. in Banking and Insurance.



- 'Sara Praba Gira' (සාර ප්‍රභා ගිරා), radio live discussion telecasted on Commercial Service (වෙළඳ සේවය) of Sri Lanka Broadcasting Corporation (SLBC)

Further, Pre-recorded short messages on life insurance were aired, ten (10) times a day after the hourly news bulletin, on City FM channel of SLBC, in line with the "Life Insurance Awareness Month 2016" organized by the Insurance Association of Sri Lanka (IASL) and continued during the month.



- A notice on "Motor Insurance" highlighting: the importance of disclosing material facts, obtaining cover for market value of the vehicle, insurable interest, etc.
- A notice titled "Important Notice" on dealing only with insurers licensed by the Board.

### Declaration of 1st September in each year as the "National Insurance Day"

The Insurance Association of Sri Lanka (IASL) sought the assistance of the Board to obtain necessary approvals for declaring 1st September in each year as the National Insurance Day. The Board liaised with the Ministry of Finance in order to obtain initial approval from the Minister of Finance and worked with the Ministry in drafting the relevant Cabinet Paper to be presented to the Cabinet of Ministers. Accordingly, the proposal made by the Minister of Finance to declare 01st September in each year as the "National Insurance Day" has been approved by the Cabinet of Ministers.

### Awareness through Electronic Media

The Board, having recognised the importance of electronic media as an effective communication channel to reach wider section of the public, conducted two television programmes and two radio programmes during the year under review. The Officials of the Board participated at the following programmes to make the public aware on matters pertaining to insurance:

- 'Coffee Table', a recorded discussion broadcasted on Independent Television Network (ITN)
- 'Rupees & Sense', a recorded discussion broadcasted on Independent Television Network (ITN)

### Awareness through Print Media

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

#### Press Releases

- Performance of the insurance industry during the year 2015.
- Insurance Industry Performance – Quarter 01, 2016.
- Industry Performance – 1st Half of 2016.
- Complaint handling guidelines for insurers and brokers.

#### Press Notices

- The yearly notice on registered insurance companies and insurance broking companies under the title "Special Notice to Public".

### Publications

The following publications (in three languages) were prepared, printed and distributed, mainly at the awareness programmes, during the year under review:

- Brochure on 'Know your rights and duties as an insurance policyholder'
- Brochure on 'Health Insurance Policies – What you should know'



Brochures

The aforementioned press releases, press notices and brochures are available on the Board website.

## 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.

Out of the various product types filed, the Board identifies a particular product category annually to study 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. The reports thus prepared on Motor, Health and Fire insurance products, consisting of recommendations to bridge the gaps, after reviewing and revising, were presented to the Members of the Board for their approval. Upon obtaining approval, the recommendations contained in the reports have been forwarded to the industry (IASL) for comments/response.

### Contribution to OECD Global Insurance Market Trends

The Board provided statistical data pertaining to the Sri Lankan insurance industry for the publication in the annual monitoring report of the

Organization for Economic Co-operation and Development (OECD), titled "Global Insurance Market Trends". Thus, it is the first time that an international publication published a comprehensive data relating to Sri Lankan insurance industry. Such has been acknowledged in the "Global Insurance Market Trends 2016".

### Responses to Public Queries

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

## 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, Assistant Director were recruited to the permanent cadre and a Consultant Actuary was recruited on contract basis during the year under review. The Board also recruited a driver to its staff and the total staff strength of the Board stood at 42 as at 31st December 2016.

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

### 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	2015 (Rs.)	2016 (Rs.)
Local Training	1,752,935/-	2,021,522/-
Conferences & Foreign Training	8,144,101/-	8,370,750/-

### 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.

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
42	09	02	01	08	07	03

## Financial Review

### Policyholders' Protection Fund (PPF)

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

Chart 1 illustrates the growth of the Cess income over the last five years. Due to the impact of favorable market conditions, investment income has shown a significant increase from 2015 to 2016.

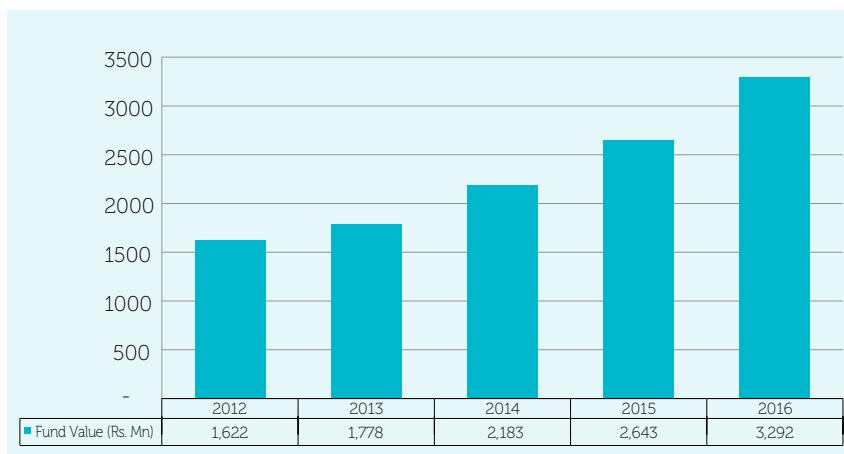
Value of the PPF has increased over the last five years and Chart 2 depicts the same.

The composition of assets of the Fund as at 31st December 2016 is depicted below in Chart 3.

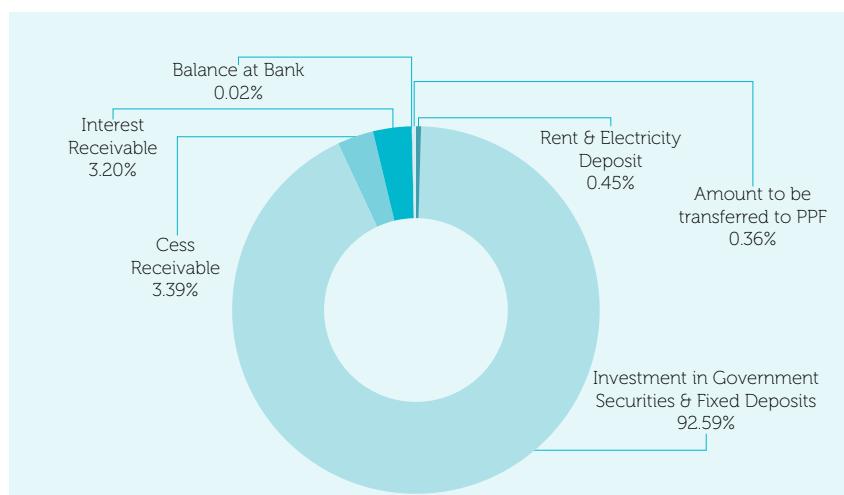
**Chart 1**  
**Cess Income and Investment Income for the period 2012-2016**



**Chart 2**  
**Policyholders' Protection Fund Values for the period 2012 - 2016**



**Chart 3**  
**Assets Composition of Policyholders' Protection Fund as at 31 December 2016**



### 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 2012 to 2016. Sharp increase can be seen in annual fee collected from year 2014 - 2016.

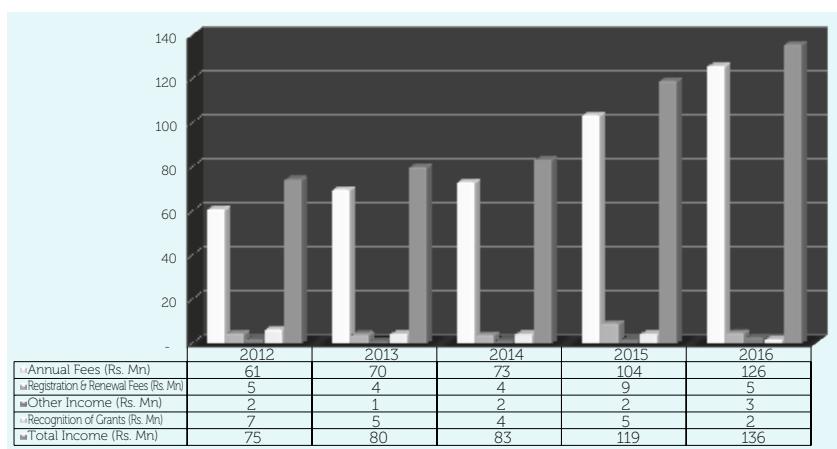
The Board has recorded a surplus around Rs. 12.0 Mn in the year 2016. Since, the deficit between income and the expenditure had been financed from the PPF in accordance with the provisions of the Act in the past, the said surplus was transferred to the PPF.

### Expenses of the Board

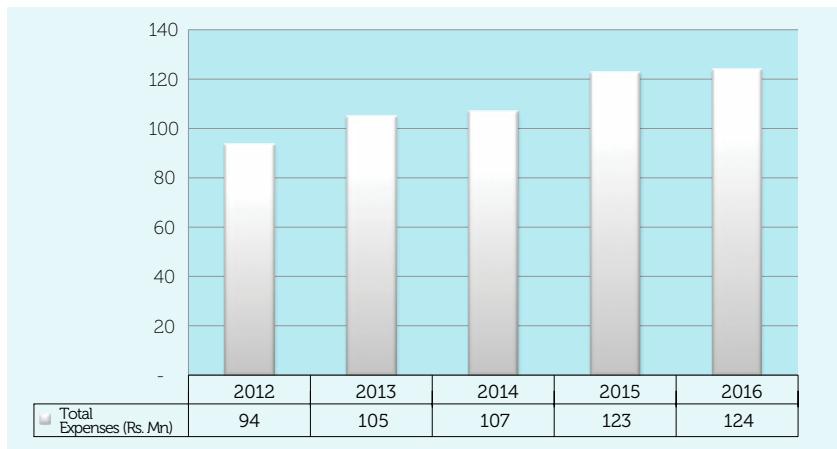
A slight increase can be seen in expenditure for the year 2016 compared with the year 2015.

Chart 5 below depicts the total expenses of the Board for the period 2012 to 2016 and mainly consisted of staff costs and operational expenses.

**Chart 4**  
**Income of the Board for the period 2012-2016**



**Chart 5**  
**Total Expenses of the Board for the period 2012-2016**





# Financial Information

## STATEMENT OF FINANCIAL POSITION

AS AT 31<sup>st</sup> DECEMBER 2016

	Notes	As at 31.12.16 Rs.	As at 31.12.15 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	1	7,629,457	11,274,097
Policyholders' Protection Fund-Rent & Electricity Deposits and Treasury Bonds	2	1,091,418,880	1,091,418,880
<b>CURRENT ASSETS</b>			
Inventories	3	393,033	445,902
Policyholders' Protection Fund-Investments and Others	2	2,200,416,486	1,551,778,353
Other Current Assets	4	19,148,704	21,841,991
Investments in Government Securities		22,700,000	1,000,000
Cash and Cash Equivalents	5	2,301	575,848
<b>TOTAL ASSETS</b>		<b>3,341,708,861</b>	<b>2,678,335,071</b>
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES</b>			
Policyholders' Protection Fund	6	3,291,835,366	2,643,197,233
Revaluation Reserve		7,389,652	7,389,652
<b>LIABILITIES</b>			
<b>NON CURRENT LIABILITIES</b>			
Grant	7	3,523,232	4,965,789
Retirement Benefit Obligation	8	9,842,625	8,035,447
		13,365,857	13,001,236
<b>CURRENT LIABILITIES</b>			
Receipt in Advance		8,268,794	7,526,285
Other Current Liabilities	9	20,410,878	7,220,665
Negative Bank Balance as per Ledger	17	438,314	-
		29,117,986	14,746,950
<b>TOTAL RESERVES &amp; LIABILITIES</b>		<b>3,341,708,861</b>	<b>2,678,335,071</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 84 to 92.



Indrani Sugathadasa  
Chairperson



A.R. Desapriya  
Member

Colombo, Sri Lanka  
27<sup>th</sup> February 2017

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2016

	NOTE	Year Ended 31.12.16	Year Ended 31.12.15
		Rs	Rs
<b>INCOME</b>			
Revenue	10	130,972,036	113,149,245
Recognition of Grant	7	2,061,963	4,527,482
Interest Income		3,112,336	1,559,380
Transfer from Policyholders' Protection Fund	6	-	3,513,004
Other Income	11	258,370	225,376
<b>TOTAL INCOME</b>		<b>136,404,704</b>	<b>122,974,487</b>
<b>EXPENDITURE</b>			
Staff Costs	12	(71,862,315)	(70,205,520)
Professional Charges	13	(2,801,156)	(2,388,225)
Operational Expenses	14	(49,032,420)	(49,986,744)
Finance and Others	15	(150,126)	(206,872)
Transfer to Policyholders' Protection Fund	6	(12,185,206)	-
<b>TOTAL EXPENDITURE</b>		<b>(136,031,223)</b>	<b>(122,787,361)</b>
Net Surplus / (Deficit) Before Tax		373,480	187,126
Taxation		(373,480)	(187,126)
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 84 to 92 form an integral part of the Financial Statements.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2016

	NOTE	Year Ended	Year Ended
		31.12.16	31.12.15
		Rs	Rs
<b>Cash Flows from Operating Activities</b>			
Net Increase / (Decrease) for the Period		-	-
Provision for Depreciation		4,259,214	5,214,297
Provision for Retirement Benefit		1,807,178	2,278,349
Profit / ( Loss) on Disposal		(66,590)	(15,028)
Recognition of Grant		(2,061,963)	(4,527,482)
Income Tax		373,480	187,126
Interest Income		(3,112,336)	(1,559,380)
Net Increase before Working Capital Changes		<u>1,198,985</u>	<u>1,577,883</u>
Change of Working Capital			
(Increase) / Decrease in Inventories		52,869	(171,058)
(Increase) / Decrease of Receivables		2,748,961	4,760,311
Increase / (Decrease) of Receipt in advance		742,508	(4,200,249)
Increase / (Decrease) of Creditors and Accruals		13,190,213	(1,866,056)
Cash Flow used in Operating Activities		<u>16,734,551</u>	<u>(1,477,052)</u>
Net Cash Flows from Operating Activities		<u>17,933,536</u>	<u>100,830</u>
<b>Cash Flows from / (used in) Investing Activities</b>			
Investment in Government Securities		(21,700,000)	(1,000,000)
Interest Income		2,683,182	1,395,547
Proceeds from Sale of Property, Plant and Equipment		71,419	41,158
Purchase of Property Plant and Equipments		(619,406)	(3,012,711)
Net Cash used in Investing Activities		<u>(19,564,804)</u>	<u>(2,576,006)</u>
<b>Cash Flow from Financing Activities</b>			
Capital transfer from Policyholders' Protection Fund		619,406	3,012,711
Net Cash Flows from Financing Activities		<u>619,406</u>	<u>3,012,711</u>
Net Increase / (Decrease) in Cash and Cash Equivalents		<u>(1,011,862)</u>	<u>537,535</u>
Cash and Cash Equivalents at the beginning of the year		<u>575,848</u>	<u>38,313</u>
Cash and Cash Equivalents at the end of the year		<u>(436,014)</u>	<u>575,848</u>
Cash at Bank and in Hand	5 & 17	<u>(436,014)</u>	<u>575,848</u>

The accounting policies and notes appearing on pages 84 to 92 form an integral part of the Financial Statements.

## POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2016

	Note	Year Ended 31.12.16	Year Ended 31.12.15
		Rs	Rs
<b>Cash Flows from Operating Activities</b>			
Net Increase of Policyholders' Protection Fund		648,638,132	460,290,461
Net Increase before Working Capital changes		648,638,132	460,290,461
Change of Working Capital			
(Increase) / Decrease of Interest Receivable on Government Securities		(46,126,635)	22,849,356
(Increase) / Decrease of Cess Receivable		(24,664,812)	(10,300,000)
(Increase) / Decrease of Balance at Fund Management Account		952,525	5,734,821
Increase / (Decrease) of Amount to be Transferred From PPF		(19,967,093)	(8,944,939)
		(89,806,014)	9,339,238
Net Cash from Operating Activities		558,832,118	469,629,698
<b>Cash Flow from / (used in) Investing Activities</b>			
Investments in Government Securities		362,599,903	(1,677,958,452)
Investments in Fixed Deposits		(922,000,000)	1,208,400,000
Net Cash from Investing Activities		(559,400,097)	(469,558,452)
Net Increase / (Decrease) in Cash and Cash Equivalents		(567,980)	71,247
Cash and Cash Equivalents at the beginning of the year		1,071,247	1,000,000
Cash and Cash Equivalents at the end of the year		503,267	1,071,247
Cash at Bank	2 & 17	503,267	1,071,247

The accounting policies and notes appearing on pages 84 to 92 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.

###### 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 and fixed deposits 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.

## ACCOUNTING POLICIES

### 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 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 is 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 2016	10,000,000	13,661,190	23,104,187	141,450	46,906,828
Additions	-	96,577	522,828	-	619,406
Disposals	-	(217,430)	(1,204,516)	-	(1,421,946)
Balance as at 31 December 2016	10,000,000	13,540,337	22,422,500	141,450	46,104,286
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1 January 2016	3,393,773	11,334,176	20,763,332	141,450	35,632,731
Charge for the year	2,500,000	743,315	1,015,900	-	4,259,214
Disposals	-	(214,851)	(1,202,266)	-	(1,417,117)
Balance as at 31 December 2016	5,893,773	11,862,640	20,576,966	141,450	38,474,829
<b>WRITTEN DOWN VALUE AS AT 31 DECEMBER 2016</b>					
	<b>4,106,227</b>	<b>1,677,696</b>	<b>1,845,535</b>	<b>-</b>	<b>7,629,457</b>
<b>WRITTEN DOWN VALUE 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>

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.16 Rs.	As at 31.12.15 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	1,076,659,000
		<u>1,091,418,880</u>	<u>1,091,418,880</u>
<b>CURRENT ASSETS</b>			
Investment in the Government Securities		1,049,400,000	1,411,999,903
Investment in Fixed Deposits		922,000,000	-
Interest Receivable on the Government Securities and Fixed Deposits		105,241,199	59,114,564
CESS Receivable	16	111,464,812	86,800,000
Balance at Fund Management Account	17	-	952,525
Balance at Bank	17	503,267	1,071,247
Amount to be transferred to PPF		11,807,206	-
		<u>2,200,416,486</u>	<u>1,559,938,240</u>
Less		-	8,159,886
Amount to be Transferred from PPF			<u>2,200,416,486</u>
			<u>1,551,778,353</u>
Total Assets		<u>3,291,835,366</u>	<u>2,643,197,234</u>
<b>3 INVENTORIES</b>			
Printing, Stationery and Computer Accessories		352,633	358,832
Stamps		40,400	87,070
		<u>393,033</u>	<u>445,902</u>
<b>4 OTHER CURRENT ASSETS</b>			
Deposits		195,363	190,744
Other Receivables		3,106,577	309,684
WHT Recoverable		1,515,446	1,208,602
VAT Control		1,607,046	815,602
Interest Receivable - Government securities		121,919	4,228
Staff Loans *		5,764,542	4,948,645
Advance and Pre-payments		1,062,196	1,554,512
Economic Service Charge		132,365	-
Balance at Fund Management Account	17	5,643,249	4,650,087
Amount to be transferred from PPF		-	8,159,886
		<u>19,148,704</u>	<u>21,841,991</u>
*Loans Granted to Staff			
Balance as at 1 <sup>st</sup> January		4,948,645	4,911,857
Loans Granted during the year		4,162,000	3,232,000
		<u>9,110,645</u>	<u>8,143,857</u>
Repayments during the year		(3,346,103)	(3,195,212)
Balance as at 31 <sup>st</sup> December		<u>5,764,542</u>	<u>4,948,645</u>
<b>5 CASH &amp; CASH EQUIVALENTS</b>			
<b>Cash at Banks</b>			
Bank of Ceylon		-	575,848
Cash in Hand		2,301	-
		<u>2,301</u>	<u>575,848</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.16 Rs.	As at 31.12.15 Rs.
<b>6 POLICYHOLDERS' PROTECTION FUND</b>			
Opening Balance		2,643,197,233	2,182,906,773
Cess Received during the year	16	408,178,592	321,747,380
Interest on Treasury Bill Investment		2,647,461	70,257,878
Interest on Repo and Call Account		127,179,906	34,917,246
Interest on Treasury Bond Investment		95,381,313	7,036,326
Interest on Fixed Deposits		3,437,951	32,827,399
Interest on Fund Management Account		263,804	49,800
Net Surplus of the Board		12,185,206	-
		<u>3,292,471,466</u>	2,649,742,802
Less:			
Transfers for Operational Expenses		-	3,513,004
Transfers for Capital Expenses		619,406	3,012,711
Total transfers - Policyholders' Protection Fund		619,406	6,525,714
Bank charges		16,695	19,855
		<u>636,100</u>	6,545,569
Closing Balance		<u>3,291,835,366</u>	2,643,197,233
<b>7 GRANT</b>			
Balance at the beginning of the year		4,965,789	6,480,560
Capital Expenditure from Policyholders' Protection Fund		619,406	3,012,711
Less: Amortized during the year		(2,061,963)	(4,527,482)
Balance at the end of the year		<u>3,523,232</u>	4,965,789
<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		8,035,447	5,757,098
Provision made during the year		1,807,178	2,278,349
(-) Payment made during the year		-	-
Balance at the end of the year		<u>9,842,625</u>	8,035,447
<b>9 OTHER CURRENT LIABILITIES</b>			
Accrued Expenses		7,448,565	6,169,951
EPF Payable		654,487	660,714
ETF Payable		98,174	99,108
PAYE Payable		195,330	207,889
Amount to be transferred to PPF		11,807,206	-
Others		207,115	83,003
		<u>20,410,878</u>	7,220,665

## NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.16	As at 31.12.15
	Rs.	Rs.
<b>10 Revenue</b>		
Annual Fees from Insurance Companies	125,489,332	103,811,505
Registration and Renewal Fees	5,482,704	9,337,740
	<b>130,972,036</b>	<b>113,149,245</b>
<b>11 Other Income</b>		
Interest on Vehicle Loan	26,129	25,583
Interest on Distress Loan	146,279	142,229
Profit on disposal	66,590	15,028
Sundry Income	19,371	42,537
	<b>258,370</b>	<b>225,376</b>
<b>12 Staff Costs</b>		
Staff Salaries	39,765,213	38,492,392
EPF 12%	4,775,620	4,667,638
ETF 3%	1,193,905	1,166,910
Chairperson - Allowance	1,200,000	1,004,589
Chairperson - Fuel Allowance	238,680	239,090
Board Members - Sitting Allowance	750,000	457,500
Interns Allowance	225,037	91,315
Overtime	137,226	147,337
Staff Medical Expenses	1,662,539	1,644,315
Staff Medical Insurance	920,277	839,140
Insurance Fire and Personal	367,374	483,391
Staff Welfare	1,264,417	1,513,780
Staff Training Local & Subscription	2,021,522	1,752,935
Board Members and Staff - Overseas Training & Travelling	8,370,750	8,144,101
Performance Based Incentives	2,072,650	2,047,954
Advertising Recruitment	137,520	223,620
Directors Telephone Residence	300,613	220,950
Leave Encashment	758,115	637,964
Directors Vehicle Allowance	3,000,000	3,291,096
Directors Fuel Allowance	893,680	861,154
Staff Gratuity	1,807,178	2,278,349
	<b>71,862,315</b>	<b>70,205,520</b>
<b>13 PROFESSIONAL CHARGES</b>		
Consultancy Fee	2,801,156	2,388,225
	<b>2,801,156</b>	<b>2,388,225</b>

## NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.16	As at 31.12.15
	Rs.	Rs.
<b>14 OPERATIONAL EXPENSES</b>		
Rent	<b>29,495,421</b>	27,740,409
Parking Fees	<b>384,743</b>	345,621
Telephone Expenses & Internet	<b>1,686,159</b>	1,567,818
Electricity	<b>1,315,853</b>	1,327,103
Office Upkeep	<b>617,424</b>	402,472
Printing & Stationary	<b>1,328,183</b>	2,990,021
Public Awareness	<b>2,922,135</b>	3,769,091
Entertainment	<b>54,591</b>	91,770
Traveling - Local	<b>105,542</b>	102,658
Office Equipment Maintenance EDP & Others	<b>1,216,309</b>	1,030,533
International Membership of IAIS(CHF 14,200)	<b>2,717,637</b>	2,541,784
Advertising - Others	<b>31,040</b>	-
Meeting Expenses	<b>705,435</b>	1,812,680
Subscription Newspapers & Library Books	<b>126,414</b>	122,768
Postage & Courier Charges	<b>207,402</b>	187,740
Audit Fees - Auditor General	<b>223,500</b>	43,800
Audit Fees - Internal	<b>-</b>	(1,035,000)
Depreciation	<b>4,259,214</b>	5,214,297
Trade Tax	<b>-</b>	(17,000)
General Expenses	<b>118,475</b>	144,618
Legal Expenses	<b>8,040</b>	205,069
Investigation Expenses	<b>6,798</b>	19,314
Supervision Expenses	<b>-</b>	199,018
Vehicle Maintenance	<b>494,627</b>	77,159
Vehicle Insurance	<b>130,859</b>	229,143
Vehicle Running Charges	<b>202,343</b>	185,783
Nation Building Tax	<b>674,276</b>	688,075
	<b>49,032,420</b>	49,986,744
<b>15 FINANCE &amp; OTHER EXPENSES</b>		
Bank Charges	<b>150,126</b>	206,872
	<b>150,126</b>	206,872

## NOTES TO THE FINANCIAL STATEMENTS

### 16. DUES FROM NATIONAL INSURANCE TRUST FUND (NITF)

Cess income includes an amount of Rs. 11,225,235/- of cess to be received from NITF for the year 2016.

The said estimated figure was arrived by adding 10% increase to the average cess receipts from NITF for the years 2014 and 2015. IBSL has not received cess on quarterly basis from NITF.

### 17.

IBSL operates two Fund Management Accounts linked to our two current accounts (for the Board & PPF) and accordingly, over and above favorable balance of Rs. 1,000,000/- prevailed in the current accounts (in bank records) will automatically be transferred to Fund Management Accounts. Since, the cheques that have already been issued by the IBSL are not presented immediately, bank balance appeared in the ledger may get negative after entering the transactions with the Fund Management Accounts.

The bank balances as at 31st December 2016, are as follows.

The Board - Rs. 984,287/27

The PPF - Rs. 503,267/39

### 18. TAXATION

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

### 18.1 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. 289,286/21 for the year 2016 has been recognized in the Financial Statement for the year ended 31 December 2016. Interest income from the secondary market transactions in Government Securities of the Policyholders' Protection Fund has been accounted at the net value.

### 19. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2016.

### 20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2016.

### 21. EVENTS AFTER THE REPORTING PERIOD

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

### 22. RELATED PARTY DISCLOSURES

Mrs. Indrani Sugathadasa (Chairperson), Mr. P. Samarasiri, Mr. D.N.R. Siriwardena (Ex-Officio Members), Mr. Jeremy Bolling and Dr. Ali Asger Shabbir Gulamhusein held office of the Board during the whole year of 2016.

Ms. Pushpa Wellappili ceased to be an Ex-Officio Member of the Board on 31st March 2016 and Mr. A.R. Desapriya assumed duties as an Ex-Officio Member on 08th June 2016.

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 Merchant Bank of Sri Lanka	Non-Executive Director (till 30 <sup>th</sup> March 2016) Non-Executive Director (1st -30 <sup>th</sup> March 2016)
Mr. A.R. Desapriya	Regional Development Bank Welfare Benefits Board	Board Member (from 14 <sup>th</sup> July 2016) Board Member (from 12 <sup>th</sup> July 2016)

## NOTES TO THE FINANCIAL STATEMENTS

Mr. P. Samarasiri	The Institute of Bankers of Sri Lanka Credit Information Bureau of Sri Lanka Securities and Exchange Commission of Sri Lanka "Api Wenuwen Api" Management Board under Ministry of Defence	Chairman Chairman Member Member
Mr. D.N.R. Siriwardena	Sri Lanka Accounting & Auditing Standard Monitoring Board Securities and Exchange Commission of Sri Lanka The Institute of Chartered Accountants of Sri Lanka	Member Member Member
Mr. Jeremy Bolling	Octagon Consultants (Pvt) Ltd. NHJ Risk Management (Pvt) Ltd. Endless Outdoors (Pvt) Ltd.	Director Director Director
Dr. Ali Asger Shabbir Gulamhusein	Adam Capital PLC Ceylon & Foreign Trades PLC Business Chamber of Commerce Sri Lanka Institute of Textile & Apparel Adam Expo (Pvt) Ltd. Adam Carbons (Pvt) Ltd. Adam Capital Micro Credit (Pvt) Ltd. Network Communications (Pvt) Ltd. Adam Metals (Pvt) Ltd. Adam Corporate Secretarial (Pvt) Ltd. Adam Air Conditioners (Pvt) Ltd. Adam Apparels (Pvt) Ltd. Adam Automobiles (Pvt) Ltd. Wellwin (Pvt) Ltd. Giorgio Morandi (Pvt) Ltd. Spice of Life (Pvt) Ltd. Ceylon & Foreign Surgitech (Pvt) Ltd Colombo Apothecaries (Pvt) Ltd. Colombo Freight and Transport Ltd. Dodwell & Company Ltd. Hamilton Resorts (Pvt) Ltd.	Director Director

Other than the transactions in the ordinary course of business at market rates no other transactions were recorded by the Insurance Board of Sri Lanka, with the said institutions during the year.

## AUDITOR GENERAL'S REPORT



**විගණකාධිපති දෙපාර්තමේන්තුව**  
 කණකකාය්වාලාර් තහවුරු අත්‍යිති තිශ්ඨකකාලම්  
**AUDITOR GENERAL'S DEPARTMENT**



මයේ අංකය  
එනතු ඩිල.  
My No.

මමේ අංකය  
ඉමතු ඩිල.  
Your No.

දිනය  
තික්තී  
Date

14 September 2017

### Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka for the year ended 31 December 2016 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 2016 comprising the statement of financial position as at 31 December 2016 and the comprehensive income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 8(3) of Regulation of Sri Lanka 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 16 June 2017.

#### 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.

## AUDITOR GENERAL'S REPORT

### 1.4 Basis for Qualified Opinion

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

### 2. Financial Statements

#### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2016 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 Deficiencies

The following observations are made.

- (a) Even though the recognition of income by the Board had been carried out on accrual basis, a total sum of Rs. 32,323,639 received in the year under review including annual fees amounting to Rs. 2,894,316 which remained outstanding relating to the years 2014 and 2015 from the National Insurance Trust Fund and a sum of Rs. 29,429,323 of the Cess Income which remained outstanding from the year 2013 to the year 2015 had been brought to account as an income in the year under review without taking action to recognize them as income of the prior years.
- (b) The accurate amount out of a sum of Rs. 1,500,000 received from 03 institutions in the year 2015 and in the years prior to the year 2015 as registration fees for the requirement of registration separately as general and long-term according to the directives of the Board had been retained in the Advanced Account received before without recognizing as income of the Board.
- (c) The income relating 93 days in the year under review amounting to Rs. 127,397 out of a sum of Rs. 500,000 received from an institution in August 2016 for obtaining approval to take action as an intermediary for the foreign health insurance activities had not been brought to account.
- (d) A sum of Rs. 43,836 relating to January 2017 including in the sum of Rs. 500,000 received in December 2015 as registration fees had been brought to account as an income in the year under review.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Regulation of Insurance Industry Act No. 43 of 2000 <ul style="list-style-type: none"><li>(i) Section 13(1)(c)</li></ul>	Even though no person shall be registered to carry on an insurance business in Sri Lanka unless such person pays such amount as determined by the Board by rules as deposit to the Treasury, it had not confirmed to audit that, that requirement had been fulfilled relating to 10 institutions.
(ii) Section 38(1)(b)	Even though every insurer who carries on long-term insurance business, whether solely or in addition to general insurance business should keep the assets separate in respect of any-other class

## AUDITOR GENERAL'S REPORT

	of insurance business, 3 insurance companies out of 12 insurance companies had not taken action accordingly up to date.
(iii) Section 49(b)	Even though a quarterly report containing such information as determined by the Board by rules made for the specific purpose should be furnished to the Board, instances where the quarterly reports not being furnished on the due date from the Insurance Companies and the Insurance Brokerage Companies were observed, according to the information furnished to audit.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the Draft Annual Report along with the financial statements should be furnished to the Auditor General within 60 days after the close of the Financial Year, the Draft Annual Report had not been furnished to audit by the Board up to 30 May 2017.
(i) Section 6.5.1	Even though an Administration Manual should be prepared and the approval should be obtained by furnishing it to the Secretary to the Treasury with the approval of the Board of Directors and even though this Manual had been furnished to the Secretary to the Treasury by 30 May 2017, the approval had not been received.
(ii) Section 9.14	

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year under review had resulted in a pre-tax surplus of Rs. 373,480 as compared with the corresponding surplus of Rs. 187,126 for the preceding year, thus indicating an improvement of Rs. 186,354 in the financial result in the year under review as compared with the preceding year. Even though the total expenditure of the Board had been increased by a sum of Rs. 13,243,862 or by 11 per cent due to bringing account the transfers amounting to Rs. 12,185,206 made to the Insurance Policy Holders Security Fund in the year as expenditure, the increase of the main income of the Board, being the annual fees received from the Insurance Companies, registration fees and renewal fees, by a sum of Rs. 17,822,791 or by 16 per cent as compared with the preceding year had been the main reason for this improvement.

In comparing financial results of 04 preceding years and in the year under review, the pre-tax surplus of the Board for every year had been increased. In adjusting personnel emoluments, non-current assets and depreciation to that surplus again, a contribution of Rs. 36,425,902 had been provided by the Institution in the year 2012. It had been continuously improved and it had been a sum of Rs. 89,053,695 in the year 2016.

### 4. Operating Review

#### 4.1 Performance

The objective of the establishment of the Board according to Regulation of Insurance Industry Act No. 43 of 2000 is ensuring that insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view of safeguarding the interests of the policy holders and potential policy holders.

## AUDITOR GENERAL'S REPORT

The following observations are made relating to the achievement of the above objectives.

- (a) Even though a sum of Rs. 500,000 had been received to the Board on 30 September 2015 from an Insurance Company for a fresh registration, the relevant registration activities had not been completed even by the end of the year under review.
- (b) The statutory powers of inquiring in a dispute relating to an insurance claims payment furnished by an insurer belong to the Board on safeguarding the interests of the policy holders and potential policy holders being a statutory duty of the Board. However, 44 complaints out of 353 complaints received in the year 2016 remained further unresolved.
- (c) Even though an insurance company had entered into a mutual agreement to dispose the assets of the company for properly settling the authentic insurance claims on the orders of the Supreme Court for a company of which an order of suspension had been imposed by the Board in the year 2009, those settlements had not been wound up even by the date of audit of 29 June 2017.
- (d) Even though the rule of Registration of the Damage Valuers had been referred to the Legal Draftsman for the approval on a decision of the Board of Directors dated 30 June 2015, information had not been furnished that this rule had been approved even by 17 April 2017. As such, reviewing of the Registration of the Damage Valuers had not been carried out within 02 months after the receipt of the applications of the registration of the Damage Valuers stated in the Action Plan.
- (e) Even though the Act for the amendment of Regulation of Insurance Industry Act No. 43 of 2000 had been furnished to the Line Ministry, it had not been approved even by the date of audit of 17 April 2017.
- (f) A fund called "Policy Holders Protection Fund" had been established in terms of Regulation of Insurance Industry Act No. 43 of 2000 and money is earned for the Fund by crediting money accrued to the Fund from the Cess. Sixty-four per cent of the balance of the Fund amounting to Rs. 3,291,835,366 as at 31 December 2016 had been invested in short-term investments despite it having the ability to invest the money not immediately required in long-term investments. Further, the rules relating to spending money of the Fund had not been prepared and the approval had not been obtained.

### 4.2 Management Activities

Hundred and sixty-two and 117 copies of the reports respectively had been stored without being distributed in the years 2014 and 2015 on printing a large amount of copies of the Annual Reports of the Board by incurring an excessive expenditure without considering the requirement.

### 4.3 Delayed Projects

An agreement had been entered into with the Central Engineering Consultancy Bureau on 11 May 2016 to install a cooling system for the Computer Systems Operations Room of the Board, the total estimate being a sum of Rs. 3 million and an advance amounting to Rs. 50,000 had been paid on 07 June 2016. Even though this service should be completed within a period of 20 weeks from the date of the agreement is in effect or by October 2016 according to the conditions of the agreement, the service had not been completed even by the date of audit of 20 June 2017.

### 4.4 Personnel Administration

The following observations are made.

- (a) A post of Assistant Actuarial Manager out of 06 posts which remained vacant as at 31 December 2016 remained vacant even by August 2017.
- (b) Action had not been taken by the Board to get approved the Scheme of Recruitment relating to the posts of the Board up to date in terms of Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and even though it had been informed by the Board that it had

## AUDITOR GENERAL'S REPORT

been included into the Administration Manual, the approval had not been received even for that Administration Manual up to date.

- (c) Even though recruitments had been made for the post of Actuarial Manager on contract basis on 01 January 2016 by the Board, it had been stated that the recruitments should be made methodically and with transparency according to the provisions of the Scheme of Recruitment by preparing the Scheme of Recruitment in terms of the Letter of Approval of the Director General (Administration and Human Resources Development) of 09 June 2016 and after obtaining the approval of the Department of Management Services.
- (d) Salaries and allowances had been paid in terms of the provisions stated in the Administration Manual, of which the approval had not been received even up to August 2017 for 03 posts that the recruitments had been made in the year 2016.

### 5. Accountability and Good Governance

#### 5.1 Budgetary Control

Variances ranging from 100 per cent to 246 per cent between the budgeted income and expenditure of the Board were observed in comparing with the actual values including in the financial statements, thus indicating that the budget had not been made use of as an effective instrument of financial control.

#### 6. Systems and Controls

Deficiencies in systems 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) Financial Control	<ul style="list-style-type: none"> <li>(i) Not introducing a proper methodology for the payments made by the Insurance Policy Holders' Protection Fund.</li> <li>(ii) Not deploying money of the fund in long-term investments.</li> <li>(iii) Not settling the advances provided to the officers expeditiously.</li> </ul>
(b) Control of Income	<ul style="list-style-type: none"> <li>(i) Not bringing to account the income on the Accounting Policy of the Board.</li> <li>(ii) Delay in the recognition of income.</li> </ul>
(c) Personnel Administration	Making the relevant selections without transparency in making recruitments.



H.M. Gamini Wijesinghe  
Auditor General

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses																																							
<b>2.2</b>	<b>Comments on Financial Statements</b>																																								
<b>2.2.1</b>	<b>Accounting Policies</b> The following observations are made.																																								
(a)	Even though the recognition of income by the Board had been carried out on accrual basis, a total sum of Rs. 32,323,639 received in the year under review including annual fees amounting to Rs. 2,894,316 which remained outstanding relating to the years 2014 and 2015 from the National Insurance Trust Fund and a sum of Rs. 29,429,323 of the Cess Income which remained outstanding from the year 2013 to the year 2015 had been brought to account as an income in the year under review without taking action to recognize them as income of the prior years.	<p>The details on annual fees and cess due and amounts received from NITF is as follows:</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Annual Fee (Rs.)</th> <th>Cess (Rs.)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>462,615</td> <td>2,496,241</td> </tr> <tr> <td>2012</td> <td>602,571</td> <td>3,350,105</td> </tr> <tr> <td>2013</td> <td>629,123</td> <td>6,497,002</td> </tr> <tr> <td>2014</td> <td>1,218,188</td> <td>12,027,470</td> </tr> <tr> <td>2015</td> <td>3,006,867</td> <td>8,382,047</td> </tr> <tr> <td>Total</td> <td>5,919,364</td> <td>32,752,865</td> </tr> <tr> <td>Taxes</td> <td>785,222</td> <td>-</td> </tr> <tr> <td>Total Amount</td> <td>6,704,586</td> <td>32,752,865</td> </tr> <tr> <td>Received in Previous Years</td> <td>(3,357,209)</td> <td>(7,668,309)</td> </tr> <tr> <td>Amount to be Received</td> <td>3,347,377</td> <td>25,084,556</td> </tr> <tr> <td>Received in 2016</td> <td>3,347,377</td> <td>28,976,263</td> </tr> <tr> <td>Excess Paid</td> <td>-</td> <td>* 3,891,707</td> </tr> </tbody> </table> <p>* As agreed with NITF, it has been recognized as a part of cess income for the year 2016.</p> <p>As IBSL has recognized the annual fee and cess received / receivable from insurance companies in each accounting year, the cess and annual fee received from NITF for previous years were adjusted for the current year income by considering it as a change in estimates in accordance with the Public Sector Accounting Standard No. 03.</p> <p>As per this Standard, Change in estimates can be adjusted to the year under review. Accordingly the amounts received in year 2016 with regard to previous years have been adjusted to the year under review. Hence, it is not necessary to adjust the prior year income in this regard.</p> <p>Further, the same matter was explained in detail at the 3rd Audit Committee meeting held on 11th October 2017, stating that the said adjustment has been done in complying with SLPSAS 3.</p>	Year	Annual Fee (Rs.)	Cess (Rs.)	2011	462,615	2,496,241	2012	602,571	3,350,105	2013	629,123	6,497,002	2014	1,218,188	12,027,470	2015	3,006,867	8,382,047	Total	5,919,364	32,752,865	Taxes	785,222	-	Total Amount	6,704,586	32,752,865	Received in Previous Years	(3,357,209)	(7,668,309)	Amount to be Received	3,347,377	25,084,556	Received in 2016	3,347,377	28,976,263	Excess Paid	-	* 3,891,707
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<b>2.2.1</b>	<b>Accounting Policies</b>																																								
(b)	The accurate amount out of a sum of Rs. 1,500,000 received from 03 institutions in the year 2015 and in the years prior to the year 2015 as registration fees for the requirement of registration separately as general and long-term according to the directives of the Board had been retained in the Advanced Account received before without recognizing as income of the Board.	As per the Realization concept, registration fee cannot be recognized as an income until the Board confirms the registration of the said three companies. Hence, it should be kept in the Receipt in Advance account.																																							

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
(c)	The income relating 93 days in the year under review amounting to Rs. 127,397 out of a sum of Rs. 500,000 received from an institution in August 2016 for obtaining approval to take action as an intermediary for the foreign health insurance activities had not been brought to account.	If more than 8 to 9 months are falling under one accounting/calendar year, out of the whole period of registration granted, IBSL normally recognizes the full amount as an income in the year that registration is granted. Accordingly, (c) and (d) were recognized as an income of year 2017 and 2016 respectively.
(d)	A sum of Rs. 43,836 relating to January 2017 including in the sum of Rs. 500,000 received in December 2015 as registration fees had been brought to account as an income in the year under review.	After considering the observation, in future, we will be recognize in the income in proportionate basis in line with the period of registration granted.
<b>2.3</b>	<b>Non-compliance with Laws, Rules, Regulations and Management Decisions</b>	
(a)	Regularization of Insurance Industry Act, No.43 of 2000	
(i)	Section 13(1)(c)  Even though no person shall be registered to carry on an insurance business in Sri Lanka unless such person pays such amount as determined by the Board by rules as deposit to the Treasury, it had not confirmed to audit that, that requirement had been fulfilled relating to 10 institutions.	Information relevant to the 10 Institutions had been submitted to the Audit as an annexure together with the IBSL letter dated 06.06.2017, and also the same had been forwarded to the Audit together with the IBSL response dated 15.09.2017 to the 13.7.A Report for the year 2016.
(ii)	Section 38(1)(b)  Every insurer who carries on long term insurance business, whether solely or in addition to general insurance business, shall keep the assets in respect of the long term insurance business separate from the assets in respect of any other class of insurance business. However, 3 out of 12 insurance companies have not complied with same.	Out of the 3, 2 insurance companies have not been granted with registration since they have not complied with the minimum capital requirement.  The remaining company has informed that they would take action to segregate their business in future.
(iii)	Section 49(b)  Even though a quarterly report containing such information as determined by the Board by rules made for the specific purpose should be furnished to the Board, instances where the quarterly reports not being furnished on the due date from the Insurance Companies and the Insurance Brokerage Companies were observed, according to the information furnished to audit.	In instances where the quarterly returns have not been submitted by the insurance companies and insurance brokering companies to the Board on the due date, reminders are sent to obtain same.

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
(b)	Public Enterprises Department Circulars	
(i)	<p>Section 6.5.1</p> <p>Even though the Draft Annual Report along with the financial statements should be furnished to the Auditor General within 60 days after the close of the Financial Year, the Draft Annual Report had not been furnished to audit by the Board up to 30 May 2017.</p>	<p>The Insurance Board of Sri Lanka requires information related to all insurance companies and the relevant information are received during the month of April. Therefore, it is practically difficult to submit the draft annual report along with the annual financial statements after completion of 60 days of the year which we have already informed and discussed in the audit committee meetings and we wish to draw your attention to our letter reference IBSL/DG/FAD/5/49/16/07/329 dated 22/07/2017 as response to your letter TRE/C/IBSL/2015/INFO/18.</p> <p>Annual report work is in progress and once the printing is completed, we will send a copy of the same.</p>
(ii)	<p>Section 9.14</p> <p>Even though an Administration Manual should be prepared and the approval should be obtained by furnishing it to the Secretary to the Treasury with the approval of the Board of Directors and even though this Manual had been furnished to the Secretary to the Treasury by 30 May 2017, the approval had not been received.</p>	<p>The administration manual of the Insurance Board of Sri Lanka was submitted to the Secretary to the Treasury on 30/03/2017 with the approval of the Members of the Board. A reminder was also sent to the Director General of the Department of Public Enterprises on 18/08/2017.</p> <p>IBSL is waiting to receive the approval from the Secretary to the Ministry for the same.</p>
<b>3.</b>	<b>Financial Review</b>	
<b>3.1</b>	<b>Financial Results</b>	
	<p>According to the financial statements presented, the financial result of the Board for the year under review had resulted in a pre-tax surplus of Rs. 373,480 as compared with the corresponding surplus of Rs. 187,126 for the preceding year, thus indicating an improvement of Rs. 186,354 in the financial result in the year under review as compared with the preceding year. Even though the total expenditure of the Board had been increased by a sum of Rs. 13,243,862 or by 11 per cent due to bringing account the transfers amounting to Rs. 12,185,206 made to the Insurance Policy Holders Security Fund in the year as expenditure, the increase of the main income of the Board, being the annual fees received from the Insurance Companies, registration fees and renewal fees, by a sum of Rs. 17,822,791 or by 16 per cent as compared with the preceding year had been the main reason for this improvement.</p>	

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
	In comparing financial results of 04 preceding years and in the year under review, the pre-tax surplus of the Board for every year had been increased. In adjusting personnel emoluments, non-current assets and depreciation to that surplus again, a contribution of Rs. 36,425,902 had been provided by the Institution in the year 2012. It had been continuously improved and it had been a sum of Rs. 89,053,695 in the year 2016.	
<b>4.</b>	<b>Operating Review</b>	
<b>4.1</b>	<b>Performance</b>	
(a)	Even though a sum of Rs.500,000 had been received to the Board on 30 September 2015 from an Insurance Company for a fresh registration, the relevant registration activities had not been completed even by the end of the year under review.	Registration cannot be granted as the applicant Company has not met with registration requirements as per the Act.
(b)	The statutory powers of inquiring in a dispute relating to an insurance claims payment furnished by an insurer belong to the Board on safeguarding the interests of the policy holders and potential policy holders being a statutory duty of the Board. However, 44 complaints out of 353 complaints received in the year 2016 remained further unresolved.	<p>Out of pending complaints brought forward from year 2016, investigations of 97 complaints have been concluded as at the date of 30.11.2017 and recommendations with regard to balance 4 complaints have been submitted for the attention of Board &amp; senior management.</p> <p>In addition to disputes regarding insurance claims, the Board also inquires into complaints referred to it, against the insurers/intermediaries (brokering companies and insurance agents). The Board also investigates into the complaints made by ex-insurance agents on unreasonable terminations.</p> <p>The complaints received by the Board are investigated in accordance with the internal complaints handling procedure, and the time taken to resolve a complaint depends on the following factors, which are beyond the control of the Board:</p> <ul style="list-style-type: none"> <li>■ Type of the policy (life, personal property, commercial property, fishing boats, etc.);</li> <li>■ Delays in submitting required information by complainants required for investigations;</li> <li>■ Delays in submission of information by third parties (police stations, hospitals, etc.);</li> <li>■ Delays occurred in scheduling discussions with the relevant parties and postponement of such discussions on the request of such external parties;</li> <li>■ Lack of clarity and complications of insurance claims;</li> <li>■ Nature of the disputes and the claim amounts.</li> </ul>

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
(c)	Even though an insurance company had entered into a mutual agreement to dispose the assets of the company for properly settling the authentic insurance claims on the orders of the Supreme Court for a company of which an order of suspension had been imposed by the Board in the year 2009, those settlements had not been wound up even by the date of audit of 29 June 2017.	As explained in previous audit queries, only 8 unsettled claims have been identified. We have explained the same previously in IBSL letter dated 25.05.2015. The 8 claim files have been handed over to Ceylinco Takaful Ltd., for settlement.
(d)	Even though the rule of Registration of the Damage Valuers had been referred to the Legal Draftsman for the approval on a decision of the Board of Directors dated 30 June 2015, information had not been furnished that this rule had been approved even by 17 April 2017. As such, reviewing of the Registration of the Damage Valuers had not been carried out within 02 months after the receipt of the applications of the registration of the Damage Valuers stated in the Action Plan.	It has been forwarded to the Legal Draftsman for approval and the approval process is beyond the control of the Board.
(e)	Even though the Act for the amendment of Regulation of Insurance Industry Act No. 43 of 2000 had been furnished to the Line Ministry, it had not been approved even by the date of audit of 17 April 2017.	It has been forwarded to the Ministry of Finance for approval and the approval process is beyond the control of the Board.
(f)	A fund called "Policy Holders Protection Fund" had been established in terms of Regulation of Insurance Industry Act No. 43 of 2000 and money is earned for the Fund by crediting money accrued to the Fund from the Cess. Sixty-four per cent of the balance of the Fund amounting to Rs. 3,291,835,366 as at 31 December 2016 had been invested in short-term investments despite it having the ability to invest the money not immediately required in long-term investments. Further, the rules relating to spending money of the Fund had not been prepared and the approval had not been obtained.	<p>As per the sub Section 3 of Section 103 of the Regulation of Insurance Industry (RII) Act No 43 of 2000, excess funds should be invested in such a prudent manner as would yield a maximum return while safeguarding the investment. Accordingly, attention should be paid for</p> <ul style="list-style-type: none"> <li>1. Maximizing the return</li> <li>2. Financial security of the investment</li> </ul> <p>As there was a trend of moderate increase of interest rate in last few years, long term investments were not profitable under such situation. One year interest rate for Treasury bills and Repo's were approximately 10% in 2016 while Fixed Deposit (FDs) rates were in the range of 12.5%-13.5%. Further, interest rates for 2, 3 and 4 year FDs were not attractive.</p> <p>Accordingly, Board invested the PPF funds in short term financial instruments with a view to maximize the return. Futher, PPFs' funds were invested only in the government banks or through government primary dealers considering the financial safety of the securities.</p>

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
		<p>The Act is silent about the tenor of the investment and it has only specified that "any money, which is not immediately required, shall be invested by the Board in such a prudent manner as would yield a good return and safeguard the investment". Accordingly the mode of investment should only be decided based on the return and use of any other specification will definitely violate the guidelines stipulated in the RII Act.</p> <p>Preparations of guidelines /accepted procedures relating to utilization of funds of the PPF have been discussed in the 4th Audit Committee meeting held on 27th December 2016. Draft of the same has been prepared and forwarded to the Divisional Heads for their comments. As such guidelines could not be prepared immediately, the Board will take necessary action regarding the same.</p>
<b>4.2</b>	<b>Management Activities</b>	
	Hundred and sixty-two and 117 copies of the reports respectively had been stored without being distributed in the years 2014 and 2015 on printing a large amount of copies of the Annual Reports of the Board by incurring an excessive expenditure without considering the requirement.	At present the Insurance Board of Sri Lanka prints minimum number of annual reports and it is noteworthy that minimizing of number of copies printed merely would not reduce the cost. Because as informed earlier, when the overhead cost is divided by lesser number of units, the unit cost will increase. However, it has been decided to further reduce the number of copies printed.
<b>4.3</b>	<b>Delayed Projects</b>	
	An agreement had been entered into with the Central Engineering Consultancy Bureau on 11 May 2016 to install cooling system for the Computer Systems Operations Room of the Board, the total estimate being a sum of Rs. 3 million and an advance amounting to Rs. 50,000 had been paid on 07 June 2016. Even though this service should be completed within a period of 20 weeks from the date of the agreement is in effect or by October 2016 according to the conditions of the agreement, the service had not been completed even by the date of audit of 20 June 2017.	In order to commence the job, the selected bidder has already been requested to provide the advance payment guarantee and performance guarantee for same.
<b>4.4</b>	<b>Personnel Administration</b>	
(a)	A post of Assistant Actuarial Manager out of 06 posts which remained vacant as at 31 December 2016 remained vacant even by August 2017.	Recruitment process has been started for the post of Assistant Actuary.

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
(b)	Action had not been taken by the Board to get approved the Scheme of Recruitment relating to the posts of the Board up to date in terms of Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and even though it had been informed by the Board that it had been included into the Administration Manual, the approval had not been received even for that Administration Manual up to date.	<p>From the inception of the Board, IBSL has got the SOR approved when it makes requests to increase the cadre. Accordingly, IBSL has got the approval for its SOR time to time when the Board makes requests to create new positions.</p> <p>However, the subsequent amendments have been included to the Administrative Manual of the Board which was forwarded to the approval of the Ministry of Finance in 2012. Further, the final Administrative Manual with further amendments have been forwarded to the Ministry of Finance on 30th March 2017 with a copy to the Auditor General's Department. A reminder has been made to the Director General of the Department of Public Enterprises on 18th August 2017 in this regard.</p>
(c)	Even though recruitments had been made for the post of Actuarial Manager on contract basis on 01 January 2016 by the Board, it had been stated that the recruitments should be made methodically and with transparency according to the provisions of the Scheme of Recruitment by preparing the Scheme of Recruitment in terms of the Letter of Approval of the Director General (Administration and Human Resources Development) of 09 June 2016 and after obtaining the approval of the Department of Management Services.	<p>IBSL made a request to create the post of Actuary vide letter No. IBSL/FAD/9/1/18/16/05/230 dated 10th May 2016 in order to form an Actuary Unit of the Board. The Management Services Department (MSD) has approved the same by their letter No. MF1/05/01/IBSL/1 dated 27th May 2016 and further requested to send SOR for the post of Actuary for their approval. Then the Board requested approvals for the posts of Assistant Actuary and Executive posts of the Actuary Unit. As requested by MSD, SOR for the post of Actuary also forwarded along with the SORs of Assistant Actuary and Executive by our letter No. IBSL/FAD/9/1/18/16/10/481 dated 18th October 2016 to the Ministry of Finance. SOR for the post of Actuary was forwarded this way in comply with the request made by the Ministry of Finance by their letter No. MF1/05/01/IBSL/1 dated 09th August 2016.</p> <p>Department of Management Services has granted approvals by their letter No. DMS/1659/I dated 07th December 2016 only for the posts of Assistant Actuary and Executive as those two posts are newly created posts. The post of Actuary is an already approved position and only the SOR for the same has been requested to forward which we acted accordingly. The future actions will be taken according to the instructions of the Board in this regard.</p>
(d)	Salaries and allowances had been paid in terms of the provisions stated in the Administration Manual, of which the approval had not been received even up to August 2017 for 03 posts that the recruitments had been made in the year 2016.	As mentioned in above (a) the relevant approvals have been obtained for the SOR of these positions, at the time of approving the positions from relevant authorities. In view of that, salaries and allowances of these positions are paid as per the approved salary scales by the Ministry of Finance.

## Matters raised by the Auditor General and the Responses made by the Board for 2016

	Auditor General's Report	IBSL Responses
<b>5.</b>	<b>Accountability and Good Governance</b>	
<b>5.1</b>	<b>Budgetary Control</b>	
	Variances ranging from 100 per cent to 246 per cent between the budgeted income and expenditure of the Board were observed in comparing with the actual values including in the financial statements, thus indicating that the budget had not been made use of as an effective instrument of financial control.	Budgetary variance of 246% can be observed in relation to interest income and payment of income tax. This is mainly due to increase in actual annual fees received compared to the budgeted annual fees and increase in interest income followed by a significant growth of market interest rate. A similar variance can be observed in payment of tax as the income tax allocation is only based on the interest income. Since the budget for any particular year is prepared at end of the previous year and budgetary allocation is estimated by considering the situation prevailing at that time, a budget could not represent the actual figures. Further, We do our best effort to prepare the budget of the board minimizing all possible variances.
<b>6.</b>	<b>Systems and Controls</b>	
	<p>Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.</p> <p><b>Areas of Systems and Controls</b></p> <p><b>(a) Financial Control</b></p> <ul style="list-style-type: none"> <li>(i) Not introducing a proper methodology for the payments made by the Insurance Policy Holders' Protection Fund.</li> <li>(ii) Not deploying money of the fund in long-term investments.</li> <li>(iii) Not settling the advances provided to the officers expeditiously.</li> </ul> <p><b>(b) Control of Income</b></p> <ul style="list-style-type: none"> <li>(i) Not bringing to account the income on the Accounting Policy of the Board.</li> <li>(ii) Delay in the recognition of income.</li> </ul> <p><b>(c) Personnel Administration</b></p> <p>Making the relevant selections without transparency in making recruitments.</p>	<p>Attention will be paid regarding the relevant areas as required.</p> <p>(a) iii. All advances given to IBSL Officers were duly settled.</p> <p>(c) At the 3rd Audit Committee Meeting of IBSL held on 11.10.2017, the Superintendent of Audit informed that this has been included as the recruitment process for the post of Driver had been taken a long time period. It is pertinent to mention that the delay was occurred as to follow a transparent process in this regard and the whole process has been done in a transparent manner.</p>

## APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31<sup>st</sup> December 2016

Name of the Insurance Company	Class of Insurance Business
AIA Insurance Lanka PLC	Long Term Insurance
*AIG Insurance Ltd.	General Insurance
Allianz Insurance Lanka Ltd.	General Insurance
Allianz Life Insurance Lanka Ltd.	Long Term Insurance
Amana Takaful PLC	General Insurance
Amana Takaful Life PLC	Long Term Insurance
Arpico Insurance PLC	Long Term Insurance
Softlogic Life Insurance PLC	Long Term Insurance
Fairfirst Insurance Limited	General Insurance
Ceylinco General Insurance Limited	General Insurance
Ceylinco Life Insurance Limited	Long Term Insurance
Continental Insurance Lanka Ltd.	General Insurance
Cooperative Insurance Company Ltd.	General Insurance
Cooplife Insurance Limited	Long Term Insurance
HNB Assurance PLC	Long Term Insurance
HNB General Insurance Limited	General Insurance
Janashakthi Insurance PLC	Long Term Insurance
Janashakthi General Insurance Limited	General Insurance
Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
LOLC General Insurance Limited	General Insurance
LOLC Life Assurance Limited	Long Term Insurance
MBSL Insurance Company Limited	General Insurance and Long Term Insurance
National Insurance Trust Fund	General Insurance
Orient Insurance Limited	General Insurance
People's Insurance PLC	General Insurance
Seemasahitha Sanasa Rakshana Samagama	General Insurance and Long Term Insurance
Sri Lanka Insurance Corporation Ltd.	General Insurance and Long Term Insurance
Union Assurance PLC	Long Term Insurance
Union Assurance General Limited	General Insurance

\*No longer accepting any new insurance business and are in the process of exiting from Sri Lanka.

## APPENDIX II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31<sup>st</sup> December 2016

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 (Private) Limited	Long Term and General Insurance
7	Aquiline Insurance Brokers (Pvt) Ltd.	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.	Long Term 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	D S 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 (Pvt) 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	InsureMe Insurance Brokers (Pvt) 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
35	Maxwell Insurance Brokers (Private) Ltd.	Long Term and General Insurance
36	Mercantile Insurance Brokers (Pvt) Ltd.	General Insurance
37	My Insurance Brokers (Pvt) Ltd.	General Insurance
38	Nations Insurance Brokers Ltd.	Long Term and General Insurance
39	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
40	Procare Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
41	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance

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42	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
43	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
44	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
45	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance
46	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
47	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
48	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
49	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
50	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
51	UN Insurance Brokers (Pvt) Ltd.	General Insurance
52	United Insurance Brokers (Pvt) Ltd.	General Insurance
53	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
54	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
52	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
56	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 lifetime. 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 insurer 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.

### Capital Adequacy Ratio (CAR)

Measures adequacy of Total Available Capital (TAC) to support the Risk Capital Required (RCR). CAR = (TAC/RCR) x100

### Cedent

Client of a reinsurance company (primary insurance company).

Cession - Portion of risk that is passed on to reinsurers by ceding companies.

### 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.

### Concentration Risk

Additional credit risk that exists if an insurer's assets are not sufficiently diversified to provide appropriate mitigation of the inherent credit risk.

### Credit Risk

The risk that a borrower or counterparty will fail to meet their obligations when due.

## GLOSSARY CONTD...

### 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.

### 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.

### Liability Adequacy Test (LAT)

Assessment at the end of each reporting period whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts.

### Liability Risk

The risk that the technical provisions and policyholder liabilities established by the insurer will be insufficient to pay the future claims and expenses on the policies currently in force.

### 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.

### Market Risk

The risk of decreases in the market value of the insurer's assets.

### Maturity

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

### Mortality

The ratio of death to the entire population or to a particular age group. It is globally expressed in numbers of rates and set out in mortality tables.

### 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.

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

### 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).

### Net Loss Ratio - General Insurance Business

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

## GLOSSARY CONTD...

### 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.

### One off Surplus

Surplus created due to change in valuation method of policy liabilities from Net Premium Valuation to Gross Premium Valuation.

### Operating Profit

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

### Operational Risk

The risk of loss resulting from inadequate or failed systems, people, processes or external events.

### 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 assume risks in return for insurance premium and has direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

### Reinsurance

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

### Reinsurance Commission

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

### Reinsurance Inwards

The acceptance of risks under contract of reinsurance.

### Reinsurance Outwards

The placing of risks under contract of reinsurance.

### Reinsurance Profit Commission

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

### Retention

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

### Retrocession

A transaction in which a reinsurer transfers risks it has reinsurance to another reinsurer.

### Risk Capital Required (RCR)

Risk Capital Required is the aggregate of the capital required to address all relevant and material categories of risk prescribed in terms of Solvency Margin (Risk Based Capital) Rules 2015.

RCR is calculated separately for general and long term insurance and includes both insurance and shareholder fund.

(a) for general insurance business :

$$\text{RCR} = \sqrt{[(\text{credit risk capital charge} + \text{concentration risk capital charge} + \text{reinsurance risk capital charge} + \text{market risk capital charge})^2 + (\text{liability risk capital charge} + \text{operational risk capital charge})^2]}; \text{ and}$$

(b) for long term insurance business :

$$\text{RCR} = \max \{(\text{SVCC}, \sqrt{[(\text{credit risk capital charge} + \text{concentration risk capital charge} + \text{reinsurance risk capital charge} + \text{market risk capital charge})^2 + (\text{liability risk capital charge} + \text{operational risk capital charge})^2]})\}$$

### Solvency Margin (Risk Based Capital)

Regulatory capital requirement set out for the determination of amount of unencumbered capital that an insurer must have an addition to technical provision for insurance liabilities and the standard for capital adequacy including an absolute minimum as well as a risk-based requirement as defined in Solvency Margin (Risk Based Capital) Rules 2015

## GLOSSARY CONTD...

made under Section 105 read with Section 26(1) 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.

### Surrender Value Capital Charge (SVCC)

Risk of an extreme adverse scenario where all life insurance contracts are surrendered simultaneously.

### Technical Provision

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

### Tier 1 capital

Permanent capital that is fully available to cover the losses of an insurer at all times on both a going concern and a winding up basis.

### Tier 2 capital

Capital that lacks some of the absorbency characteristics of the Tier 1 capital, but nevertheless provides some loss absorbency during ongoing operations or on winding up.

### Total Available Capital (TAC)

Total available capital is determined as the sum of Tier I capital and Tier II capital less any prescribed deductions in terms of Solvency Margin (Risk Based Capital) Rule 2015.

### Underwriting Profit

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

### Unearned Premium

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

### Unearned Premium Reserve

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

### Unexpired Risk Reserve

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

# **GENERAL INFORMATION**

## **OFFICE ADDRESS**

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Web site : 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**

Mr. A. R. Desapriya  
Dr. Ali Asger Shabbir Gulamhusein  
Mr. Jeromy Bolling



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