PROTECTING WHAT YOU VALUE

ANNUAL REPORT | 2017

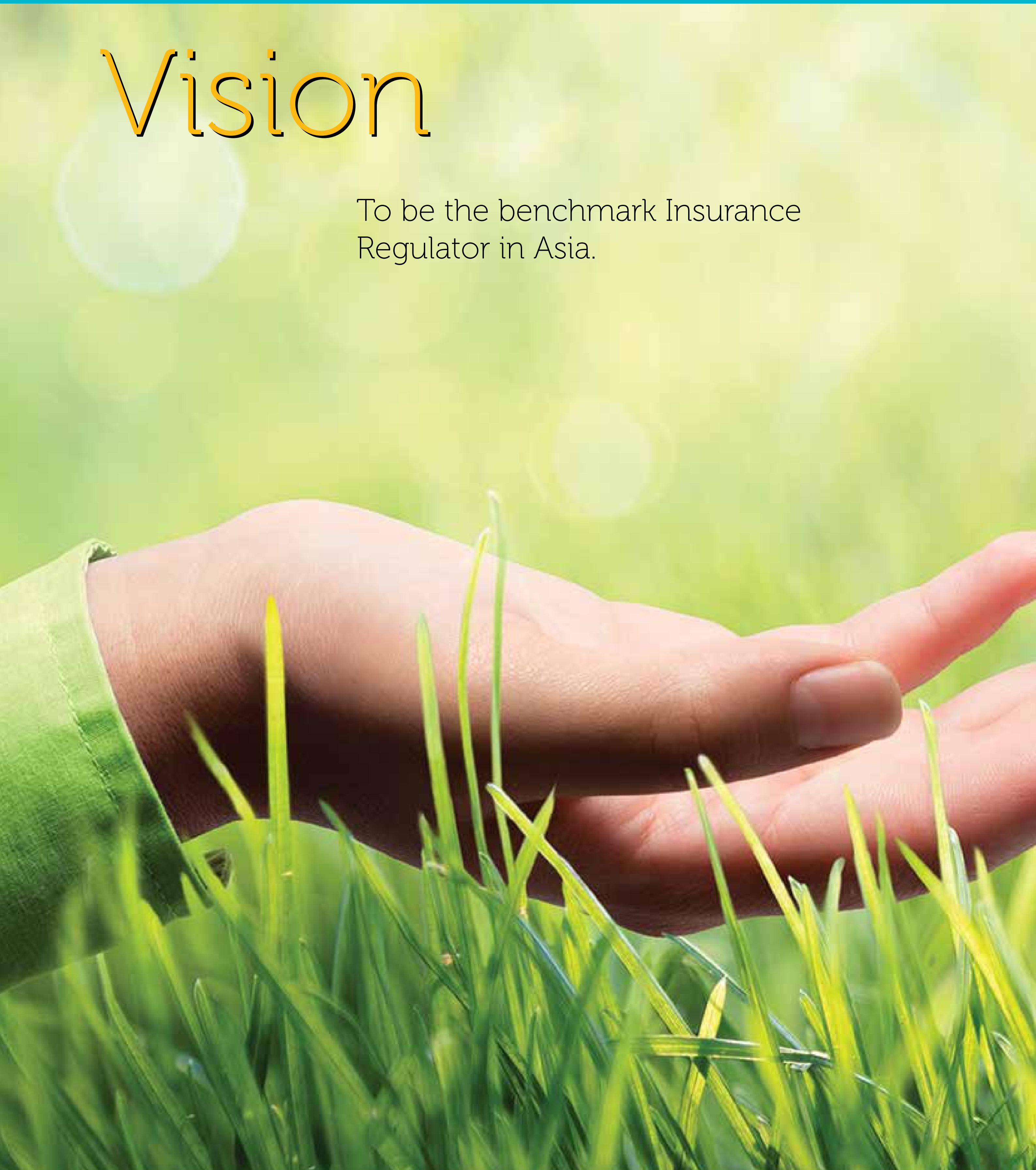
INSURANCE REGULATORY COMMISSION OF SRI LANKA

Contents

Knowing your value protects you from having to prove it.

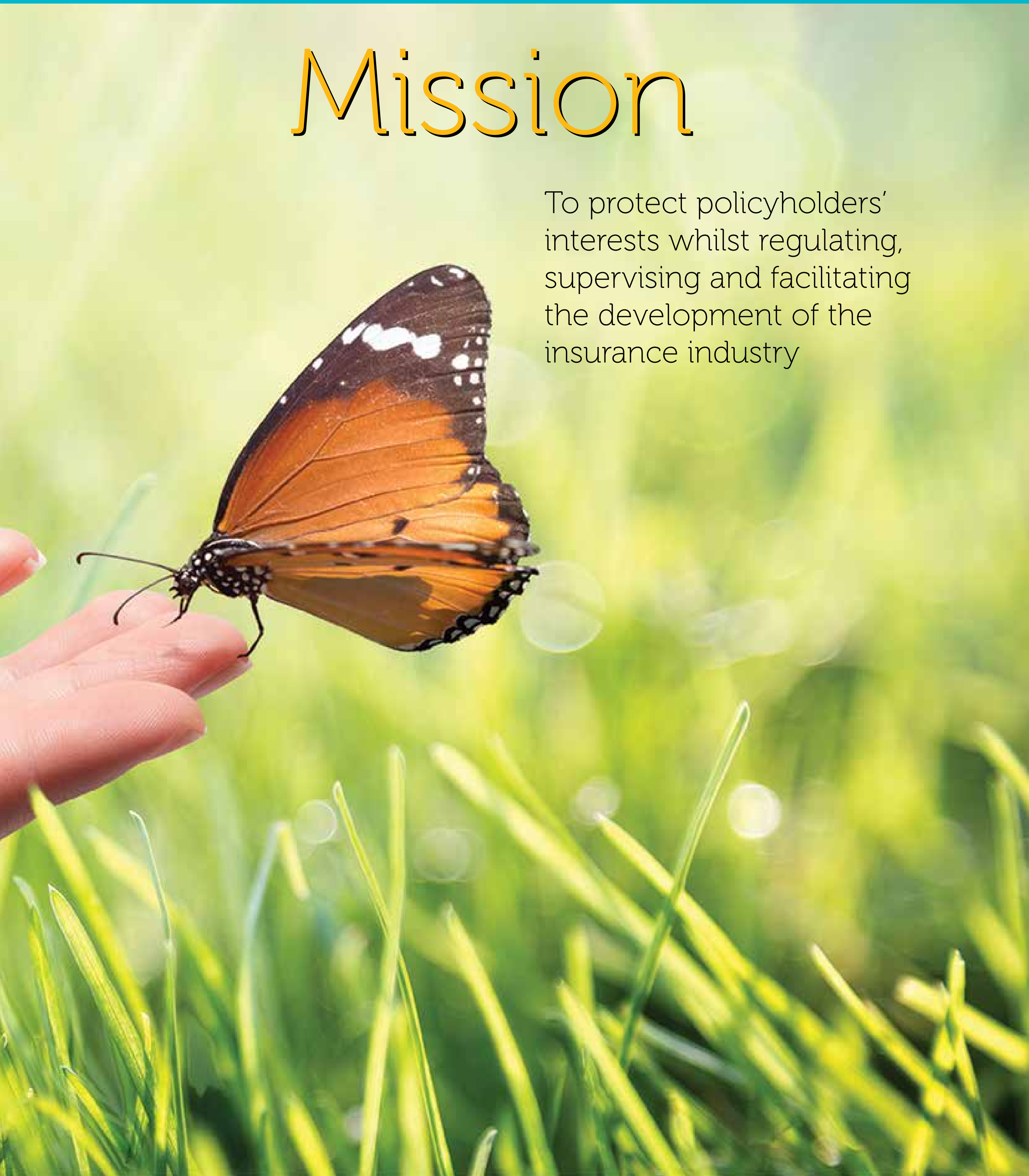
Vision

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

- No. of Insurance Companies - 28
- No. of Insurance Brokers - 60
- No. of Insurance Agents representing insurers - 45,228
- No. of Insurance Agents registered with the insurance brokers - 419
- Insurance awareness reached 796 Grama Niladhari Divisions in 10 Divisional Secretariats

Performance of Insurance Industry

	2017	2016	Change %
Gross Written Premium (Rs. Millions)	164,623	143,067	15.07%
Total Assets (Rs. Millions)	582,417	525,329	10.87%
Penetration as a % of GDP	1.24	1.20	3.33%
Insurance Density (Rs.)	7,677	6,747	13.78%

Performance of the Commission

	2017	2016	Change %
Policy Holders' Protection Fund (Rs. Millions)	4,110	3,291	24.89%
Cess Income (Rs. '000)	418,235	408,179	2.46%
Annual Fees (Rs. '000)	142,175	125,489	13.30%

Rs. 582,417 Mn.
Total Assets of Insurance Industry

Rs. 164,623 Mn.
GWP of Insurance Industry

Management Information

"In 2017, the insurance industry in Sri Lanka recorded positive growth both in terms of premia and assets. The General Insurance and Long Term Insurance premia recorded 17% and 12.65% YoY growth respectively, whilst the total assets of the industry grew moderately by 10.87%."

Chairman's Message

I have great pleasure in presenting the Annual Report of the Insurance Regulatory Commission of Sri Lanka (IRCSL) for the year 2017 to be submitted before the Parliament of Sri Lanka, as required in terms of section 106 of the Regulation of the Insurance Industry Act, No. 43 of 2000.

In 2017, the insurance industry in Sri Lanka recorded positive growth both in terms of premia and assets. The General Insurance and Long Term Insurance premia recorded 17% and 12.65% YoY growth respectively, whilst the total assets of the industry grew moderately by 10.87%. The growth in premium was largely driven by General Insurance Business, mainly from Motor and Health Insurance sub-classes. The combined assets of the insurance sector represented 3.4% of the total assets of major financial institutions.

Insurance companies have been engaged in aggressive marketing practices, coupled with the deployment of new and innovative products and pricing policies. However, despite the growth reported in total GWP, the insurance penetration in Sri Lanka, which reflects the GWP as a percentage of Gross Domestic Product (GDP), is considerably low (1.24% in 2017 and 1.20% in 2016) compared to most of the other countries in the Asian region. Further, the number of life insurance policies as a percentage of the total population is 14.3% in 2017, which reflects that the majority of the Sri Lankan population is without a life policy. Therefore, the Sri Lankan insurance industry, in my view, has much room to grow.

The demand for insurance in Sri Lanka is dependent upon the level of disposable income of the consumers. Therefore, the low level of disposable income, coupled with the lack of awareness on the importance of insurance and availability of government sponsored social security schemes have been the deterrent factors in moving the insurance penetration level up. The economic forecast indicates that Sri Lanka is expected to move into 'high middle income level' bracket, which will result in improvement of disposable incomes, thereby enhancing the level of insurance penetration. The increase in disposable income will surely create a demand-driven insurance industry in the future.

The amendments to the taxation laws, which came into effect in April, 2018, caused significant effects in surplus distribution to shareholders and policyholders in insurance companies engaged in Long Term Insurance Business, computation of taxable profits, etc. The industry sought the approval of the IRCSL to transfer the said surplus to the shareholders' fund and to maintain it as a restricted reserve. Accordingly, several life insurance companies transferred relevant surpluses to the shareholders' fund on a restricted basis from the life fund with the recommendation of the appointed Actuaries, resulting in significant increase in profits for the year 2017.

The IRCSL is a beneficiary of two foreign funded projects, i.e. Capital Market Development Programme (CMDP) of the Asian Development Bank (ADB) and the Financial Sector Modernization Project (FSMP) of the World Bank (WB). The ADB provides technical assistance to develop an education strategy & implementation plan to enhance financial literacy of insurance products and to develop a comprehensive dispute resolution mechanism in accordance with the international best practices. The WB project provides financial and technical assistance for strengthening the regulatory capacity of the IRCSL and to develop the necessary infrastructure within the IRCSL. We hope that the aforesaid reforms will contribute in a positive manner to create conducive regulatory environment for the insurance industry.

The Government declared 1st September in each year as the "National Insurance Day", marking an important milestone in the insurance industry of Sri Lanka, recognizing the contribution made by the insurance industry to the national economy and welfare of the society. A special

Chairman's Message

commemorative stamp and a first day cover were presented to His Excellency the President to commemorate the inaugural National Insurance Day in 2017 by the Hon. Deputy Minister of Posts, Postal Services and Muslim Religious Affairs. This is a realization of a joint effort by the IRCSL and IASL. Declaration of 1st September as the National Insurance Day and promotional activities carried out by the IRCSL and IASL during the insurance awareness month (September) have been beneficial to promote the importance of insurance.

The IRCSL is also actively engaged in fostering the relationship with the International Association of Insurance Supervisors (IAIS) and Asian Forum of IRCSL Regulators (AFIR). The IRCSL pursues a robust regulatory and supervisory framework, which is compatible with the domestic market conditions and capabilities of the industry players, whilst facilitating the development of the insurance market, and promoting efficiency in services and market stability.

I assumed office as the Chairman of the IRCSL in April, 2018 and the Hon. Minister of Finance and Mass Media appointed new Members of the IRCSL in May, 2018. I wish to place on record our appreciation for the contribution made by Mrs. Indrani Sugathadasa, former Chairperson of the IRCSL and former Members of the IRCSL during 2017.

In conclusion, on behalf of the Members of the IRCSL, I wish to convey my gratitude to all industry stakeholders, including all registered INSURANCE COMPANIES & BROKERS and authorized intermediaries, the IASL, Sri Lanka Insurance Brokers' Association (SLIBA), Sri Lanka Insurance Institute (SLII) and Insurance Ombudsman for the tremendous support, cooperation and cordial relationship that they continue to maintain with the IRCSL. I also wish to take this opportunity to thank the Director General, Directors, Assistant Directors and the Staff of the IRCSL for the commitment, dedication and resilience in executing decisions of the IRCSL.

Mano Tittawella
Chairman

Director General's Review

"The IRCSL has identified many regulatory and supervisory reforms to be implemented within the next five years, under the Financial Sector Modernization Project. Some of the key activities identified are the revamping of the Insurance Law to be in line with the Insurance Core Principles issued by the International Association of Insurance Supervisors, developing of a regulatory framework for micro insurance, Review of the RBC Rule with attention to IFRS 17, full migration into Risk Based Supervision with an IT integration and enhanced rules on business conduct. The IRCSL is also focused on streamlining the consumer claims handling procedure and to increase awareness on insurance literature."

I'm indeed pleased to recount the accomplishments of the IRCSL and remark on industry performance for the year 2017. Year 2017 was unique, signifying many challenges for the regulator for orderly supervision of the industry for better policyholder protection.

Key Regulatory Initiatives

Year 2017 witnessed a long awaited amendment to the Regulation of Insurance Industry Act coming into effect. The amendments provide for the change of name of the Regulator from the Insurance Board of Sri Lanka to the Insurance Regulatory Commission of Sri Lanka IRCSL and provisions relating to the exemptions from the mandatory listing requirement brought in the 2011 amendment. It also has provisions for insurance agents of insurers to function as intermediaries for one life insurance company and one general insurance company, thus removing the restriction placed previously. This amendment paves the way for insurance agents to function in the segregated insurance companies.

The year brought in new challenges post implementation of RBC sans adequate actuarial support internally. Particularly, in view of new tax laws introducing tax charges on surplus transfers from life policyholders' fund to shareholders' fund. The accumulated additional buffers kept in the non-participating businesses by insurance companies were transferred to the respective shareholder funds, prior to the effective date of the new tax regime. Insurers carrying on long term insurance business also requested the direction of the IRCSL to transfer the surplus that was created in the long term insurance business due to the transition of capital adequacy laws introduced by the IRCSL in year 2016, to the shareholder funds, as previously the IRCSL had required insurers to hold the said surpluses in the life policyholder funds. Hence, the IRCSL needed to give guidance to companies on the computation of the said surplus, manner of transfer and maintenance within the shareholders' fund. To assist the IRCSL on actuarial support in this regard, the IRCSL retained an external actuarial consultancy firm to provide the required technical advise, which was a time constraining exercise to meet tight deadlines. The IRCSL wishes to thank the Chartered Accountants of Sri Lanka for the views expressed on the guidelines as it had to be in accordance with the Accounting Standards. The timely issuance of the guidelines permitted companies to transfer the said surplus, arisen long before the new tax laws were introduced.

The IRCSL was also actively involved in issuing rules and directions to the industry to streamline certain processes. Some of which are; the registration of loss adjusters' rules, delivery of insurance policy documents to policyholders within set timelines, and standardizing the cooling off period for long term insurance products.

Another area of improvement was the issuance of directions on

Director General's Review (Cont.)

the role and responsibility of the Principal Officer and the Specified Officer of the insurer to clearly demarcate their responsibilities.

The IRCSL revised the investment parameters of the long term insurance fund and the technical reserve based on industry requests. The revisions were mainly focussed to accommodate to overcome practical issues faced by companies on investments. The revisions also included total company and group exposure limits which were not there in the previous requirements.

The IRCSL also issued guidelines on investments to insurers to ensure that funds under its management are invested in sound and prudential manner adopting a transparent approach.

It is noteworthy to mention that after the issuance of guidelines on selling foreign health insurance products, insurance brokers have benefitted to earn additional income in a more regularized manner. It has also prohibited and closed down avenues for all unregulated persons acting as intermediaries in this non admitted line of business, which is a positive measure in protecting policyholder rights.

With the issuance of circular # 38 and 39 on insurance products, insurers are given timelines to furnish necessary documentation to the IRCSL when launching new products or revising existing products. This gives the regulator to intervene in the specifications of the products prior to launch with the objective of protecting policyholders.

We also revised the reinsurance placement requirements to ensure a more streamlined and inclusive approach to the said regulatory framework. This included more safeguards being put in place for placement with reinsurance pools and also requiring insurance companies to report to the IRCSL any significant alteration to their reinsurance programmes.

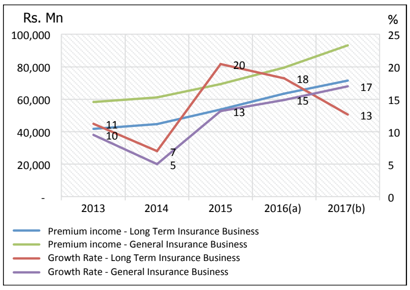
Another reform which took place is the removal of the restrictions placed on insurers to pay the surrender value on linked long term insurance business. The law precluded insurers to pay policyholders the surrender value if the policy was not kept in force for 3 consecutive years. However, this provision was relaxed permitting insurers to use its discretion on a period less than three years.

The IRCSL also increased the minimum stated capital requirement for a company intending to operate as an insurance broker to Rs 2.5 million, given the increase of operational expenditure.

Performance of the insurance sector

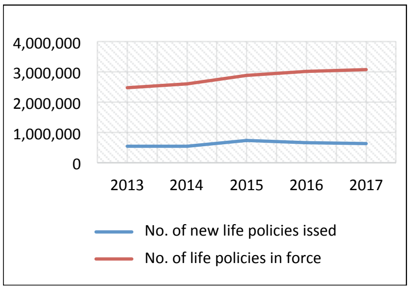
Gross Written Premium

With the Sri Lankan economy seeing a downward trend with GDP growth rate declining from 4.5% (2016) to 3.1% in year 2017 mainly due to natural hazards impacting the country, the insurance business too witnessed a slower growth predominantly in the life insurance sector declining from 18% (2016) to 12.6% (2017). This is a significant drop from the growth momentum witnessed in previous years.



This slowdown impacted the overall growth rate to come down from 16.35% (2016) to 15.07%. According to the Swiss Re. Sigma Report, this slowdown can be seen in the advanced markets as well for the life insurance sector. In contrast, the general insurance sector growth rate improved from 14% (2016) to 17%, recording the highest growth rate for the past five years. However, as seen in the chart, the absolute values have increased year on year, showing an increase demand for insurance.

This slowdown in growth for the life sector from year 2015 is apparent from the number of new life policies issued, which has been on the downward trend.



The drop in the number of new life policies in year 2017 compared to year 2015 has been around 104,355. In contrast, General Insurance business, has seen an improvement in the GWP as well as in the number of new policies issued. The number of new insurance policies has increased by 219,845 in year 2017 compared

Director General's Review (Cont.)

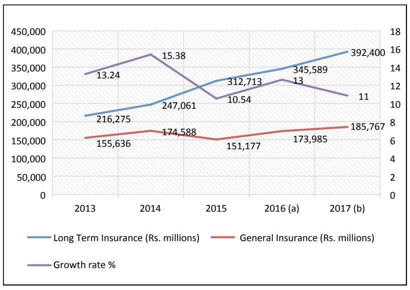
to year 2016.

Insurance Penetration & Density

Despite positive trends in growth, Sri Lanka lags behind Emerging Asian countries on insurance density and penetration. Penetration levels remained low at 1.24%, 0.54% for long term and 0.70% for general insurance business. However, the GWP generated by the Agriculture and Agrarian Insurance Board and the Sri Lanka Export Credit Insurance Corporation have not been considered for the computation of the penetration rate as these two institutions do not come within the supervisory and regulatory purview of the IRCSL. Similarly, insurance premium generated by unregulated Micro Insurance Institutions and premium charged on loan protection covers given by certain 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 by 14% to Rs 7,677 from Rs 6,747.

Insurance Assets

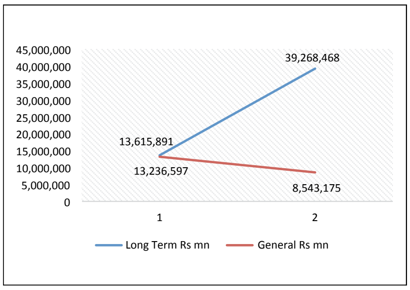
Value of assets reported by insurers has increased to Rs 582,417 million in year 2017 from Rs 525,329 million reported in year 2016.



However, the growth rate has declined from 12.61% to 10.87% in year 2017. The growth rate in assets of the Life insurance business has been 13.5%, whereas the growth rate in assets of the General Insurance business has been only 6.77%.

Profitability in the sector

Long Term insurers have shown significant profits at year end, recording growth in profit of 72% before tax. With the transfer of the surplus created due to change in capital adequacy requirements being Rs 15, 867 million, the profits have surged to Rs. 39, 268 million.

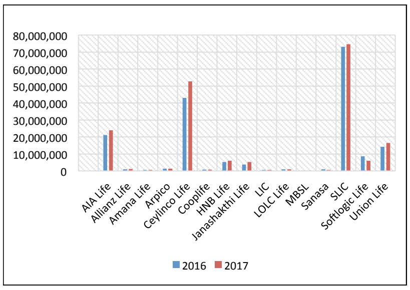


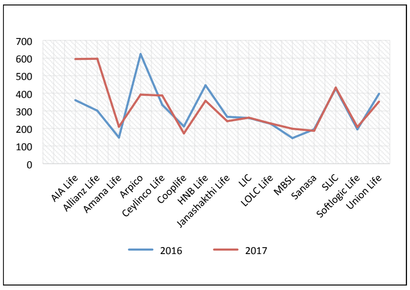
In contrast the profitability of the General Insurers has declined compared to year 2016, and recorded Rs 8,543 million at year end. The decline is in view of Sri Lanka Insurance Corporation gaining a significant overdue dividend income in year 2016. Other than one company, all other general insurers have been able to derive profits showing a turnaround compared to 2016 where four companies showed losses from business.

Solvency

The Risk Based Capital Rules, require insurers to maintain a minimum of Rs 500 million as the Total Available Capital (TAC) and a minimum of 120% of Capital Adequacy Ratio.

Solvency – Long Term Insurance Business





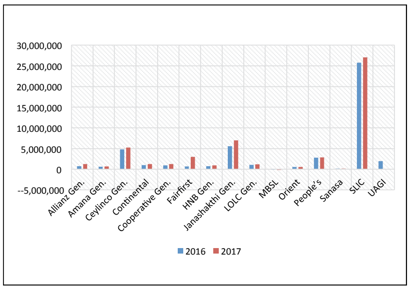
Companies carrying on long term insurance business were able to meet the minimum TAC requirement of Rs 500 million for years 2016 and 2017, other than MBSL Insurance. Total TAC of the industry improved by 9.17% in year 2017 and recorded at Rs 191,175 million. As regards the CAR, all companies were able to meet the Enforcement Level of CAR, which is set at 160%, for years 2016 and 2017, other than MBSL Insurance, which could not meet the Enforcement Level in year 2016. However, their CAR was above the minimum level required. The average CAR for the industry improved from 302% to 321% in year 2017.

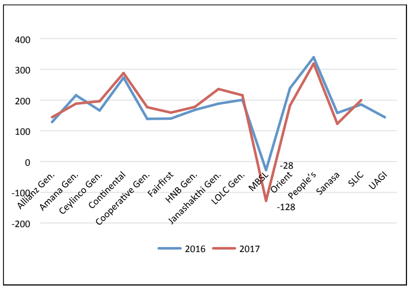
Solvency – General Insurance Business

Except for MBSL Insurance and Sanasa Insurance, all others met the minimum TAC requirement. Sanasa Insurance was a composite company and they had

Director General's Review (Cont.)

invested partly in the subsidiary company incorporated to transfer the general insurance business. The overall TAC had improved from Rs 47,160 million to Rs 52,142 million depicting a 10.5% increase. It is noteworthy to mention the significant improvement in TAC of Fairfirst Insurance, an increase by 329%.

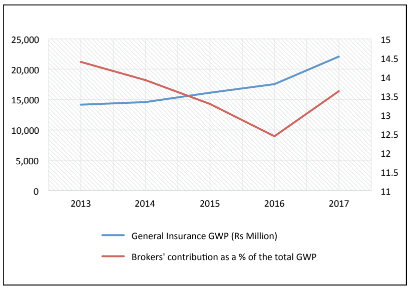




With regard to the CAR, except for MBSL Insurance all others met the minimum CAR of 120%. However, there were few companies whose CAR fell below the Enforcement Level of 160% and such companies are monitored closely. The average CAR for year 2016 and 2017 remained the same at 177%.

Performance of Brokering Business

The total Gross Written Premium of Brokers recorded a remarkable growth of 26.11% compared to 2016. As a result, the contribution to the total Gross Written Premium too improved from 12.43% (2016) to 13.62 in 2017. This contribution consists of premium income generated through general insurance business and long term insurance business being 98.48% and 1.52% respectively.



Future Strategies

The IRCSL has identified many regulatory and supervisory reforms to be implemented within the next five years, under the Financial Sector Modernization Project. Some of the key activities identified are the revamping of the Insurance Law to be in line with the Insurance Core Principles issued by the International Association of Insurance Supervisors, developing of a regulatory framework for micro insurance, Review of the RBC Rule with attention to IFRS 17, full migration into Risk Based Supervision with an IT integration and enhanced rules on business conduct. The IRCSL is also focused on streamlining the consumer claims handling procedure and to increase awareness on insurance literature.

In Appreciation

I appreciate the guidance and support given to me and the senior management of the Secretariat by the Commission to successfully carryout the activities of the IRCSL. I also thank the Presidents and office bearers of IASL, SLIBA, SLII and all insurance companies, brokering companies for the cooperation extended to the Secretariat. In conclusion, I appreciate the support given to me by the senior management and all staff of the Secretariat, without which we could not have achieved the goals for the year.

Damayanthi Fernando
Director General

දමයන්ති ප්‍රනාන්දු

Commission Members and Staff

Members of the Commission

[1] Mr. Mano Tittawella - Chairman
[2] Mr. C. J. P. Siriwardana
[3] Mr. Upul Deshapriya
[4] Mr. A. R. Desapriya
[5] Mr. Yudhishtran Kanagasabai
[6] Mr. D. N. R. Siriwardena
[7] Mr. Errol Perera

Profiles of Members of the Commission

[1] Mr. Mano Tittawella Chairman

Mr Mano Tittawella is the Secretary General of the Secretariat for Coordinating Reconciliation Mechanisms (SCRM), which is entrusted with coordinating Transitional Justice Mechanisms in Sri Lanka.

Mr Tittawella is also the Senior Adviser to the Hon. Minister of Finance and Mass Media.

Mr Tittawella was the Senior Presidential Adviser on Economic Affairs and was the Senior Director General – President's Office from August 2003 to November 2005. He was the first Chairman and the Chief Executive Officer of the Strategic Enterprises Management Agency (SEMA), which was an initiative that he promoted to bring better accountability, good governance and enhanced performance to the largest public enterprises in Sri Lanka. Apart from serving on the Board of National Council for Economic Development (NCED), which was the apex body, coordinating all economic development activities in Sri Lanka, he served as Chairman of Task Force to Rebuild the Nation (TAFREN), which was set-up to handle Post-Tsunami Reconstruction and Recovery of the Country.

Mr Tittawella has held many other key positions in the State Sector, such as Director General of Public Enterprises Reform Commission (PERC) – the then Privatization Agency of the Government of Sri Lanka and Chairman of People's Bank – a state owned bank in Sri Lanka, along with many Board positions in some of Sri Lanka's largest state sector enterprises. Mr Tittawella has over 35 years' experience in senior positions in the Private Sector as well.

Born on 8th May 1960, Mr Tittawella was educated at Royal College Colombo and has an MBA in Capital Markets & Finance, from the University of Edinburgh and a Post-graduate Diploma in Human Computer Interaction from the British Open University. He was also a Member of the International Board of Trustees (IBT) of the Chartered Institute of Marketing (CIM) UK, from year 2000 to 2003.

[2] Mr. C.J.P. Siriwardana

Mr. C.J.P. Sirwardana is a Deputy Governor of the Central Bank from August 2017. He is in-charge of Financial Sector Regulation and Supervision Cluster of the Central Bank. He has over 31 years of experience in the Central Bank especially in the areas of Economic and Price Stability, Financial System Stability and other Agency Functions carried out by the Bank. Prior to the appointment as a Deputy Governor, Mr. Siriwardana held the position of the Assistant Governor in-charge of Public Debt, Information Technology, Legal and Compliance, Macroprudential Surveillance, Human Resources, Policy Review and Monitoring, Payments and Settlement and Risk Management Departments.

Mr. Siriwardana holds an M.Sc Degree and a Postgraduate Diploma in Quantitative Development Economics from the University of Warwick, U.K. and a B.Sc Degree in Agriculture from the University of Ruhuna. Mr. Siriwardana has served as the Secretary to the Monetary Board of the Central Bank of Sri Lanka. Mr. Siriwardana, currently serves as a Chairman of the Credit Information Bureau, Director of Colombo Dockyard PLC., Director of Insurance Regulatory Commission of Sri Lanka, Commission Member of Securities Exchange Commission and Chairman of National Payment Council.

[3] 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 Master (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 has been working as the Registrar General Companies. Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka, an ex-officio member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and also an ex-officio member of the Securities and Exchange Commission of Sri Lanka.

[4] 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 Jayawardanapura, Sri Lanka and MBA Degree from University of Lublijana, Slovenia.

[5] Mr. Yudhishtran Kanagasabai

Mr. Kanagasabi is a Non-Executive, independent Director and Chairperson of the Audit Committee, Related Party Transaction Committee and member of Remuneration and compensation Committee since 1st February 2018.

He is the Chairman of the Board Audit Committee of Ceylon Tobacco PLC. Non - Executive Director and member of the Board Audit Committee of Millennium Information Technologies (Pvt) Limited, Cargills Food Company Limited, Hunters Limited PLC and Lanka Canneries Limited.

He was the Chairman of the Audit Committee of Union Bank PLC (a Texas Pacific Group Subsidiary) from August 2016 to 31 December 2018 and a Senior Partner/ Chief Executive Officer of PricewaterhouseCoopers in 2006. He retired on 31 March 2017.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, worked at PricewaterhouseCoopers, since its inception.

Having joined the Firm in 1981, he held progressively responsible positions before appointment as Senior Partner / Chief Executive Officer in 2006. He retired on 31 March 2017. He elevated the profile of both the Sri Lankan and the Maldives Practices of the Firm to consistently provide quality solutions to clients within appropriate standards and applicable best practices. Known to be an ethical leader with an impressive track record of successful management and execution, he has extensive knowledge of all current economic, social and regulatory issues.

[6] Mr. Errol Perera

Mr. Errol A. D. Perera has held Senior Management positions in varying types of businesses in England, Malaysia and Sri Lanka. On his return to Sri Lanka he focused on promoting joint venture projects with foreign investment and technology transfers. He was successful in obtaining Board of Investment approvals with Pioneer Status for Directory Publishing, Pay Phones and Paging Joint Venture Projects. He was also instrumental in promoting Venture Capital and Unit Trust 'start-ups' in Sri Lanka with Commercial Bank & Foreign Collaboration. Mr. Perera was the proud winner of the GTE (now Verizon USA) Presidents International Trophy in 1990. In 1995 under his stewardship, the Directory Publishing Team won the first-ever Sri Lanka National Quality Award. He was a Founder Member of the American Chamber of Commerce (AMCHAM). He is at present an Independent Director of several Public and Private Companies in Sri Lanka.

[7] Mr. Upul Deshapriya

Mr. Deshapriya is an Attorney-At-Law and holds an LL.B (Hons) Degree from the University of Colombo. He was a Working Director of Sri Lanka Bureau of Foreign Employment during years 2015 to 2018 and former Treasurer of the B & R Association of Sri Lanka during years 2014 - 2016.

Senior Management Team

[1] Mrs. Damayanthi Fernando (Director General)
[2] Mrs. Chamarie Ekanayake (Director Supervision)
[3] Mr. Ranil Angunawela (Director Legal)
[4] Mr. Sudheera Senaratne (Director Investigation)
[5] Mr. Rajan Nirubasingham (Assistant Director Legal)
[6] Mr. Bimsara Wijesinghe (Assistant Director Market Development and External Relations)
[7] Mrs. Sarika Wattuhewa (Assistant Director Supervision)

Staff Members

[1] Mr. Luxman Wijesinghe
[2] Mrs. Kokila Siriwardana
[3] Mrs. Merina Dias
[4] Mrs. Chandima Kamburugamuwa
[5] Mrs. Shanika Nanayakkara
[6] Mrs. Lasanthi Thotahewa
[7] Mr. Roshan De Costa
[8] Ms. Upalakshi Ranasinghe
[9] Mr. Sanath Udayanga
[10] Mrs. Malhari Wickramasinghe
[11] Mr. Charitha Wickramasinghe
[12] Ms. Nirosha Madushani
[13] Mr. Ethirraj Srikanthan
[14] Mrs. Decika Rathnayaka
[15] Mrs. Upendra Senevirathne
[16] Mrs. Ruvini Liyanage
[17] Mrs. D. W. S. S. Supulee
[18] Mr. Chaminda Lal Kumara

Staff Members

[19] Mr. Saman Senadeera
[20] Mrs. Priyangi De Silva
[21] Mrs. Vindyani Thulapitiya
[22] Mrs. Shashini Premalal
[23] Ms. Achini Serasinghe
[24] Mrs. Pavithra Punchihewa
[25] Mr. Lakmina Pathiraja
[26] Mrs. Kaushali Dayaratne
[27] Mr. Anushka Bandara
[28] Mrs. Sujeewa Ranasinghe
[29] Mr. Nayana Ravindra
[30] Mr. Dilan Mihiranga
[31] Mrs. Thushari Wijegunawardana
[32] Ms. Nilanka Walisundara
[33] Mrs. Veena Senevirathne
[34] Mrs. Thilini Wakista
[35] Mrs. Shyamalie Attanayaka
[36] Mr. Nalin Thalagala

Reviews

General Review

Administration of the Act and Regulatory Reforms

Legislation

The object and responsibility of the Insurance Regulatory Commission of Sri Lanka (hereinafter referred to as "the Commission") 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, 3 of 2011 and 23 of 2017.

Subordinate Legislation

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

Regulatory Reforms

The Act Amendment, inter alia, on the change of the name of the Regulator from the Insurance Board of Sri Lanka to the Insurance Regulatory Commission of Sri Lanka, listing exemption etc.

The following changes were made to the Act by the Amendment Act, No. 23 of 2017:

1. **Name change :** references given to in the Act for the "Insurance Board of Sri Lanka" and the "Board" were replaced with the "Insurance Regulatory Commission of Sri Lanka" and "Commission" respectively.

2. **Listing Exemption :** The following categories of insurers could apply for an exemption from the mandatory listing requirement:

(i) A local subsidiary insurance company, which is owned by a foreign holding company owning over 85% of the shares of the said company, and which the said foreign holding company is listed on a foreign stock exchange acceptable to the Commission. Further, such company would have to also satisfy the Insurance Regulator that the accounts of the said company are included in the group consolidated accounts of the foreign holding company and that such foreign holding company is legally required to ensure group level compliance with all regulatory requirements of the foreign stock exchange – (Section 15B of the Act).

(ii) A local insurance company, whose parent company is listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act – (Section 15C (2) of Act).

Apart from the above two categories, the National Insurance Trust Fund and the Sri Lanka Insurance Corporation Ltd. or any insurers formed upon segregation are exempted from the listing requirement. This exemption would only be valid as long as such entities are owned by the Government of Sri Lanka – (Section 15C (1) and (3) of Act).

Furthermore, in terms of Section 15D of the Act, insurance companies exempted from the listing requirement, would have to comply with terms and conditions as may be determined by the Commission from time to time.

3. **Insurance Agent:** Section 78(5) of the Act was repealed and substituted with the following:

(i) No person shall be eligible to be appointed as an insurance agent of a broker, if such person is already registered as an insurance agent of another broker or an insurer.

(ii) No person shall be eligible to be appointed as an insurance agent of an insurer, if such person is already registered as an insurance agent of a broker.

(iii) No person shall be eligible to be appointed as an insurance agent of an insurer for a particular class of insurance business, if such person is already registered an as insurance agent of another insurer for same class of insurance business.

Rules

Loss Adjuster Registration Rules

The Loss Adjuster Registration Rules were published in Extraordinary Gazette Number 2026/27 dated 5th July 2017.

The Act was amended in 2011 by the Amendment Act, No. 3 of 2011 to prohibit any person from acting or holding out as a loss adjuster [as defined in Section 114(1) of the Act], unless registered as a loss adjuster by the Commission. There is a limited exception from the requirement to register in Section 89A (2) of the Act.

Under Section 89B of the Act, the Commission may make rules requiring applicants to have specified qualifications and experience to be eligible to be registered as loss adjusters. Under Section 89 C (1) of the Act, the Commission shall make rules specifying the documents, information, and fee that applicants for registration must provide.

Accordingly, we have specified the qualifications and/or experience required for a person to be registered as a Loss Adjuster and same has been published in the aforesaid Rules.

Directions issued under Section 96A of the Act

i) Request for an extension to comply with Direction # 9

In terms of Direction #9, issued under Section 96A of the Act, the Principal Officer of an insurer or an insurance broker is required to 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, by 12th May 2017.

After considering several requests from the industry, the Commission has decided to grant an extension, till 30th September 2017, to insurance companies and insurance brokering companies to comply with the aforesaid Direction.

ii) Direction # 10 - Ancillary services provided by insurance brokers

After having received the views of Sri Lanka Insurance Brokers Association on the above, the Commission issued Direction # 10, stipulating that, if insurance brokering companies intend to provide ancillary services other than insurance brokering business as defined in the Act, they have to seek prior approval from the Commission.

iii) Direction # 11 - Overseas Health Insurance

The Commission has issued Direction # 11, prohibiting all insurance brokers from marketing and/or canvassing for sale, on behalf of any other insurance broker, and/or acting as sub agents for brokers to place, any foreign health insurance product.

iv) Direction #12- To all Insurance Companies and Insurance Brokering Companies

Further to the issuance of Direction # 9, the Commission became aware that, in some instances, communication exchanged between the Commission and the Principal Officer, was not brought to the attention of the respective board of directors of the insurer.

As such, the Commission issued the aforesaid direction, in terms of Section 96 A of the Act, to insurance companies and insurance brokering companies, requiring the Principal Officer to provide all communications with the Commission, to the attention of their respective Board of Directors, as early as possible.

v) Direction #13 - Role and responsibility of a Specified Officer

In terms of the Section 32 of the Act, every insurer carrying on insurance business shall employ as a specified officer, at least one person possessing the qualification of Associate of the Chartered Insurance Institute, or an equivalent qualification acceptable to the Commission, and having at least five years post qualification experience, at managerial level.

However, the Act does not define the role and responsibility of the specified officer.

As such, having reviewed the observations made by the Insurance Association of Sri Lanka (IASL), and considering the fact that, as a matter of practice, the specified officer has always performed a technical role in an insurance company, the Commission has defined the following criteria as the role and responsibility of a specified officer in terms of the said direction, under Section 96A of the Act:

Specified officer of an insurer shall;

1. be the head of the technical division of an insurer and shall report directly to the principal officer of the insurer;
2. have the authority to review and clarify any matters pertaining to regulations with Chief Finance Officer, Actuary, Investment Divisions and other relevant officers of the company and sign off on the required regulatory returns;
3. be responsible for assuring, to the Principal Officer, Board of Directors and to the Insurance Regulatory Commission of Sri Lanka, that the technical matters related to underwriting, risk management, reinsurance related guidelines and procedures and claims management followed by the company are adequate, prudent and ensure fairness to both policyholders and the insurance industry; and
4. be responsible to inform the Principal Officer and Board of Directors of any violation related to the technical provisions in the Act.

Amendments to Determination - 14 & 15

The Commission has re-arranged the formats of Determination 14 & 15 (without altering the contents) and added the Risk Assessment Report to Determination 14.

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.

28 companies were in operation as insurers as at the end of the year. The Registration granted to MBSL Insurance Company Limited to carry on Long Term and General Insurance Businesses, has been suspended with effect from 28th June 2017. Further, AIG Insurance Ltd. is no longer accepting any new insurance business and is in the process of exiting from Sri Lanka.

Chart 1
Classes of Insurance Business Carried on by Insurers

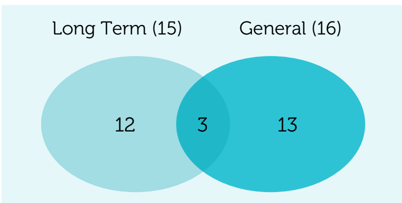


Chart 1 depicts the classes of insurance business companies were engaged in. Out of the 28 companies in operation, 3 companies were composite insurers including MBSL Insurance Company Limited, carrying on both long term insurance business and general insurance business, 12 companies were carrying on long term insurance business and 13 companies were carrying on general insurance business.

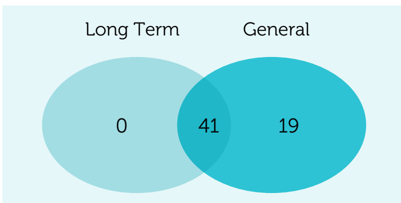
Insurance Brokers

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 60 companies registered as insurance brokers. Out of the said companies, 41 companies were registered in both long term and general insurance brokering business while 19 companies were registered only in general insurance brokering business.

Chart 2 depicts the classes of insurance brokering business insurance brokers carried on during the year.

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



Insurance Agents

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

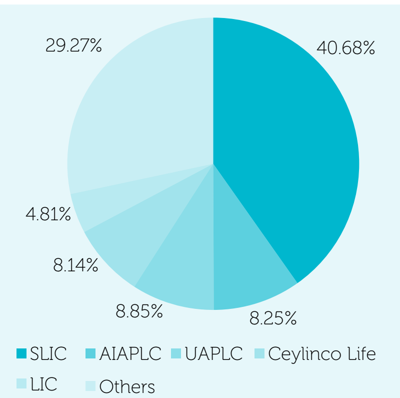
As per Section 34 of the Act, insurance agents are an important distribution channel through which insurers procure insurance business.

As per information given by insurers, the total number of individuals recruited as insurance agents during the year was approximately 14,595, a 8.99 % increase from the previous year (13,390).

The total number of individual insurance agents representing insurers as at the end of year was approximately 45,228, a 3.22 % increase from the previous year (43,816).

Chart 3 depicts insurance agents registered with insurance companies.

Chart 3
Total Agents as at 31.12.2017



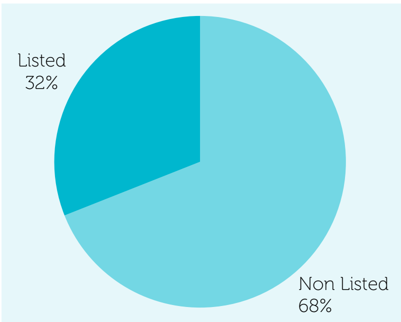
There are approximately 419 individual insurance agents registered with insurance brokering companies during 2017.

Company Status and Changes in Capital

Of the insurers registered with the Commission, 9 companies were listed on the Colombo Stock Exchange, namely: AIA Insurance Lanka PLC, Union Assurance PLC, Softlogic Life 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, No. 3 of 2011 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, No. 3 of 2011 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 commission.

The stated capital of insurers registered prior to June 2011 has been required by the Commission 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 2017 was Rs. 418 million. 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 -

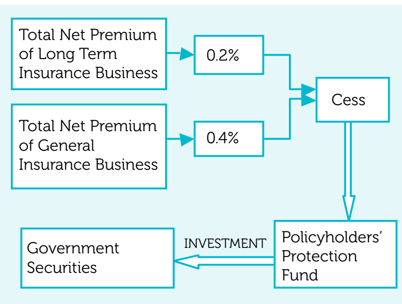
a) defraying the expenditure incurred in creating awareness of the insurance industry amongst the public and other expenditure incurred in the development of the insurance industry; and

b) defraying the expenditure incurred by the Commission 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 and fixed deposits.

The accumulated amount in the Fund, as at 31st December 2017, is Rs. 4,110 million; a 24.85% increase from the previous year (Rs. 3,292 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 Commission by the Amendment Act in 2011.

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

The Act, as amended by Act No. 27 of 2007, requires every insurer, who reinsures, to reinsure with the NITF a percentage, not exceeding 50%, as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured. In terms of Gazette Notification No. 1791/4, every insurer is required, with effect from 1st January 2013, to reinsure 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 Commission is represented on the Board of NCRS.

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

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 Commission 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 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 commission 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 Commission 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 Commission 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 PLC	Amana Life
7	Arpico Insurance PLC	Arpico
8	Ceylinco General Insurance Ltd.	Ceylinco Gen.
9	Ceylinco Life Insurance Ltd.	Ceylinco Life
10	Continental Insurance Lanka Ltd.	Continental
11	Cooperative Insurance Company Ltd.	Cooperative Gen.
12	Cooplife Insurance Ltd.	Cooplife
13	Fairfirst Insurance Ltd.	Fairfirst
14	HNB Assurance PLC	HNB Life
15	HNB General Insurance Ltd.	HNB Gen.
16	Janashakthi Insurance PLC	Janashakthi Life
17	Janashakthi General Insurance Ltd.	Janashakthi Gen.
18	Life Insurance Corporation (Lanka) Ltd.	LIC
19	LOLC General Insurance Ltd.	LOLC Gen.
20	LOLC Life Assurance Ltd.	LOLC Life
21	MBSL Insurance Company Ltd.	MBSL
22	National Insurance Trust Fund	NITF
23	Orient Insurance Ltd.	Orient
24	People's Insurance PLC	People's
25	Seemasahitha Sanasa Rakshana Samagama	Sanasa
26	Softlogic Life Insurance PLC	Softlogic Life
27	Sri Lanka Insurance Corporation Ltd.	SLIC
28	Union Assurance General Limited	Union Gen.
29	Union Assurance PLC	Union Life

Following General Notes supplement when interpreting the data of Tables and Charts of the Statistical Review.

1. Tables and Charts depicted in this report were based on the statistics provided by the Insurance Companies and Insurance Brokering Companies.
2. AIA General Insurance Lanka Limited and Janashakthi General Insurance Limited have been amalgamated in 2016 and known as "Janashakthi General Insurance Limited".
3. Softlogic Life Insurance PLC was known as Asian Alliance Insurance PLC prior to 2016.
4. Asian Alliance General Insurance Limited was acquired by Fairfax Asia Limited in year 2015 and known as "Fairfirst Insurance Limited".
5. Union General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017 and known as "Fairfirst Insurance Limited".
6. AIG Insurance Limited has not been required to submit RBC returns to the IRCSL as it is on a run-off process.
7. Data submitted by NITF with regard to profitability and Risk Based Capital had not been considered in order to maintain the comparability since NITF handles different types of insurance schemes.
8. Figures reported in Reinsurance business of NITF is based on Annual Returns submitted by NITF.
9. Financial data of crop & loan protection scheme of NITF has been eliminated from statistics from 2014 onwards since the said operation has not been considered as insurance.
10. Figures in some tables have been rounded off to the nearest final digit. Hence, there may be a slight discrepancy between the total as shown and the sum of its components.
11. Differences as compared with previously published figures are due to subsequent revisions.
12. Values indicated within parenthesis are negative values.
13. The following symbols have been used throughout : -
    (a) = Reinstated and Audited figures
    (b) = Provisional figures
     - = nil

An Overview of the Sri Lankan Insurance Industry

Global Insurance Market at a Glance

The global insurance growth prospects continued to improve during 2017 which resulted in global premium growing around 3% in real terms. Life insurance premium growth was supported by strong sales of saving products in emerging Asia, while non-life insurance sector growth was dependent on the magnitude of the expected price increases as per the Swiss Re publications.

Among many global economic, political and regulatory challenges faced in year 2017, large natural catastrophic events like Harvey, Irma, Maria and events such as Brexit and new international accounting standard IFRS 17, which is expected to come into effect in 2021 have highly influenced the global insurance market.

The trend towards leveraging the benefits of "InsurTech" solutions across the globe by insurers in collaboration with high tech firms was visible while demand for cyber insurance solutions also continued to grow with cyber threats.

Sri Lankan Economy at a Glance

Year 2017, was a challenging year for Sri Lankan economy which ended with the economic growth rate declining to a 16-year low of 3.1% with the hit of natural disasters, high inflation and complex political environment. The country's total Gross Domestic Product (GDP) amounted to Rs. 13,289 billion with the adverse weather conditions negatively impacting agricultural growth. Industry and Services sectors also grew on slow-pace in year 2017 compared to year 2016.

During the year, financial sector showed improved performance led by the banking sector, followed by other deposit taking financial institutions, contractual savings institutions etc. despite the challenging macro-economic conditions prevailing in the country. The insurance industry as one of contributors in the category of 'Contractual Savings Institutions' positively performed in year 2017.

(Source – Central Bank Annual Report 2017)

Sri Lankan Insurance Market

Overall, insurance industry remains focused on higher sales and profitability regardless of the challenges faced with regulatory demand, advance technology and higher customer expectations.

Total Gross Written Premium (GWP) of the insurance industry has grown by 15.07% to Rs. 164,623 million (2016: Rs. 143,067 million) in 2017. The growth in premium was largely driven by general insurance business, mainly from motor and health insurance sub-classes. Total GWP of general insurance business amounted to Rs. 93,119 million in 2017 compared to Rs. 79,590 million in 2016, reflecting a growth of 17%. The life insurance industry also positively contributed to the premium income by reporting a growth rate of 12.65%. Sale of investment type products and decreasing term assurance products have driven the growth of life insurance premium in 2017 compared to 2016. Accordingly, life insurance companies reported total GWP of Rs. 71,504 million (2016: Rs. 63,477 million) in year 2017. Chart 1 illustrates the premium income and growth rate of the insurance industry during the last five years.

Despite the growth reported in GWP, overall insurance penetration remained as 1.24% in

Chart 1
Premium Income & Growth Rate of the Insurance Industry

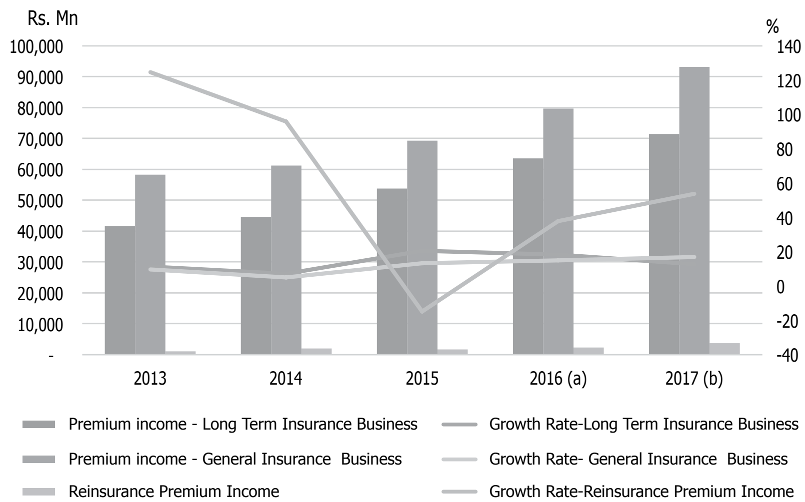


Table 1
Premium Income & Penetration

	2013	2014	2015	2016 (a)	2017 (b)
Premium Income - Long Term Insurance Business (Rs. millions)	41,676	44,596	53,691	63,477	71,504
Premium Income - General Insurance Business (Rs. millions)	58,284	61,202	69,271	79,590	93,119
Total Premium Income - Insurance Business (Rs. millions)	99,960	105,798	122,962	143,067	164,623
Growth Rate in Total Premium Income - Insurance Business (%)	10.22	5.84	16.22	16.35	15.07
Reinsurance Premium Income (Rs. millions) **	1,042	2,041	1,738	2,397	3,683
Gross Domestic Product at Current Market Price (Rs. billions)*	9,592	10,448	10,952	11,907	13,289
GDP Growth Rate % *	3.40	4.90	4.84	4.50	3.10
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.04	1.01	1.12	1.20	1.24
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.43	0.43	0.49	0.53	0.54
Penetration % (Premium of General Insurance Business as a % of GDP)	0.61	0.59	0.63	0.67	0.70
Insurance Density - (Total Premium Income - Insurance Business / Population) Rs.	4,857	5,094	5,865	6,747	7,677
Population '000 (Mid Year) *	20,579	20,771	20,966	21,203	21,444

* Source: Central Bank of Sri Lanka and Department of Census and Statistics
** Reinsurance premium income represents the compulsory cession of reinsurance premiums of general insurance business ceded to NITF

2017 which long term and general insurance businesses contributed by 0.54% and 0.70% respectively. However, this computation does not reflect the premium income of insurance and micro insurance policies issued by institutions such as Agricultural and Agrarian Insurance Board, Sri Lanka Export Credit Insurance Corporation, Social Security Board, Microfinance Institutions and community based organizations etc. which are currently not within the purview of the IRCSL.

In Sri Lanka, demand for insurance is relatively dependent on the level of disposable income of the customers. The low level of disposable income coupled with lack of awareness, inefficiencies in insurance policy management, availability of certain social security benefits and community based society in the country has not positively moved the penetration level and remains stagnant around 1% during the last decade.

Insurance density is expressed by the total premium income as a percentage of total population. In 2017, insurance density has slightly improved to Rs. 7,677 compared to Rs. 6,747 recorded in 2016. Table 1 provides details on GWP, insurance penetration and density during last five years.

There were certain trends, opportunities and regulatory changes in relation to Sri Lankan insurance industry which is listed below:

Economic forecast shows a green light to the insurance industry as it is expected that in the medium to long term, the country will move into high middle income level bracket and thus expecting improved disposable income resulting in higher insurance penetration. Further, the expected regulatory developments in the medium term in relation to micro insurance, targeting needs of the low income population will have potential to enhance the insurance penetration level of the country.

Demographic transitions in Sri Lanka expect an increase in the ageing population where one out of every four persons will be an elderly person in another two decades' time. This will result in creating demand for insurance products specially on health and pension.

Further, the upcoming IFRS 17, which will be effected in the medium term can create holistic change on insurers' systems, processes, capital, risk management etc. Insurers with prudent planning can create efficiencies and enhance capabilities that benefit the business more broadly.

Amendments to the taxation laws which came into effect on

01st April 2018 caused significant effects in certain areas such as life insurers' surplus distribution to shareholders and policyholders, computation of taxable profit etc. Accordingly, during the year, certain life insurers have transferred relevant surpluses to shareholders' fund from the life fund with the recommendations of their Appointed Actuaries. As a result, profits of the year 2017 have significantly improved.

In recent years, Sri Lankan insurers tend to reap the benefits of advanced technology by many ways in the life cycle of insurance including product development, distribution, customer service etc. Several insurance companies and also some insurance brokering companies have engaged with telecommunication providers to broaden the landscape of insurance service.

During the year, insurers specially NITF faced challenges due to natural disasters including heavy monsoon rains that triggered floods and landslides in certain districts in the island.

Total Assets of Insurance Companies

Macro-economic conditions, such as high volatility in interest rate, inflation and meeting the regulatory compliance requirements create challenges for insurers in managing their assets and liabilities. The total assets reported by the insurers amounted to Rs. 582,417 million as at 31st December 2017 whist posting moderate growth of 10.87% compared to growth rate of 12.61% in 2016. Table 2 and Chart 2 depicts the details relating to total assets of the insurance industry for the last five years.

Generally, life insurers' liability is long duration and hence cash flows can be estimated meaningfully enabling them to invest in long term assets. Total assets reported by life insurers amounted to Rs. 392,400 million in 2017. In contrast, general insurers tend to maintain substantial liquid assets as they experience claims from the day the policy is underwritten. Total assets reported by general insurers amounted to Rs. 185,767 million in 2017.

Main contributors to the asset portfolio are SLIC, Ceylinco Life, AIA Life and Union Life.

The national reinsurer, NITF holds assets amounting to Rs. 4,250 million relating to their reinsurance business. However, the asset portfolio of the reinsurance business of NITF has dropped by 26.15% in 2017 compared to the previous year. Further, there was significant reduction in the financial investments relating to the reinsurance business of NITF.

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

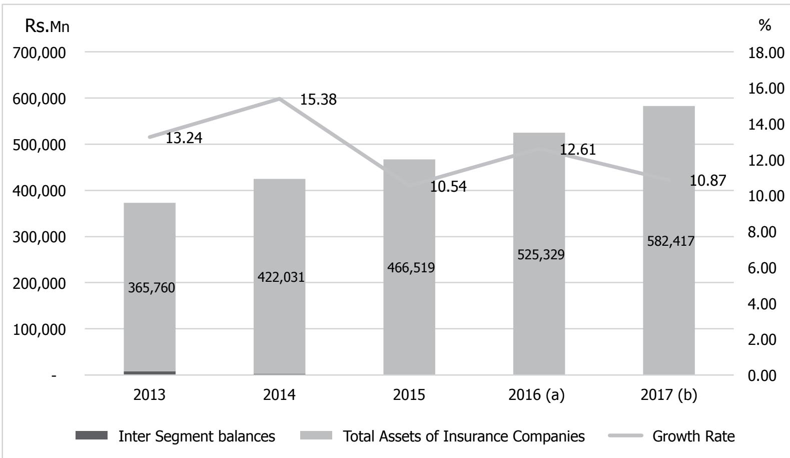


Table 2
Total Assets of Insurance Companies

	2013	2014	2015	2016 (a)	2017 (b)
Long Term Insurance (Rs. millions)	216,275	247,061	312,713	345,589	392,400
General Insurance (Rs. millions)	155,636	174,588	151,177	173,985	185,767
Reinsurance (Rs. millions)	1,453	3,065	3,417	5,755	4,250
Total (Rs. millions)	***365,760**	***422,031**	***466,519**	**525,329**	**582,417**

* Inter segment transactions have been eliminated.

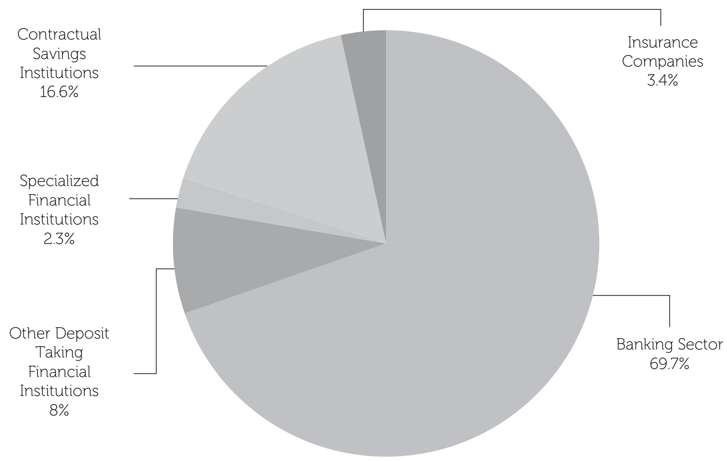
Distribution of Total Assets of Major Financial Sectors

The financial sector positively contributed to the economy by further expanding the asset portfolio from Rs. 15,220 billion in 2016 to Rs. 17,076 billion in 2017 as presented in the Table 3 and Chart 3. Accordingly, asset base of the financial institutions increased by 12.19% in 2017.

The banking sector represented 69.7% of the total assets and has contributed to more than half of the growth reported in the financial sector by recording a growth rate of 12.50% in 2017. The asset base of the specialized financial institutions expanded to Rs. 388.9 billion (2016: Rs. 335.4 billion) recording a growth of 15.95% in 2017. Also contractual savings institutions recorded improved performance by growing at the rate of 11.82% and recording assets worth Rs. 2,837 billion in 2017. This sector contributed 16.6% of the total assets of the financial sector.

Similar to previous years' insurance companies held 3.4% of the total assets of the finance sector in 2017.

Chart 3
Distribution of Total Assets of Major Facial Sectors as at 31st December 2017



One-Off Surplus

Subsequent to the implementation of the Risk Based Capital regime in year 2016 by the IRCSL, transition of policy liability valuation methodology resulted in a reduction in policy liabilities leading to a significant increase in surplus of certain long term insurers. The said surplus was named as "One-off Surplus" and recommended to be kept in the life fund.

However, with the amendments in taxation laws concerning the life insurance segment the industry requested the approval of the IRCSL to transfer the said surplus to the shareholders' fund and to maintain it as a restricted reserve. In order to address same, the IRCSL issued Direction 16 on the identification and treatment of One-off Surplus.

Accordingly, the IRCSL permitted long term insurers to transfer the One-off Surplus other than participating business to shareholders for year ended 31st December 2017 or on a subsequent date after complying with the requirements stated in

Table 03
Distribution of Total Assets of Major Financial sectors

Financial Sectors	Distribution of Assets									
	2013		2014		2015		2016		2017	
	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%	Rs. billions	%
Banking Sector	7,187.5	69.6	8,442.0	70.3	9,503.7	68.7	10,575.8	69.5	11,897.4	69.7
Other Deposit Taking Financial Institutions	756.4	7.3	857	7.1	1044.2	7.5	1246.7	8.2	1370.4	8.0
Specialized Financial Institutions	378	3.7	441	3.7	557.8	4.0	335.4	2.2	388.9	2.3
Contractual Savings Institutions	1,632.5	15.8	1,853.6	15.4	2,257.5	16.3	2,536.6	16.7	2,836.50	16.6
Insurance Companies	365.8	3.6	421.1	3.5	466.7	3.4	525.2(a)	3.4	582.4(b)	3.4
Total	**10,320.2**	**100**	**12,015.0**	**100.0**	**13,830.8**	**100.0**	**15,223.4**	**100.0**	**17,075.6**	**100.0**

Source: Central Bank of Sri Lanka
Note : Assets of insurance companies were reinstated based on data received from insurance companies

the Direction. Further, insurers were directed to maintain this surplus as "Restricted Regulatory Reserve" in the shareholders' fund.

With regards to the One-off Surplus relating to participating business, the IRCSL directed insurers to hold same within the participating fund as part of the unallocated valuation surplus and this surplus may only be transferred to the shareholders by means of bonuses to policyholders in line with Section 38 of the RII Act. Further recommended that any bonus declared be sustainable, equitable and in line with policyholders' reasonable expectations.

The total One-off Surplus reported by life insurers amounted to Rs. 29,399 million with participating and other than participating One-off Surplus amounting to Rs. 10,823 million and Rs. 18,576 million respectively as at 01st January 2016. Upon receipt of approval of the IRCSL, total One-off Surplus transferred to the shareholders' fund as restricted regulatory surplus amounted to Rs. 15,867 million as at 31st December 2017. Said transfers directly resulted in increasing the profits reported by the specific life insurers in 2017.

Table 04

Profitability of Insurance Companies

Insurer	2016 (a)			2017 (b)			
	Long Term Insurance (Rs.'000)	General Insurance (Rs.'000)	Total (Rs.'000)	Long Term Insurance (Rs.'000)		General Insurance (Rs.'000)	Total (Rs.'000)
				Prior to One-off Surplus transfer	After One-off Surplus transfer		
AIA Life	793,250		793,250	7,597,099	13,677,947		13,677,947
AIG		(64,384)	(64,384)			(40,526)	(40,526)
Allianz Gen.		37,636	37,636			193,318	193,318
Allianz Life	25,959		25,959	104,051	104,051		104,051
Amana Gen.		(139,172)	(139,172)			61,144	61,144
Amana Life	35,691		35,691	52,207	52,207		52,207
Arpico	107,888		107,888	49,033	49,033		49,033
Ceylinco Gen.		1,381,126	1,381,126			1,702,653	1,702,653
Ceylinco Life	3,743,726		3,743,726	6,351,351	9,807,535		9,807,535
Continental		191,276	191,276			291,386	291,386
Cooperative Gen.		189,142	189,142			429,954	429,954
Cooplife	(7,266)		(7,266)	53,774	53,774		53,774
Fairfirst		(485,083)	(485,083)			720,450	720,450
HNB Life	656,641		656,641	725,665	725,665		725,665
HNB Gen.		48,879	48,879			201,722	201,722
Janashakthi Life	953,017		953,017	(104,193)	1,691,635		1,691,635
Janashakthi Gen.		1,277,445	1,277,445			1,242,429	1,242,429
LIC	3,394		3,394	24,645	24,645		24,645
LOLC Gen.		313,297	313,297			272,157	272,157
LOLC Life	320,534		320,534	144,595	400,730		400,730
MBSL		(220,526)	(220,525)			(46,437)	(46,437)
Orient		30,565	30,565			65,877	65,877
People's		733,010	733,010			866,691	866,691
Sanasa	176,591	(68,497)	108,094	77,914	77,914	6,838	84,752
Softlogic Life	877,443		877,443	1,106,517	1,904,521		1,904,521
SLIC	4,555,716	9,235,253	13,790,969	3,216,447	3,314,683	2,575,519	5,890,202
Union Life	1,373,307		1,373,307	4,002,194	7,384,128		7,384,128
Union Gen.		776,630	776,630				
Total	**13,615,891**	**13,236,597**	**26,852,488**	**23,401,299**	**39,268,468**	**8,543,175**	**47,811,643**

Profitability

Life insurers have reported profit before tax of Rs. 23,401 million during the year 2017 as depicted in Table 4 prior to transfer of One-off Surplus by certain life insurers. Profit before tax prior to transfer of One-off Surplus has improved by 71.87% year on year. As discussed before, this improvement was mainly driven by the surplus transfer of other than participating business to shareholders by few large companies with the recommendations of their Appointed Actuaries. Total One-off Surplus transferred to shareholders' funds as "Restricted Regulatory Reserve" with the approval of the IRCSL amounted to Rs. 15,867 million as stated above. These companies are Ceylinco Life, Union Life, Janashkathi Life, Soflogic, LOLC Life, SLIC and AIA Life. Accordingly, with the said transfer, total profits of life insurance industry have increased to Rs. 39,268 million for year 2017.

Total profit before tax reported by general insurers amounted to Rs. 8,543 million in year 2017 compared to Rs. 13,236 million reported in 2016. The high profitability in year 2016 was due to the receipt of significant dividend income from a subsidiary of SLIC amounting to Rs. 6,750 million in year 2016.

Shareholders' Funds of Insurance Companies

Total shareholders' funds reported by insurance companies exhibited improved performance as explained before with the One-off Surplus transfer by certain life insurers in terms of the Direction 16 issued by the IRCSL. As a result, as depicted in table 5, total shareholders' funds amounted to Rs. 176,706 million (2016: Rs. 140,445 million) and grew by 25.82% in 2017 against growth rate of 3.15% reported in 2016.

Table 5

Total Shareholders' Funds of Insurance Companies

Insurer	2016 (a)		2017 (b)				
	Total Shareholder Funds (Rs.'000)	%	Stated Capital (Rs.'000)	Restricted regulatory reserve (Rs.'000)	Total other Reserves (Rs.'000)	Total Shareholders' Funds (Rs.'000)	%
AIA Life	5,360,984	3.82	511,922	6,080,848	10,766,147	17,358,917	9.82
AIG	43,469	0.03	812,215		(809,272)	2,943	0.00
Allianz Gen.	973,471	0.69	905,500		679,081	1,584,581	0.90
Allianz Life	486,186	0.35	739,624		149,782	889,406	0.50
Amana Gen.	1,758,292	1.25	1,860,001		(38,462)	1,821,539	1.03
Amana Life	523,517	0.37	500,000		75,343	575,343	0.33
Arpico	754,710	0.54	675,565		101,686	777,251	0.44
Ceylinco Gen.	8,801,136	6.27	500,200		9,362,137	9,862,337	5.58
Ceylinco Life	11,911,828	8.48	500,001	3,456,184	16,690,712	20,646,897	11.68
Continental	1,194,534	0.85	750,000		688,891	1,438,891	0.81
Cooperative Gen.	1,695,343	1.21	1,260,252		803,932	2,064,184	1.17
Cooplife	485,502	0.35	500,000		96,209	596,210	0.34
Fairfirst	816,567	0.58	3,131,949		1,398,137	4,530,086	2.56
HNB Life	2,875,330	2.05	1,171,875		2,604,402	3,776,277	2.14
HNB Gen.	971,728	0.69	1,150,000		20,220	1,170,220	0.66
Janashakthi Life	8,148,633	5.80	4,853,752	1,795,829	2,811,296	9,460,877	5.35
Janashakthi Gen.	6,718,571	4.78	5,878,017		1,866,085	7,744,102	4.38
LIC	527,255	0.38	500,000		93,357	593,357	0.34
LOLC Gen.	991,715	0.71	700,000		566,740	1,266,740	0.72
LOLC Life	583,270	0.42	800,000	256,134	(72,101)	984,033	0.56
MBSL	91,728	0.07	1,080,022		(1,046,207)	33,815	0.02
NITF	7,564,859	5.38			7,260,349	7,260,349	4.11
Orient	617,545	0.44	825,000		(156,108)	668,892	0.38
People's	2,629,456	1.87	1,350,000		1,707,239	3,057,239	1.73
Sanasa	1,215,483	0.87	1,044,597		3,192	1,047,789	0.59
Soft logic Life	1,962,167	1.40	1,062,500	798,004	2,025,625	3,886,129	2.20
SLIC	63,028,451	44.87	6,000,000	98,236	55,544,510	61,642,746	34.89
Union Life	3,866,192	2.75	1,000,000	3,381,934	7,582,780	11,964,714	6.77
Union Gen.	3,847,303	2.73	-	-	-	-	-
Total	**140,445,225**	**100**	**40,062,992**	**15,867,169**	**120,775,702**	**176,705,863**	**100**

SLIC remained in a very strong position with its shareholders' fund reporting Rs. 61,643 million in 2017. However, SLIC is yet to segregate general and life insurance businesses. Ceylinco Life holds the second largest shareholders' fund which amounted to Rs. 20,647 million compared to Rs. 11,912 million reported in 2016.

Massive improvement was noted in the total reserves of AIA Life compared to 2016 mainly due to transfer of one off surplus and surplus of life insurance fund to the shareholders' fund as at 31st December 2017 totalling to Rs. 13,161 million with the recommendation of their Appointed Actuary. Total shareholders' funds of Union Life have increased more than 200% due to the One-off Surplus transfer coupled with other surplus transfers during the year as recommended by their Appointed Actuary which totalled to Rs. 7,024 million.

Out of the general insurance companies, Ceylinco General has reported the largest shareholders' fund of Rs. 9,862 million followed by Janashakthi General and NITF. Total shareholders' fund of Fairfirst has significantly improved with the amalgamation of Union General and reported Rs. 4,530 million in 2017 (2016: Rs. 817 million).

Analysis of Branches, Employees and Agents of Insurers

Due to the nature of business, availability of widespread branches over the island play an important role in distributing the insurance services to customers. Number of branches spread among Western Province amounted to 677 as the main selling area. Further, trend towards expanding the branch network in other Provinces also was visible with the recorded branches in Southern Province, North Western Province, Eastern Province, Sabaragamuwa Province etc. in 2017 compared to 2016. Overall in year 2017, 108 new branches were added where the total branches increased to 2,079 in current year compared to 1,971 reported in previous year. The

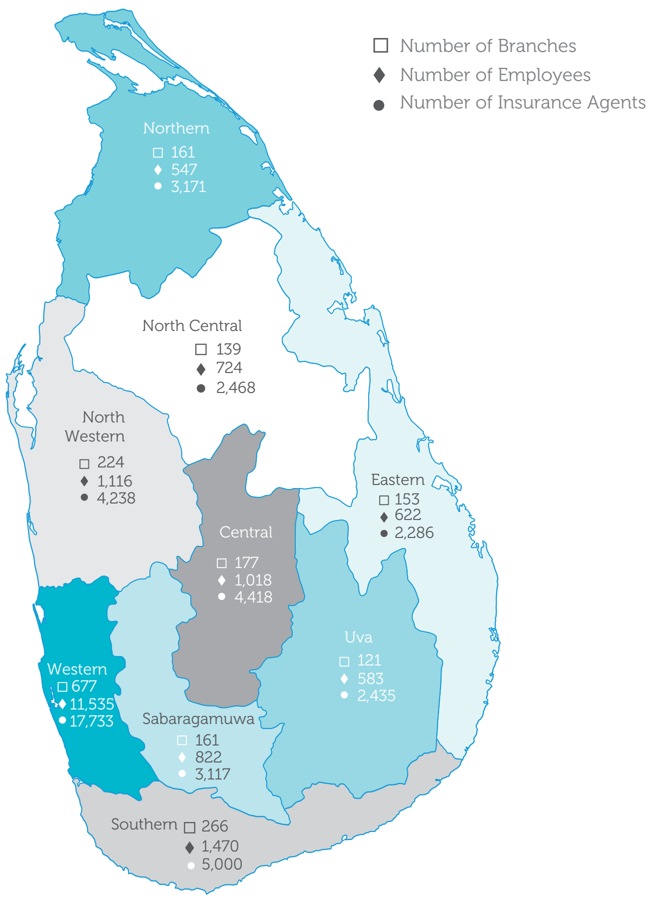
Table 06

Number of Branches, Employees and Agents as at 31st December 2016 and 2017

Province	No. of Branches		No. of Employees		No. of Agents	
	2016	2017	2016	2017	2016	2017
Central Province	196	177	880	1,018	4,245	4,418
Eastern Province	132	153	553	652	2,223	2,286
North Central Province	145	139	617	724	2,520	2,468
North Western Province	178	224	919	1,116	4,094	4,238
Northern Province	160	161	570	547	3,387	3,171
Sabaragamuwa Province	149	161	842	822	2,745	3,117
Southern Province	234	266	1,088	1,470	4,915	5,000
Uva Province	120	121	478	583	2,422	2,435
Western Province	657	677	10,949	11,535	17,265	17,733
Total	**1,971**	**2,079**	**16,896**	**18,467**	**43,816**	**44,866**

Chart 5

Number of Branches, Employees and Agents as at 31st December 2017

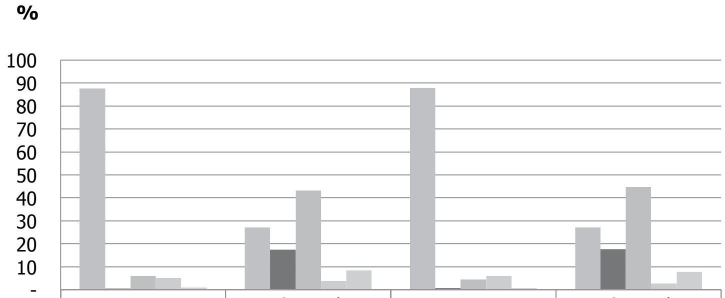


composition of branches reported in 2017 are 1,151 life insurance branches, 765 general insurance branches and 163 composite insurance branches.

Life insurance industry mainly depends on the contribution of agents selling products, though the efficient management of agents is quite a challenging task for insurance companies. Total number of agents servicing the industry were 44,866 in 2017 against 43,816 reported in 2016. Agents' were mainly scattered in the Western Province followed by Southern and Central Provinces. Number of agents servicing the Sabaragamuwa Province have noticeably increased to 3,117 in 2017 (2016: 2,745) while reduction noted in number of agents servicing the Northern and North Central Provinces.

As depicted in Table 6 and Chart 4, total number of employees servicing the insurance industry amounted to 18,467 during the year and improved compared to 16,896 reported in previous year. More than 60% of the total employees servicing the insurance companies are located in the Western Province. Employment in Southern Province has notably increased by 35% in 2017 compared to 2016.

Chart 5
Distribution Channels of Insurance Companies



	Long Term	General	Long Term	General
	2016		2017	
Agents	87.59	27.17	87.94	27.15
Brokers	0.51	17.41	0.79	17.57
Direct	5.91	43.25	4.52	44.81
Bancassurance	5.04	3.86	5.97	2.66
Others	0.95	8.30	0.78	7.81

Distribution Channels of Insurance Companies

With the technological innovations insurers tend to use multi-distribution channels specially exploring ways to develop newer distribution channels in the online space. Trend towards gathering information on insurance products through internet is visible including popularity of social media create opportunities for insurers specially in the marketing. Several insurers are engaged with telecommunication providers in expanding their clientele in recent past with certain InsurTech solutions.

Chart 5 illustrates the contribution of different distribution channels to GWP of insurance companies.

Despite the emergence of other distribution channels, the agency system continued to dominate the life insurance market by generating 87.94% of the GWP. The contribution from bancassurance towards life GWP is 5.97% (2016: 5.04%), which is followed by direct sales.

General insurers lean towards distributing their portfolio through professionally trained sales force, equipped with advanced tech products to provide efficient services to the customers. Accordingly, contribution from direct sales such as walking customers, exclusive sales force to GWP was 44.81% (2016: 43.25%). Largely Ceylinco General has contributed to this category followed by NITF due to the nature of products sold by NITF.

Agents had contributed 27.15% (2016: 27.17%) of total premium income of general insurance business in 2017. Brokers had generated 17.57% of GWP of general insurance business while contribution for life insurance business was very minimal. Other category represented 7.81% of total GWP of general insurance business and mainly comprised of insurance business generated through group finance and lease establishments.

Long Term Insurance Business

Gross Written Premium and Market Share

Despite the economic challenges, life insurers have recorded total premium income of Rs. 71,504 million in year 2017 compared to Rs. 63,477 million recorded in year 2016. Accordingly, life insurance industry recorded a growth of

Table 7

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

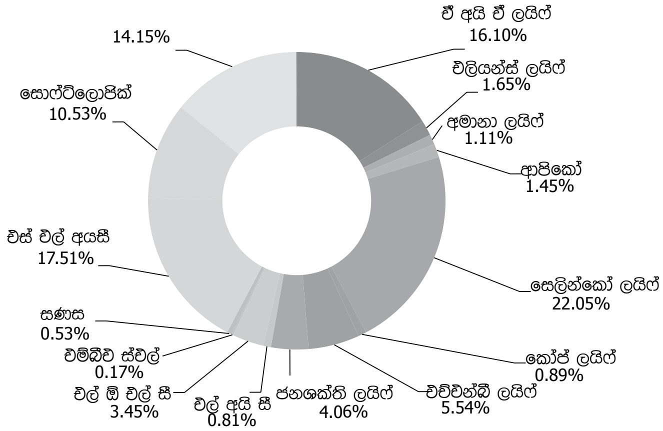
Insurer	2013		2014		2015		2016 (a)		2017 (b)	
	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)
AIA Life	6,863,047	16.47	7,266,574	16.29	8,433,333	15.71	10,103,915	15.92	11,510,581	16.10
Allianz Life	828,790	1.99	823,456	1.85	919,144	1.71	1,040,269	1.64	1,178,828	1.65
Amana Life	542,986	1.30	679,029	1.52	928,294	1.73	820,727	1.29	792,174	1.11
Arpico	206,494	0.50	297,439	0.67	482,447	0.90	745,386	1.17	1,038,085	1.45
Ceylinco Life	11,122,906	26.69	12,002,524	26.91	13,456,828	25.06	15,027,600	23.67	15,765,484	22.05
Cooplife	337,623	0.81	402,046	0.90	494,598	0.92	466,997	0.73	636,178	0.89
HNB Life	2,014,547	4.83	2,342,867	5.25	2,788,715	5.19	3,554,078	5.60	3,963,642	5.54
Janashakthi Life	2,193,662	5.26	2,170,419	4.87	2,550,782	4.75	2,943,963	4.64	2,902,873	4.06
LIC	322,268	0.77	348,767	0.78	386,885	0.72	473,867	0.75	582,114	0.81
LOLC Life	274,798	0.66	592,422	1.33	1,209,578	2.25	1,896,558	2.99	2,467,166	3.45
MBSL	251,720	0.60	294,299	0.66	203,235	0.38	235,533	0.37	123,732	0.17
Sanasa	283,975	0.68	260,867	0.58	311,434	0.58	367,637	0.58	377,690	0.53
SLIC	8,397,718	20.15	8,121,159	18.21	10,470,079	19.50	11,893,640	18.74	12,517,119	17.51
Softlogic Life	2,520,283	6.05	3,048,148	6.84	4,091,042	7.62	5,635,701	8.88	7,530,935	10.53
Union Life	5,515,063	13.23	5,945,499	13.33	6,964,390	12.97	8,270,751	13.03	10,117,630	14.15
Total	41,675,880	100	44,595,516	100	53,690,783	100	63,476,622	100	71,504,231	100
Growth Rate(%)	11.20		7.01		20.40		18.23		12.65	

12.65% (2016: 18.23%) in terms of GWP. Increase in awareness of the benefits of life insurance, launching of new insurance products to cater to the customers' demand and enhanced customer services have positively contributed to the progress in the life insurance sector. The industry witnessed a double digit growth rate during last three years, upon segregation of composite insurers.

Table 7 illustrates the company-wise GWP and market share of longterm insurance companies.

රූප සටහන 5

2017 දෙසැම්බර් 31 දිනෙන් අවසන්වන වසර සඳහා සමාගම් වශයෙන් දළ ලිඛිත වාරිකයන්හි වෙළෙඳපොල කොටස - දීර්ඝ කාලීන රක්ෂණ ව්‍යාපාරය



Similar to previous years, Ceylinco Life held the leading position with a market share of 22.05% and generating income of Rs. 15,765 million in 2017 (2016: Rs. 15,028 million). SLIC was the second largest contributor to GWP with a market share of 17.51% and generating income of Rs. 12,517 million followed by AIA Life recording a market share of 16.10% (Rs. 11,511 million). These three companies' contribution towards total GWP has slightly dropped to 55.66% in 2017 compared to 58.33% recorded in 2016. Union Life has recorded Rs. 10,118 million and had secured the fourth place in the market.

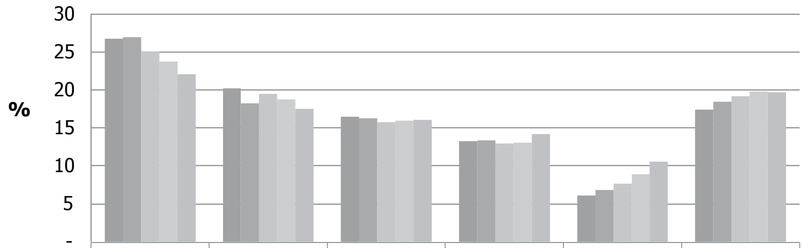
Four companies namely Arpico, Cooplife, Softlogic Life, LOLC Life had recorded growth rate above 30% in 2017 compared to their GWP recorded in 2016. Chart

6 illustrates each life insurers performance in terms of GWP.

Top Five Contributors to GWP and Other Insurers – Long Term Insurance Business

Chart 7 depicts details relating to market share of top five contributors and other insurers for the last five years. Similar to previous years Ceylinco Life, SLIC, AIA Life, Union Life and Softlogic Life have collectively generated Rs. 57,442 million of GWP, capturing 80.33% of the total market of life insurance sector. Two leading companies namely, Ceylinco Life and SLIC market shares have slightly dropped in year 2017 compared to 2016. Softlogic Life as the fifth contributor has captured 10.53% (2016: 8.88%) of the market and gradually increased their market share during last five years.

Chart 7
Top Five Contributors and Other Insurers for the years 2013 to 2017
Long Term Insurance Business



	Ceylinco Life	SLIC	AIA Life	Union Life	Softlogic Life	Others
2013	26.69	20.15	16.47	13.23	6.05	17.41
2014	26.92	18.21	16.29	13.33	6.84	18.41
2015	25.06	19.50	15.71	12.97	7.62	19.14
2016(a)	23.67	18.74	15.92	13.03	8.88	19.76
2017(b)	22.05	17.50	16.10	14.15	10.53	19.67

Category wise Analysis of Gross Written Premium, Premium Ceded to Reinsurers and Retention Ratio - Long Term Insurance Business

As illustrated in Table 8, participating and non-participating businesses had contributed to the GWP by 26.99% (2016: 28.45%) and 70.14% (2016: 68.36%) respectively in year 2017. Products which carried participating features have become less in supply since certain insurers have moved away from participating business. Based on the total participating business portfolio in 2017, SLIC and Ceylinco Life owned two third of GWP reported.

The contribution from non-participating business portfolio has grown by 15.57% to Rs. 50,152 million in 2017. GWP from unit linked business is becoming less popular with the slow performance in the stock market and emergence of more competitive product options in the market. Accordingly, contribution from unit linked business for GWP amounted to Rs. 2,056 million in 2017.

As depicted in Table 8 overall retention ratio of life insurance business was 95.97% in 2017 (2016: 96.09%).

Assets of Long Term Insurance Business

Table 9 and Chart 8 illustrates the company wise total assets of long term insurers as at 31st December 2016 and 2017. Long term insurance companies owned Rs. 392,400 million worth assets in year 2017 compared to Rs. 345,589 million in year 2016.

Table 8
Category wise Analysis of Gross Written Premium, Premium Ceded to Reinsurers and Retention Ratio - Long Term Insurance Business

Class	2015			2016 (a)			2017 (b)		
	Gross Written Premium (Rs. '000)	Premium ceded to Reinsurers (Rs '000)	Retention Ratio (%)	Gross Written Premium (Rs. '000)	Premium ceded to Reinsurers (Rs '000)	Retention Ratio (%)	Gross Written Premium (Rs. '000)	Premium ceded to Reinsurers (Rs '000)	Retention Ratio (%)
Participating	18,257,891	238,383	98.69	18,056,530	178,699	99.01	19,296,371	151,849	99.21
Non Participating	32,987,375	1,749,826	94.70	43,393,219	2,271,917	94.76	50,151,583	2,671,119	94.67
Unit Linked	2,445,517	30,008	98.77	2,026,873	30,069	98.52	2,056,277	58,048	97.18
Total	**53,690,783**	**2,018,218**	**96.24**	**63,476,622**	**2,480,685**	**96.09**	**71,504,231**	**2,881,016**	**95.97**

Table 9

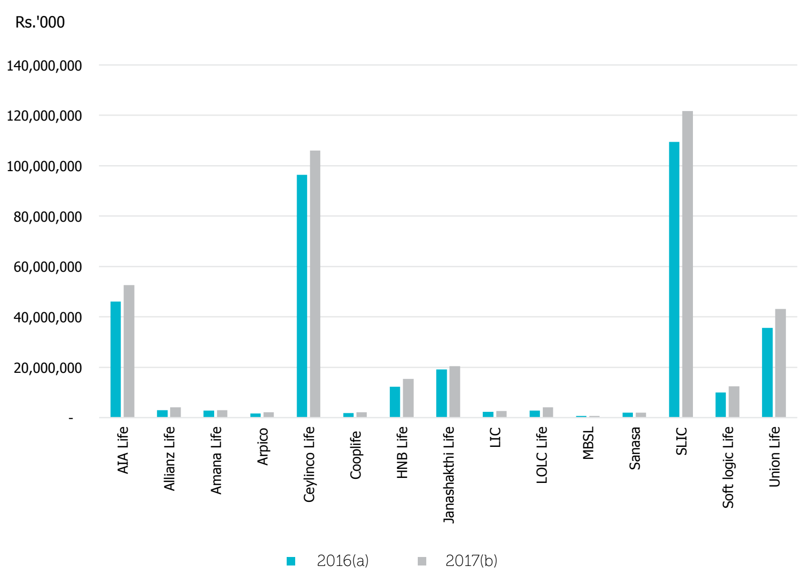
Company wise Analysis of Total Assets - Long Term Insurance Business

Insurer	2016 (a)		2017 (b)	
	Rs.'000	%	Rs.'000	%
AIA Life	46,082,441	13.34	52,576,947	13.40
Allianz Life	2,907,569	0.84	4,072,925	1.04
Amana Life	2,707,599	0.78	2,928,702	0.75
Arpico	1,586,962	0.46	2,106,353	0.54
Ceylinco Life	96,458,088	27.91	106,094,508	27.04
Cooplife	1,824,173	0.53	2,188,203	0.56
HNB Life	12,199,440	3.53	15,419,280	3.93
Janashakthi Life	19,092,842	5.53	20,384,326	5.19
LIC	2,256,631	0.65	2,682,943	0.68
LOLC Life	2,806,696	0.81	4,102,317	1.04
MBSL	596,568	0.17	634,896	0.16
Sanasa	1,933,526	0.56	1,923,053	0.49
SLIC	109,525,219	31.69	121,739,739	31.02
Soft logic	9,917,607	2.87	12,478,446	3.18
Union Life	35,693,463	10.33	43,067,007	10.98
Total	**345,588,824**	**100**	**392,399,645**	**100**

Similar to previous years, SLIC remained in the top position by representing 31.02% of the total assets of Rs. 121,740 million. Ceylinco Life and AIA Life owned 27.04% (Rs. 106,095 million) and 13.40% (Rs. 52,577 million) worth of assets in the market securing second and third positions respectively. Accordingly, SLIC, Ceylinco Life and AIA Life collectively captured more than 71% of the total assets ownership in the long term insurance industry.

Chart 8

Company - wise Analysis of Total Assets as at 31st December 2016 & 2017 Long Term Insurance Business



Union Life, Janashakthi Life and HNB Life were able to increase their asset base and ensured the fourth, fifth and sixth places in the industry respectively. All companies were able to enhance their total assets except one company as at 31st December 2017.

Concentration of Assets as at 31st December 2016 & 2017 - Long Term Insurance Business

In the volatile interest rate environment financing long term investments can be highly challenging for life insurers to match their long term liabilities. Despite these challenges assets of life insurers have moderately grown by 13.55% in year 2017.

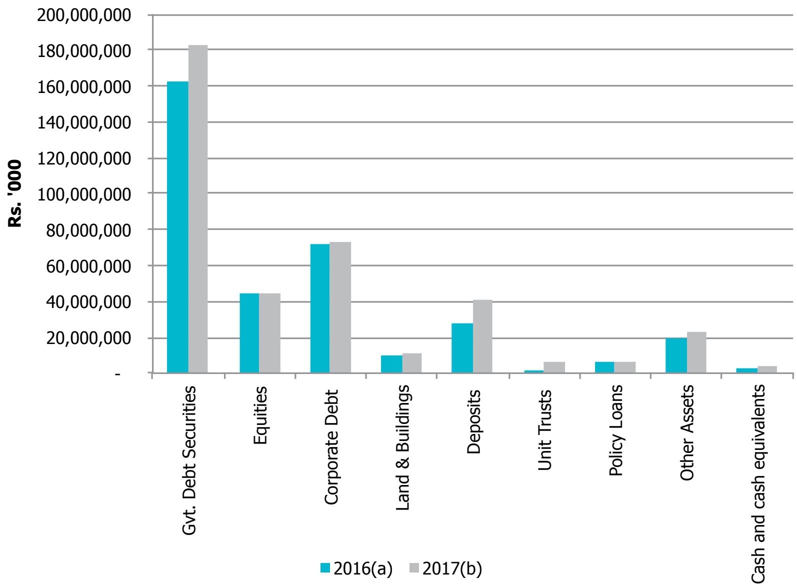
Due to regulatory requirements and risk associated in the long term investments, as depicted in Table 10 and Chart 9 life insurers have given high priority for investments in government debt securities in their asset liability management policy. Accordingly, government debt securities amounted to Rs. 183,353 million to 46.73% of the total assets and recorded 12.97% growth year on year.

Corporate debt was one of the main category of investments and reported Rs. 73,010 million (2016: Rs. 71,381 million) as at 31st December 2017. Equities amounted to Rs. 44,383 million and represented 11.31% of total asset portfolio. There was a notable rise in deposits as at 31st December 2017 amounting to Rs. 40,795 million which was 44.23% increase compared to the previous year. In general, attractive interest

Table 10
Concentration of Assets as at 31st December 2016 & 2017 - Long Term Insurance Business

Type of Asset	2016 (a)		2017 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	162,296,721	46.96	183,353,483	46.73
Equities	44,311,123	12.82	44,382,861	11.31
Corporate Debt	71,380,883	20.65	73,009,816	18.60
Land & Buildings	10,005,535	2.90	11,059,556	2.82
Deposits	28,285,552	8.18	40,794,927	10.40
Unit Trusts	1,939,392	0.56	6,881,291	1.75
Policy Loans	5,724,534	1.66	6,136,682	1.56
Other Assets	19,174,620	5.55	23,297,044	5.94
Cash and cash equivalents	2,470,464	0.72	3,483,985	0.89
Total	**345,588,824**	**100**	**392,399,645**	**100**

Chart 9
Concentration of Assets as at 31st December 2016 & 2017
Long Term Insurance Business



825 million in 2017. Accordingly, government securities recorded investment yield of 11.54% for year 2017. Deposits recorded the highest investment yield ratio of 13.14% out of all financial investments. Further, interest income from deposits has increased by 46.43% compared to previous year. Corporate debt which represented a significant portion of the investment portfolio had generated investment income of Rs. 8,416 million (2016: Rs. 6,731 million) and grew by 25.03% year on year. Further, investment yield of corporate debt was 11.66% in 2017 compared to 10.89% reported in 2016.

The overall investment yield was 10.30% in 2017 compared to 9.15% in 2016.

rates offered for government securities and deposits resulted in more investments in these two type of investments. Investments in unit trusts had increased by Rs. 4,942 million despite the fact that more than 80% of the same were from SLIC and Softlogic Life.

Investment Income - Long Term Insurance Business

Total income generated from investments noticeably grew by 25.59% to Rs. 34,675 million compared to Rs. 27,610 million reported in 2016. As depicted in Table 11, government treasury bonds, debentures and bank deposits were the most preferred investment categories which contributed to 89% of the total investment income.

Investment income generated from government securities amounted to Rs. 19,943 million for average investments of Rs. 172,

Table 11

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

Category	2016 (a)			2017 (b)		
	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)	Investment Income (Rs. '000)	Average Investments (Rs. '000)	Investment Yield Ratio (%)
Government Debt Securities	17,287,423	149,720,570	11.55	19,943,319	172,825,102	11.54
- Treasury Bonds	15,799,939			18,488,291		
- Treasury Bills	112,769			115,075		
- Others (REPO)	1,374,715			1,339,953		
Equity	(90,015)	39,492,171	(0.23)	1,032,285	35,940,489	2.87
- Capital Gain / Losses	(1,211,655)			(275,534)		
- Dividend	1,121,640			1,307,819		
Corporate Debts	6,730,680	61,832,558	10.89	8,416,426	72,195,350	11.66
- Debentures	6,680,698			8,324,759		
- Commercial Papers & others	48,924			91,667		
- Other Similar Financial Instruments	1,058			-		
Land and Buildings	72,101	8,800,403	0.82	76,147	10,532,545	0.72
Deposits	3,098,884	33,758,505	9.18	4,537,799	34,540,239	13.14
- Bank	2,886,761			4,066,946		
- Finance Companies	212,123			470,853		
Unit Trust	92,602	2,166,425	4.27	125,887	4,410,341	2.85
Policy Loans	366,026	5,537,077	6.61	497,367	5,930,608	8.39
Others	52,624	290,963	18.09	46,139	438,906	10.51
Total	**27,610,325**	**301,598,672**	**9.15**	**34,675,369**	**336,813,580**	**10.30**

Solvency Position of Insurance Companies- Long Term Insurance Business

The IRCSL continued to measure and monitor the risk based capital level of life insurers with a view to enhancing the safety and resilience of the insurance sector. Table 12, 13 and 14 demonstrate the details relating to Risk Based Capital (RBC) of life insurers in terms of the Solvency Margin (Risk Based Capital) Rules 2015.

Accordingly, all life insurers except MBSL have met the Total Available Capital (TAC) requirement of Rs. 500 million as at 31st December 2017. Further, insurers are required to maintain minimum Capital Adequacy Ratio (CAR) of 120% in order to comply with the capital adequacy requirement. All life insurers ensured to maintain the CAR above 160% which is the Enforcement level of the IRCSL. The average CAR of long term insurance companies amounted to 321% as at 31st December 2017 (2016: 302%).

Surrender Value Capital Charge (SVCC) addresses the risk of extreme adverse scenario if all life insurance contracts are surrendered simultaneously, where for some companies this value may be negative or zero. Accordingly, SVCC reported as at 31st December 2017 amounted to Rs. 6,113 million and reduced significantly compared to Rs. 12,442 million reported as at 31st December 2016.

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

TAC of long term insurance companies accumulated to Rs. 191,175 million (2016: Rs. 175,122 million) as at 31st December 2017 and grew by 9.17% year on year. TAC comprised of Tier 1, Tier 11 capital and Deductions.

Tier 1 capital is the capital fully available to cover the losses plus retained earnings and adjustments to retained earnings. Tier 1 capital amounted to Rs. 209,989 million as at 31st December 2017. Tier 11 capital which supports to absorb the loss to some extent on going concern basis amounted to Rs. 5,879 million as at 31st December 2017. Deductions which mainly comprised of intangible or illiquid assets represented 12.92% of the TAC.

Table 12

Company - wise Analysis of Solvency Position - Long Term Insurance Business as at 31st December 2016 & 2017

Insurer	As at 31st December 2016 (b)				As at 31st December 2017 (b)			
	TAC (Rs'000)	RCR (Rs'000)	SVCC (Rs'000)	CAR (%)	TAC (Rs'000)	RCR (Rs'000)	SVCC (Rs'000)	CAR (%)
AIA Life	21,107,662	3,755,882	5,853,682	361	23,866,513	3,853,018	4,010,591	595
Allianz Life	897,438	297,902	110,061	301	1,120,048	187,798	21,381	596
Amana Life	550,223	372,733	-	148	586,807	279,153	-	210
Arpico	1,250,144	200,880	63,453	622	1,424,463	362,451	-	393
Ceylinco Life	43,094,498	12,847,731	-	335	52,730,727	13,582,910	-	388
Cooplife	758,207	359,965	-	211	697,394	405,471	-	172
HNB Life	5,274,682	1,058,500	1,185,311	445	6,038,377	1,689,029	483,048	358
Janashakthi Life	3,751,144	1,405,869	-	267	5,178,103	2,151,085	717,405	241
LIC	536,864	207,057	49,678	259	665,053	253,947	-	262
LOLC Life	887,316	392,696	-	226	1,008,326	442,673	-	228
MBSL	105,905	73,229	-	145	156,415	78,626	-	199
Sanasa	936,626	177,125	481,480	195	523,137	280,955	54,773	186
SLIC	73,125,635	17,134,441	311,006	427	74,563,589	17,278,458	-	432
Softlogic Life	8,570,469	2,761,510	4,386,958	195	6,084,461	2,920,932	826,001	208
Union Life	14,274,762	3,598,467	-	397	16,532,023	4,701,641	-	352
Total / Overall	**175,121,575**	**44,643,987**	**12,441,629**	**302**	**191,175,436**	**48,468,147**	**6,113,199**	**321**

Table 13

Total Available Capital (TAC) requirement of Insurance Companies - Long Term Insurance Business

Insurer	As at 31st December 2016 (a)	As at 31st December 2017 (b)			
	TAC (Rs'000)	Tier 1 (Rs'000)	Tier II (Rs'000)	Deductions (Rs'000)	TAC (Rs'000)
AIA Life	21,107,662	26,167,050	441,176	2,741,713	23,866,513
Allianz Life	897,438	1,323,766	-	203,718	1,120,048
Amana Life	550,223	629,586	120	42,900	586,806
Arpico	1,250,144	1,567,254	-	142,791	1,424,463
Ceylinco Life	43,094,498	55,949,722	3,624,279	6,843,274	52,730,727
Cooplife	758,207	817,912	44,705	165,223	697,394
HNB Life	5,274,682	8,111,048	-	2,072,671	6,038,377
Janashakthi Life	3,751,144	12,325,288		7,147,185	5,178,103
LIC	536,864	792,033	-	126,980	665,053
LOLC Life	887,316	1,195,555	-	187,230	1,008,325
MBSL	105,905	158,019	-	1,604	156,415
Sanasa	936,626	705,636	1,221	183,720	523,137
SLIC	73,125,635	75,873,864	31,128	1,341,403	74,563,589
Softlogic Life	8,570,469	6,905,366	48,436	869,340	6,084,462
Union Life	14,274,762	17,467,260	1,688,310	2,623,547	16,532,023
Total	**175,121,575**	**209,989,359**	**5,879,375**	**24,693,299**	**191,175,436**

Table 14

Company - wise Analysis of Risk Capital Required (RCR) as at 31st December 2016 & 2017 – Long Term Insurance Business

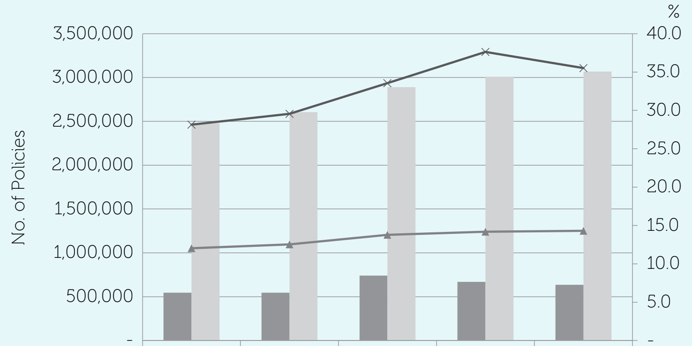
Insurer	As at 31st December 2016 (a) (Rs'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	522,912	767,887	2,030,977	-	1,690,531	463,209	5,475,515	3,755,882
Allianz Life	2,383	24,317	236,982	367	135,930	23,367	423,347	297,902
Amana Life	30,407	279,493	59,373	601	37,298	27,063	434,235	372,733
Arpico	19,302	110,716	69,027	108	21,027	15,776	235,956	200,880
Ceylinco Life	888,650	504,103	11,231,956	10,420	2,129,986	938,552	15,703,667	12,847,731
Cooplife	25,529	21,907	286,671	1,235	129,581	18,152	483,075	359,965
HNB Life	124,489	279,699	410,127	974	664,619	118,356	1,598,264	1,058,500
Janashakthi Life	245,566	245,914	817,698	560	477,108	182,810	1,969,658	1,405,869
LIC	17,884	37,093	143,027	86	56,344	21,401	275,836	207,057
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	36,075	6,017	132,674	931	12,410	18,710	206,816	177,125
SLIC	880,170	1,435,350	14,440,153	-	3,413,384	1,088,729	21,257,785	17,134,441
Softlogic Life	65,587	298,230	1,846,349	-	1,652,722	98,046	3,960,934	2,761,510
Union Life	184,021	399,384	2,688,718	357	1,456,248	345,230	5,073,958	3,598,467
Total	**3,048,353**	**4,427,665**	**34,712,923**	**18,988**	**12,179,037**	**3,393,387**	**57,780,354**	**44,643,987**

Insurer	As at 31st December 2017 (b) (Rs'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	544,451	474,348	2,267,270	-	1,941,588	527,000	5,754,658	3,853,018
Allianz Life	2,618	25,017	86,290	494	145,002	33,924	293,345	187,798
Amana Life	29,497	201,296	43,883	585	36,015	29,333	340,610	279,153
Arpico	19,663	270,640	61,596	168	83,571	20,870	456,508	362,451
Ceylinco Life	1,076,424	567,911	11,671,525	4,653	2,430,953	1,072,306	16,823,772	13,582,910
Cooplife	50,089	12,620	290,161	-	198,532	21,795	573,196	405,471
HNB Life	194,403	362,576	1,030,356	1,759	551,798	152,059	2,292,949	1,689,029
Janashakthi Life	247,394	53,919	1,700,189	1,082	760,967	194,302	2,957,852	2,151,085
LIC	25,835	44,087	174,420	82	63,257	27,289	334,970	253,947
LOLC Life	1,072	16,189	240,874	4,457	354,006	41,041	657,639	442,673
MBSL	4,428	14,432	47,752	5	41,276	6,363	114,256	78,626
Sanasa	27,862	156,839	84,412	300	77,346	19,237	365,995	280,955
SLIC	1,042,994	1,972,474	13,709,970	-	4,149,374	1,259,957	22,134,770	17,278,458
Softlogic Life	92,124	348,759	1,481,824	-	2,195,653	118,941	4,237,301	2,920,932
Union Life	196,407	471,272	3,837,662	276	1,270,902	435,499	6,212,016	4,701,641
Total	**3,555,261**	**4,992,379**	**36,728,184**	**13,861**	**14,300,240**	**3,959,916**	**63,549,837**	**48,468,147**

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

Risk Capital Required (RCR) is the aggregate of capital charges determined for material risk categories with appropriate allowances for diversification. Credit risk, concentration risk, market risk, reinsurance risk, liability risk and operational risk are considered as material risk categories for this purpose as depicted in Table 14. In 2017, total risk capital charges after diversification amounted to Rs. 48,468 million (2016: Rs. 44,644 million) for long term insurance business. Prior to diversification same amounted to Rs. 63,550 million in 2017. Similar to prior year, market risk was the main risk amounting to Rs. 36,728 million followed by liability risk and concentration risk respectively. Accordingly, these three risk categories represented 84.47% of total risk capital charges prior to diversification.

Chart 10
Number of Insurance Policies Issued and Policies in Force- Long Term Insurance Business



	2013	2014	2015	2016 (a)	2017 (b)
No. of New Life Policies Issued	546,292	545,303	740,511	668,714	636,156
No. of Life Policies in Force	2,477,695	2,604,667	2,889,763	3,009,427	3,068,846
No. of Life Policies in Force as % of the Total Population*	12.0	12.5	13.8	14.19	14.31
No. of Life Policies in Force as % of the Labour Force*	28.1	29.6	33.6	37.62	35.51

* source - mid year labour force and population - Department of Census and Statistics

Number of Insurance Policies Issued and Policies Inforce – Long Term Insurance Business

As illustrated in Chart 10, total number of life insurance policies inforce amounted to 3,068,846 in 2017 compared to 3,009,427 in 2016. However, slight reduction noted in the number of new life policies issued which amounted to 636,156 in 2017.

During 2017, number of life policies in force as a percentage of the total population had improved slightly to 14.31% (2016: 14.19%) while the number of life policies in force as a percentage of the labor force has reduced marginally to 35.51% (2016: 37.62%).

Product-wise Policies Inforce and Sum Insured-Long Term Insurance Business

Table 15 provides details on number of insurance policies inforce and sum assured based on the type of products for year 2016 and 2017. Mainly products were categorized in to endowment, universal life, term, whole and others. In 2017, total sum assured amounted to Rs. 2,413,655 million and grew by 23.62% year on year.

Majority of policies in force represented endowment which amounted to 1,438,145 due to its inherent characteristics of maturity lump sum payment. However, endowment and whole life policies showed a slight drop during last year with the changes in consumer demand. On the other hand, demand towards universal life products is growing due to the certain features such as flexibility, investment saving element etc.

Table 15
Product wise Policies Inforce and Sum Insured for 2016 and 2017 - Long Term Insurance Business

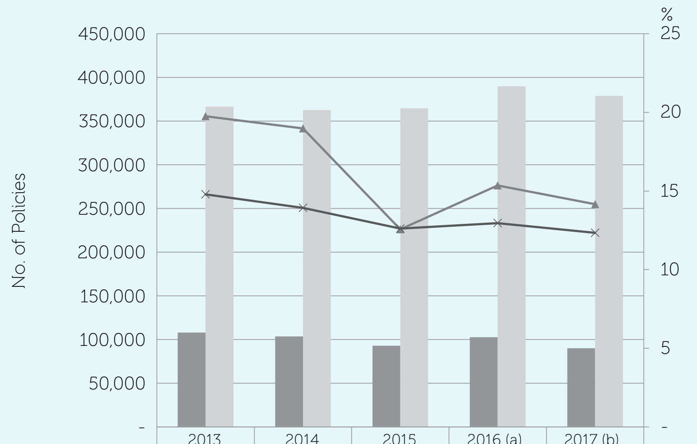
Type of Product	2016		2017	
	No: of Policies in Force	Sum Insured (Rs.000')	No: of Policies in force	Sum Insured (Rs.000')
Term Insurance	476,468	805,553,921	501,899	878,057,665
Universal Life	840,150	323,335,829	871,299	367,730,167
Whole Life Insurance	29,793	1,674,568	25,701	1,581,575
Endowments	1,499,479	332,101,717	1,438,145	371,193,218
Others	163,537	489,831,801	231,802	795,092,598
Total	**3,009,427**	**1,952,497,836**	**3,068,846**	**2,413,655,223**

Accordingly, there were 871,299 (2016: 840,150) universal life policies inforce at the end of the year 2017 with a total sum assured amounting to Rs. 367,730 million (2016: Rs. 323,336 million). Term insurance also represented significant portion of the sum assured and accounted for 16.35% of the total policies in force.

Insurance Policy Lapses – Long Term Insurance Business

Chart 11 depicts an overall reduction in lapse rates in terms of new insurance policies and total insurance policies. Persistency is an industry wide issue with the high policy lapsation ratios recorded in every year due to many reasons such as premium defaults by customers with fluctuations in disposable income, agents' misappropriations, product mismatch, inefficiencies in policy management etc. In 2017, total life insurance policies lapsed amounted to 378,660 which 90,038 consist of new policies. Further, total policies lapsed as a percentage of total policies in force was 12.34% (2016: 12.95%) while new policy lapsation as a percentage of new policies issued was 14.15% (2016: 15.36%) in 2017. On average there

Chart 11
Number of Policies Lapsed and Lapse Ratio from 2013 and 2017 - Long Term Insurance Business



	2013	2014	2015	2016 (a)	2017 (b)
New Insurance Policies Lapsed	107,906	103,500	93,008	102,697	90,038
Total Insurance Policies Lapsed	366,506	362,664	364,567	389,732	378,660
New Insurance Policies Lapsed as a % of New Policies Issued	19.75	18.98	12.56	15.36	14.15
Total Insurance Policies Lapsed as a % of Total Policies in Force	14.79	13.92	12.62	12.95	12.34

were more than 372,000 policies lapsed during last five years.

Claims Incurred by Insurance Companies - Long Term Insurance Business

It is noteworthy to mention that life insurers claims incurred have significantly increased in year 2017 which amounted to Rs. 25,967 million (2016: Rs. 22,485 million) and has grown by 15.49% year on year. Within last five years this was the highest claims incurred by the life insurers in terms of value. Maturity benefits represented majority which amounted to Rs. 14,240 million (2016: Rs. 12,371 million) and represented 54.84% of the total benefits. Accordingly, maturity benefits have risen by 15.11% in year 2017 compared to year 2016. Surrenders also represented a significant portion of the claims incurred which amounted to Rs. 5,392 million and represented 20.76% of the total claims.

During 2017, disability benefits and death benefits have gone up by 30.26% and 29.17% respectively compared to 2016. Other benefits which include health benefits, advance payments, bonus, certain cancellations and refunds etc. had amounted to Rs. 3,611 million which is 13.91% of the total claims incurred and recorded a growth of 25.07% year on year.

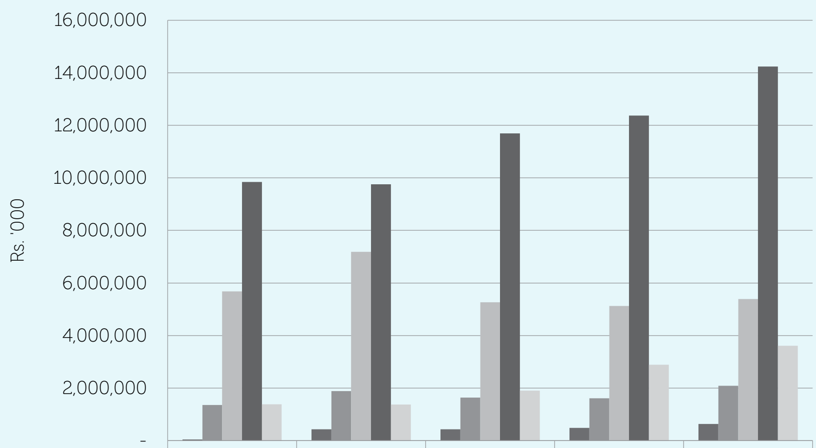
Chart 12 provides details of claims incurred by long term insurance companies.

Number of Insurance Claims - Long Term Insurance Business

Total number of claims for the year 2017 has marginally risen by 7.87% to 341,344 as against improvement of 15.49% noted in value of the claims in 2017. The number of maturity benefit claims was 115,311 (2016: 108,680) and represented 33.78% of the total claims. "Others" which is a combination of miscellaneous claims on health benefits, cancellations, refunds, partial withdrawals etc. had grown by 9.71% to 157,251 year on year.

Surrenders represented 13.70% of the total number of claims which insurers need to pay attention to minimize the same. The number of death benefits paid has

Chart 12
Claims Incurred by Insurance Companies - Long Term Insurance Business



	2013	2014	2015	2016(a)	2017(b)
Disability Benefits	45,457	436,518	430,617	488,818	636,758
Death	1,358,337	1,889,289	1,640,801	1,616,565	2,088,118
Surrenders	5,677,638	7,184,611	5,267,864	5,121,636	5,391,723
Maturity Benefits	9,839,833	9,754,751	11,687,811	12,370,659	14,239,953
Others	1,388,698	1,378,929	1,906,560	2,887,039	3,610,801

considerably increased to 11,253 in 2017 from 8,418 reported in 2016.

Table 16 provides details on number of insurance claims for the years 2013 to 2017.

General Insurance Business

Gross Written Premium

Year 2017 was another successful year for the general insurance industry with twelve insurers solely operating in general insurance business along with another three composite insurers handling both general and long term insurance businesses. These insurers have been able to overcome number of challenges in past year due to adverse weather conditions, fluctuation in exchange rates, changes in duty rates charged on vehicles, increase in mosquito-borne viral infections etc.

Similar to previous years, GWP of insurance market has mainly driven by general insurance business which accounted for 56.57% (2016: 55.63%) of the total GWP recorded in the year 2017. Despite the challenging environment, year 2017 ended with a positive growth of 17.00% (2016: 14.90%) by generating GWP Rs. 93,119 million compared to Rs. 79,590 million recorded in the year 2016.

The steady growth was mainly due to increase in motor and health insurance businesses for the year 2017. Suraksha free medical and personal accident cover introduced by the Education

Table 16

Number of Insurance Claims - Long Term Insurance Business

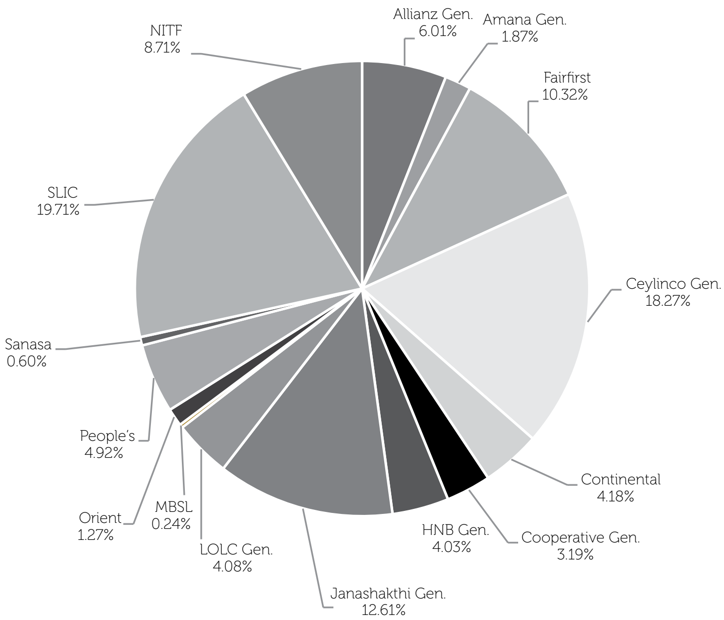
	2013	2014	2015	2016	2017
Disability Benefits	6,980	8,120	14,081	9,521	10,749
Death	5,284	5,795	6,747	8,418	11,253
Surrenders	41,964	46,312	42,814	46,484	46,780
Maturity Benefits	102,050	107,353	120,661	108,680	115,311
Other benefits	99,257	84,835	112,337	143,336	157,251
Total	**255,535**	**252,415**	**296,640**	**316,439**	**341,344**

Table 17

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

Insurer	2013		2014		2015		2016 (a)		2017 (b)	
	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)	Premium (Rs.'000)	Market Share (%)
AIA Gen.	2,428,675	4.17	2,655,577	4.34	3,297,840	4.76				
AIG	880,060	1.51	414,805	0.68	3,141	0.00				
Allianz Gen.	1,964,907	3.37	2,723,406	4.45	3,244,844	4.68	4,247,691	5.34	5,593,322	6.01
Amana Gen.	1,432,135	2.46	1,285,418	2.10	1,438,732	2.08	1,474,186	1.85	1,739,936	1.87
Ceylinco Gen.	10,311,479	17.69	11,431,680	18.68	12,921,561	18.65	15,265,433	19.18	17,012,087	18.27
Continental	1,330,515	2.28	1,761,747	2.88	2,309,413	3.33	3,088,064	3.88	3,892,991	4.18
Cooperative Gen.	1,272,941	2.18	1,358,932	2.22	1,691,705	2.44	2,420,130	3.04	2,966,680	3.19
Fairfirst	1,556,386	2.67	1,638,126	2.68	1,908,901	2.76	2,361,614	2.97	9,610,990	10.32
HNB Gen.	1,767,361	3.03	2,182,915	3.57	2,577,224	3.72	2,982,385	3.75	3,748,215	4.03
Janashakthi Gen.	6,318,626	10.84	6,491,556	10.61	7,406,160	10.69	10,137,864	12.74	11,744,148	12.61
LOLC Gen.	1,485,521	2.55	1,815,486	2.97	2,476,961	3.58	3,096,834	3.89	3,795,106	4.07
MBSL	1,132,789	1.94	961,225	1.57	1,159,208	1.67	972,976	1.22	227,813	0.24
NITF	4,973,357	8.53	5,295,759	8.65	4,961,413	7.16	6,420,822	8.07	8,114,417	8.71
Orient	355,001	0.61	491,127	0.80	746,935	1.08	810,728	1.02	1,179,000	1.27
People's	3,085,041	5.29	3,286,063	5.37	3,637,404	5.25	4,166,727	5.24	4,584,347	4.92
Sanasa	322,592	0.55	344,041	0.56	349,527	0.50	384,481	0.48	554,332	0.60
SLIC	12,549,763	21.53	12,113,994	19.79	13,583,222	19.61	15,198,381	19.10	18,355,361	19.71
Union Gen.	5,116,966	8.78	4,950,741	8.09	5,557,189	8.02	6,561,571	8.23	-	-
Total	**58,284,115**	**100**	**61,202,599**	**100**	**69,271,380**	**100**	**79,589,887**	**100**	**93,118,745**	**100**
Growth Rate (%)	**9.53**		**5.01**		**13.18**		**14.90**		**17.00**	

Chart 13
Company - wise Market Share of Gross Written Premium - General Insurance Business for the Year ended 31st December 2017



Ministry through SLIC for all Sri Lankan school children in October 2017 and increase in premium income of Agrahara health insurance scheme operated by NITF have mainly contributed to the growth in health insurance business by 46.23% compared to 17.60% recorded in 2016.

As depicted in Table 17 and Chart 13, SLIC led the market by achieving a market share of 19.71% (2016: 19.10%) and recorded a premium income of Rs. 18,355 million in 2017. Accordingly, SLIC was able to secure the first place in the general insurance market in terms of GWP for four consecutive years except for year 2016. There was a significant growth rate of 20.77% in premium income compared to Rs. 15,198 million recorded in 2016. This includes the premium generated through Suraksha free medical and personal accident cover amounting to Rs. 2.3 billion. Ceylinco General achieved the second position by recording premium income of Rs. 17,012 million (2016: Rs. 15,265 million) capturing a market share of 18.27% in 2017 (2016: 19.18%). Janashakthi General remained in the third position with a market share of 12.61% (2016: 12.74%) by recording premium income of Rs. 11,774 million in 2017 (2016: Rs. 10,138 million). Fairfirst achieved the fourth market position with the amalgamation of Union General and improved GWP by 307% to Rs. 9,611 million in 2017.

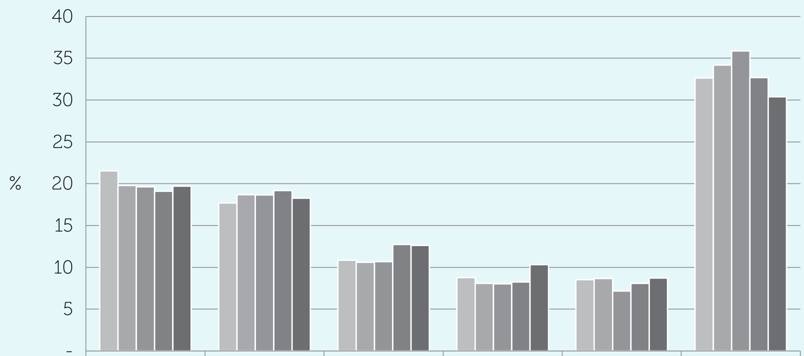
NITF remained the fifth largest market player by achieving a market share of 8.71% (2016: 8.07%) in 2017 with premium income of Rs. 8,114 million (2016: Rs. 6,421 million) and recording a growth rate of 26.38% compared to 2016. Significant improvement in premium generated through Agrahara health insurance scheme and SRCC & T has mainly contributed to the high growth rate recorded by NITF during the year 2017. Allianz General and People's were able to achieve a market share of 6.01% (2016: 5.34%) and 4.92% (2016: 5.23%) respectively in year 2017.

Orient, Sanasa, Allianz General, Continental, and HNB General have recorded growth rates above 25% compared to GWP recorded in year 2016 resulting in increased market shares. Market share of all insurance companies has slightly increased except Ceylinco General, Janashakthi General, MBSLI and People's.

Top Five Contributors to Gross Written Premium and Other Insurers - General Insurance Business

Chart 14 depicts the market share of top five contributors to the GWP and other insurers' market share in the general insurance business from 2013 to 2017. Similar to previous years, SLIC and Ceylinco General were leading in the general insurance market by contributing to aggregate market share of 37.98 % in 2017 (2016: 38.28%) and third, fourth and fifth positions were taken by Janashakthi General, Fairfirst and NITF respectively. These five players together contributed to 69.62% of the total GWP and recorded a growth of 2.29% year on year. Similar to pervious year, the aggregate market shares of remaining insurance companies had further decreased to 30.38% in 2017 from 32.67% recorded in year 2016.

Chart 14
Top Five Contributors to GWP and Other Insurers for the Years 2013 to 2017 - General Insurance Business



	SLIC	Ceylinco	Janashakthi	Union Gen/Fairfirst	NITF	Others
2013	21.53	17.69	10.84	8.78	8.53	32.62
2014	19.79	18.68	10.61	8.09	8.65	34.18
2015	19.61	18.65	10.69	8.02	7.16	35.86
2016 (a)	19.10	19.18	12.74	8.24	8.07	32.67
2017 (b)	19.71	18.27	12.61	10.32	8.71	30.38

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

Table 18 and Chart 15 illustrate the class wise analysis of GWP generated from fire, marine, motor, health and miscellaneous insurance businesses from 2013 to 2017 constituting the main sub-classes of general insurance business including premiums relating to SRCC & T.

Similar to previous years, motor insurance business continued its dominance in the general insurance market by recording GWP of Rs. 56,073 million (2016: Rs. 49,333 million) which represented 60.22% of total GWP declining by 1.76% compared to market share of 61.98% recorded in year 2016.

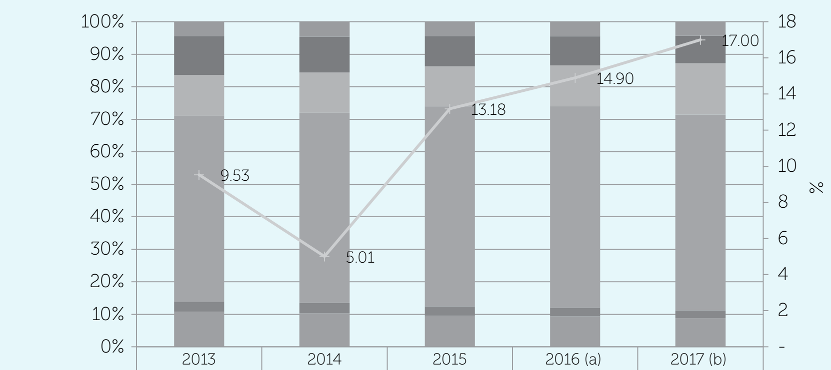
Table 18
Class-wise Analysis of Gross Written Premium - General Insurance Business

Class	Gross Written Premium (Rs. '000)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	6,303,725	6,353,292	6,604,074	7,479,910	8,239,759
Marine	1,796,969	1,911,944	1,996,862	2,086,394	2,222,191
Motor	33,331,917	35,786,941	42,622,205	49,333,000	56,072,846
Health	7,292,091	7,593,386	8,534,364	10,036,518	14,676,421
Miscellaneous	7,015,630	6,721,836	6,495,454	7,120,742	7,871,246
Sub Total	**55,740,332**	**58,367,399**	**66,252,959**	**76,056,564**	**89,082,463**
SRCC & T	2,543,783	2,835,200	3,018,421	3,533,324	4,036,283
Total	**58,284,115**	**61,202,599**	**69,271,380**	**79,589,888**	**93,118,746**

Class	Growth (%)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	15.16	0.79	3.95	13.26	10.16
Marine	(6.75)	6.40	4.44	4.48	6.51
Motor	4.67	7.37	19.10	15.74	13.66
Health	22.58	4.13	12.39	17.60	46.23
Miscellaneous	22.27	(4.19)	(3.37)	9.63	10.54
Sub Total	**9.44**	**4.71**	**13.51**	**14.80**	**17.13**
SRCC & T	11.51	11.46	6.46	17.06	14.23
Total	**9.53**	**5.01**	**13.18**	**14.90**	**17.00**

Class	Percentage Share (%)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	10.82	10.38	9.53	9.40	8.85
Marine	3.08	3.12	2.88	2.62	2.39
Motor	57.19	58.47	61.53	61.98	60.22
Health	12.51	12.41	12.32	12.61	15.76
Miscellaneous	12.04	10.98	9.38	8.95	8.45
Sub Total	**95.64**	**95.37**	**95.64**	**95.56**	**95.67**
SRCC & T	4.36	4.63	4.36	4.44	4.33
Total	**100**	**100**	**100**	**100**	**100**

Chart 15
Class-wise Analysis of GWP from 2013 to 2017 - General Insurance Business



	2013	2014	2015	2016 (a)	2017 (b)
SRCC & T	4.36	4.63	4.36	4.44	4.33
Miscellaneous	12.04	10.98	9.38	8.95	8.45
Health	12.51	12.41	12.32	12.61	15.76
Motor	57.19	58.47	61.53	61.98	60.22
Marine	3.08	3.12	2.88	2.62	2.39
Fire	10.82	10.38	9.53	9.40	8.85
Industry Growth	9.53	5.01	13.18	14.90	17.00

Further, there was a drop in growth rate of motor insurance business to 13.66% compared to growth rate of 15.74% recorded in 2016.

Health represented the second largest category of the general insurance business by recording GWP of Rs. 14,676 million (2016: Rs. 10,037 million) with a significant growth rate of 46.23% year on year.

Increased demand for apartments and residential units have created more opportunities for fire insurance business and achieved a growth rate of 10.16% year on year and recorded GWP of Rs. 8,240 million (2016: Rs. 7,480 million).

Miscellaneous insurance recorded 8.45% of the total GWP by generating premium income of Rs. 7,871 million (2016: Rs. 7,121 million) and had grown by 10.54 % compared to year 2016. GWP generated through Marine insurance business has improved by 6.51% in year 2017 compared to year 2016 (2016: 4.48%). As confirmed by NITF, premiums collected for SRCC & T amounting to Rs. 4,036 million (2016: Rs. 3,533 million) represented 4.33% of the total GWP while recording a growth rate of 14.23% in year 2017.

Category–wise Analysis of GWP of Miscellaneous Insurance Business

Table 19 illustrates the GWP generated from different insurance businesses categorized under miscellaneous insurance business during the years 2016 and 2017. Main categories of miscellaneous insurance business include Personal Accident, Air Craft Hull, Title Insurance, Workmen Compensation Insurance, Travel Insurance, Cash in Transit etc. Total GWP generated from miscellaneous insurance excluding SRCC & T and coinsurance premium amounted Rs. 7,871 million (Rs. 7,121 million) in year 2017 and improved by 10.54% compared to year 2016.

All the categories of miscellaneous insurance business have increased during the year

Table 19
Category - wise Analysis of GWP of Miscellaneous Insurance premium for 2016 & 2017

Category	GWP Rs.'000	
	2016 (a)	2017 (b)
Title	492,883	507,621
Personal Accident	1,454,497	1,434,518
Contractors' All Risk	59,428	197,680
Professional Indemnity	183,227	275,178
Travel Insurance	442,893	497,729
Fidelity Guarantee	97,700	93,894
Burglary	349,480	376,890
Cash in transit including cash in safe	435,132	411,760
Goods in Transits	81,776	133,885
Products Liability	124,341	139,905
Public Liability	384,149	397,677
Bankers' Indemnity	396,791	389,531
Air Craft Hull	997,727	840,116
Worker's Compensation Insurance	535,456	565,864
National Natural Disaster Insurance Scheme (NNDIS)	300,000	500,000
Others	1,180,419	1,476,720
Subtotal	**7,515,899**	**8,238,968**
Less: Total of SRCC & TTC due to NITF	(370,791)	(347,729)
Coinsurance Premium	(24,364)	(19,990)
Total	**7,120,744**	**7,871,249**

2017 except Personal Accident, Fidelity Guarantee, Cash in Transit including cash in safe, Bankers' Indemnity and Air Craft Hull. GWP generated through Contractors' All Risk, Professional Indemnity, Goods in Transits and NNDIS has positively influenced the total GWP generated from miscellaneous insurance business during the year 2017.

The business carried out in terms of "Others" mainly comprised of Performance Bonds, Personal insurance products and Hull All Risk represented 18.76% (2016: 16.58%) of total GWP of miscellaneous insurance (including SRCC & T) and became one of the major category of miscellaneous insurance business. Personal Accident became the second largest business category by contributing Rs. 1,434 million to GWP in year 2017 (2016: Rs. 1,454 million) and recorded a negative growth of 1.37% compared to year 2016 followed by the Air Craft Hull insurance business generating GWP amounting to Rs. 840 million (2016: Rs. 998 million).

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

Table 20 and Chart 16 depict the GWP generated by insurance companies, reinsurance premium

Table 20
Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business

Class	Gross Written Premium (Rs. '000)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	6,303,725	6,353,292	6,604,074	7,479,910	8,239,759
Marine	1,796,969	1,911,944	1,996,862	2,086,394	2,222,191
Motor	33,331,917	35,786,941	42,622,205	49,333,000	56,072,846
Health	7,292,091	7,593,386	8,534,364	10,036,518	14,676,421
Miscellaneous	7,015,630	6,721,836	6,495,454	7,120,742	7,871,246
Sub Total	**55,740,332**	**58,367,399**	**66,252,959**	**76,056,564**	**89,082,463**
SRCC & T	2,543,783	2,835,200	3,018,421	3,533,324	4,036,283
Total	**58,284,115**	**61,202,599**	**69,271,380**	**79,589,888**	**93,118,746**

Class	Reinsurance Premium (Rs'000)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	4,823,731	5,075,545	5,137,042	5,959,242	6,578,120
Marine	998,976	1,171,768	1,154,511	1,174,266	1,207,575
Motor	864,394	636,603	1,115,036	1,233,466	2,170,337
Health				486,984	2,674,504
Miscellaneous	2,700,309	2,634,795	3,012,362	3,213,645	3,823,138
Sub Total	**9,387,410**	**9,518,711**	**10,418,951**	**12,067,603**	**16,453,674**
SRCC & T	-	-	-	-	108,750
Total Reinsurance Premium	**9,387,410**	**9,518,711**	**10,418,951**	**12,067,604**	**16,562,424**

Class	Retention (Rs'000)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	1,479,994	1,277,747	1,467,033	1,520,667	1,661,639
Marine	797,994	740,176	842,351	912,129	1,014,617
Motor	32,467,523	35,150,338	41,507,169	48,099,534	53,902,509
Health				9,549,533	12,001,917
Miscellaneous	11,607,412	11,680,427	12,017,456	3,907,097	4,048,108
Sub Total	**46,352,923**	**48,848,688**	**55,834,008**	**63,988,960**	**72,628,790**
SRCC & T	2,543,783	2,835,200	3,018,421	3,533,324	3,927,533
Total Net Written Premium	**48,896,706**	**51,683,888**	**58,852,429**	**67,522,284**	**76,556,323**

Class	Retention as a Percentage of GWP (%)				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	23.48	20.11	22.21	20.33	20.17
Marine	44.41	38.71	42.18	43.72	45.66
Motor	97.41	98.22	97.38	97.50	96.13
Health				95.15	81.78
Miscellaneous	81.13	81.59	79.96	54.87	51.43
Sub Total	**83.16**	**83.69**	**84.27**	**84.13**	**81.53**
SRCC & T	100	100	100	100	97.31
Overall Retention Ratio	**83.89**	**84.45**	**84.96**	**84.84**	**82.21**

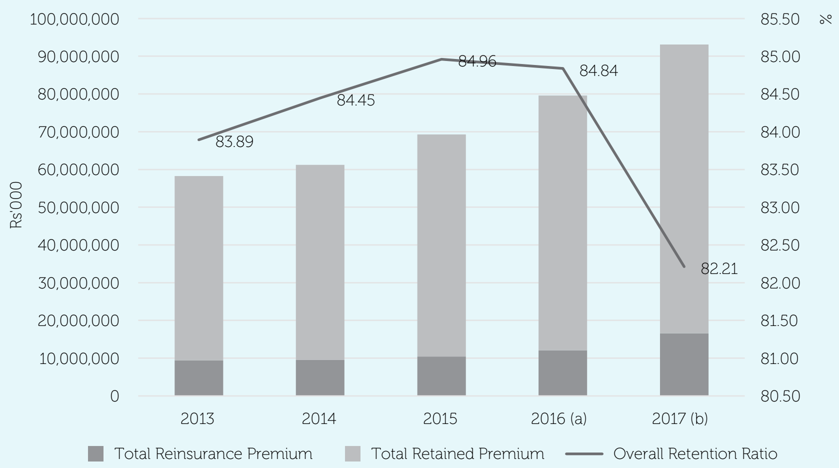
ceded to reinsurers and the retention levels of main classes of general insurance business from 2013 to 2017. As shown in the Table 20, Rs. 16,454 million had been ceded to reinsurers (2016: Rs. 12,068 million) out of the total GWP (2016: Rs. 76,057 million) of Rs. 89,082 million generated by general insurance business. Accordingly, general insurers recorded an overall retention ratio of 81.53% (excluding SRCC & T) in year 2017 (2016: 84.13%) a slight decrease compared to the previous year.

Motor insurance business remained the highest retained class of general insurance business for last five years. In the year 2017, motor class recorded a retention ratio of 96.13 % (2016: 97.50%). However, premiums ceded to reinsurance for motor insurance business have increased by 75.95% and amounted to Rs. 2,170 million compared to Rs. 1,233 million recorded in 2016. This was mainly due to enhancement of reinsurance coverage due to adverse weather conditions prevailed in last two years which resulted in high claim payments.

Health insurance business also continued to record relatively high retention ratio of 81.78 % in 2017 (2016: 95.15%) however, recorded a decrease in retention ratio compared to previous year due to enhancement of reinsurance coverage.

Fire class of insurance business recorded the lowest retention ratio for last five years with 20.17% (2016: 20.33%) recorded for the year 2017. Similarly, Marine insurance business also

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



recorded low retention ratios for last five years and retention ratio recorded for the year 2017 was 45.66%. These classes recorded low retention ratio due to higher risk transfer to reinsurers to minimise the claims exposure.

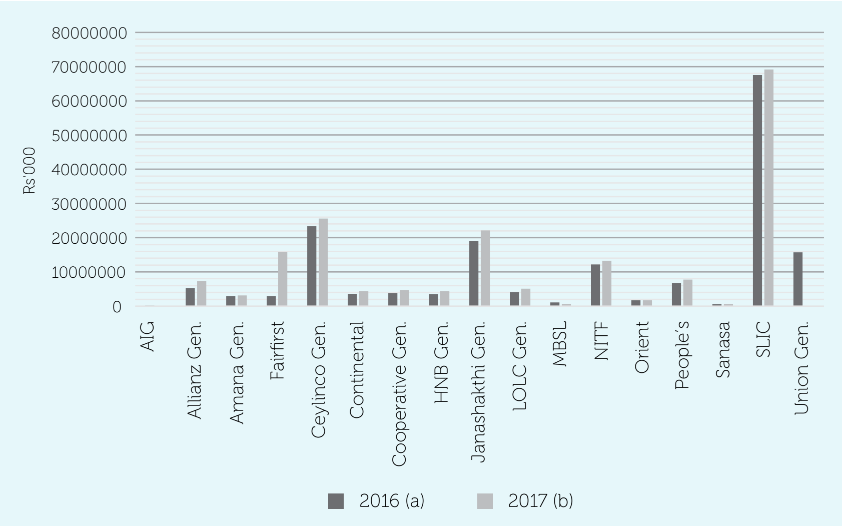
Company wise Analysis of Total Assets - General Insurance Business

Table 21 & Chart 17 depict the distribution of assets among general insurance companies as

Table 21
Company-wise Analysis of Total Assets - General Insurance Business

Insurer	2016 (a)		2017 (b)	
	(Rs.'000)	%	(Rs.'000)	%
AIG	125,282	0.07	55,380	0.03
Allianz Gen.	5,211,062	3.00	7,333,401	3.95
Amana Gen.	2,939,990	1.69	3,141,550	1.69
Ceylinco Gen.	23,376,250	13.44	25,572,536	13.77
Continental	3,584,797	2.06	4,369,211	2.35
Cooperative Gen.	3,787,315	2.18	4,669,447	2.51
Fairfirst	2,945,827	1.69	15,836,675	8.53
HNB Gen.	3,492,537	2.01	4,385,775	2.36
Janashakthi Gen.	19,023,897	10.93	22,142,143	11.92
LOLC Gen.	4,069,023	2.34	5,113,204	2.75
MBSL	1,086,971	0.62	625,377	0.34
NITF	12,176,936	7.00	13,259,239	7.14
Orient	1,713,218	0.98	1,726,427	0.93
People's	6,720,143	3.86	7,745,115	4.17
Sanasa	521,765	0.30	635,851	0.34
SLIC	67,503,909	38.80	69,155,434	37.22
Union Gen.	15,706,231	9.03		
Total	**173,985,153**	**100**	**185,766,765**	**100**

Chart 17
Company wise Analysis of Total Assets - General Insurance Business



at 31st December 2016 and 2017. Total assets of general insurance business amounted to Rs. 185,767 million as at 31st December 2017 and recorded a growth of 6.77% compared to assets amounted to Rs. 173,985 million recorded as at 31st December 2016.

SLIC possessed the largest portion of assets among general insurance companies similar to previous years and represented 37.22% (2016: 38.80%) of total industry assets by recording assets worth of Rs. 69,155 million (2016: Rs. 67,504 million). However, their share of asset had decreased by 1.58% compared to year 2016.

Ceylinco General and Janashkthi General became the second and third largest holders of the assets by recording assets worth Rs. 25,573 million (2016: Rs. 23,376 million) and Rs. 22,142 million (2016: Rs. 19,024 million) representing 13.77% and 11.92% respectively out of the total assets as at 31st December 2017.

Fairfirst and NITF accounted for 8.53% and 7.14% of total assets and claimed fourth and fifth positions in terms of asset share respectively. Fairfirst reported assets worth Rs. 15,837 million (2016: Rs. 2,946 million) in the year 2017 recording an increase of Rs. 12,891 million due to merger of business activities with Union General during the year 2017. It is interesting to note that 78.58% of total assets of insurance companies are concentrated among top five companies while the balance 21.42% are owned by other twelve companies.

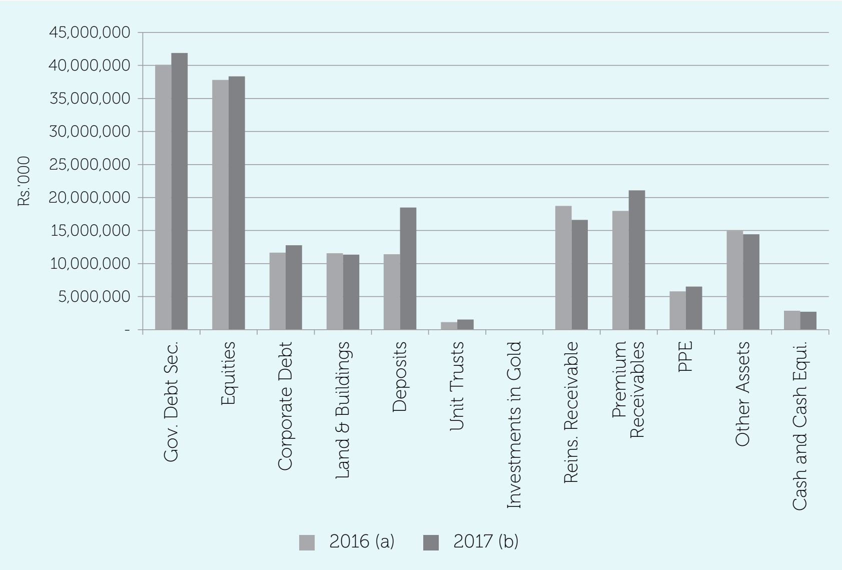
Concentration of Assets of General Insurance Business

Table 22 and Chart 18 demonstrate the concentration of assets of general insurance business as at 31st December 2016 & 2017.

Table 22
Concentration of Assets as at 31st December 2016 & 2017 - General Insurance Business

Type of Asset	2016 (a)		2017 (b)	
	Rs.'000	%	Rs.'000	%
Government Debt Securities	40,101,080	23.05	41,870,344	22.54
Equities	37,795,017	21.72	38,355,376	20.65
Corporate Debts	11,659,017	6.70	12,761,621	6.87
Land & Buildings	11,573,141	6.65	11,364,135	6.12
Deposits	11,404,871	6.56	18,500,476	9.96
Unit Trusts	1,142,393	0.66	1,528,271	0.82
Reinsurance receivables	18,737,908	10.77	16,622,166	8.95
Premium receivable from policyholders and intermediaries	17,981,467	10.34	21,087,107	11.35
Property Plant and Equipment	5,783,922	3.32	6,524,695	3.51
Other Assets	14,944,018	8.59	14,432,659	7.77
Cash and cash equivalents	2,862,317	1.65	2,719,914	1.46
Total	**173,985,152**	**100**	**185,766,765**	**100**

Chart 18
Concentration of Assets as at 31st December 2016 & 2017 General Insurance Business



Government Debt Securities remained as the main investment category for the general insurance sector and recorded Rs. 41,870 million (2016: Rs. 40,101 million) investments representing 22.54% of the total asset portfolio. Insurers are required to invest at least 20% of the Technical Reserves in government securities in accordance with section 25(1) of the RII Act. Accordingly, the IRCSL ensured that insurance companies comply with same and the remaining assets were invested in accordance with Determination 1 of 2012 based on the returns filed.

Investments in Equities amounted to Rs. 38,355 million (2016: Rs. 37,795 million) as at 31st December 2017 and represented the second largest asset category in general insurance business, slightly increasing by 1.48% from Rs. 37,795 million recorded in the year 2016. Premium receivables from policyholders and intermediaries amounted to Rs. 21,087 million (Rs. 17,981 million) in 2017 representing 11.35% of total assets, increased by 17.27% compared to 2016.

Investments in deposits amounted to Rs. 18,500 million in 2017, significantly increasing by 62.22% compared to deposits recorded in year 2016 due to favorable interest rates offered by the banks. Accordingly, deposits represented 9.96% (2016: 6.56%) of the total assets. Reinsurance receivables represent 8.95% (2016: 10.77%) of asset share and recorded a decrease compared to 2016 and remained at Rs. 16,622 million in year 2017.

Corporate debts are also one of the main investment categories of general insurance business which represented 6.87% from total assets in 2017 (2016: 6.70%).

Investment Income- General Insurance Business

Table 23 illustrates the breakup of investment income, average investments and investment yield ratio of different asset categories in general insurance business for the years 2016 and 2017.

The average investments of general insurance business amounted to Rs. 119,605 million and increased by 5.97% compared to Rs. 112,864 million recorded in 2016. The general insurance business recorded an investment income of Rs. 8,340 million (2016: Rs. 13,823 million) which resulted in an overall investment yield of 6.97% in 2017 (2016: 12.25%). The movement in investment income and investment yield in 2016 and 2017 was mainly due to the significant dividend income recorded by SLIC during the year 2016 under the category of equity investment.

Investment income generated from government securities amounted to Rs. 4,212 million in 2017 which recorded the largest portion of average investment amounting to Rs. 40,986 million (2016: Rs. 39,023 million) from the total average investment of general insurance business. Further, government debt securities have recorded an investment yield of 10.28%, slightly higher than 9.20% recorded in 2016.

Insurers have preferred to invest in the corporate debt market and recorded an average investment amounting to Rs. 12,210 million (2016: Rs. 10,267 million) while representing an investment yield of 11.58% (2016: 10.85%).

Average investments in deposit in banks and finance companies amounted to Rs. 14,953 million and recorded positive increase of 16.56% compared to Rs. 12,829 million recorded in 2016. Accordingly, investment income generated from deposits has increased by 42% and recorded

Table 23
Breakup of Investment Income and Average Investments - General Insurance Business

Category	2016 (a) Investment Income (Rs. '000)	2016 (a) Average Investments (Rs. '000)	2016 (a) Investment Yield Ratio (%)	2017 (b) Investment Income (Rs. '000)	2017 (b) Average Investments (Rs. '000)	2017 (b) Investment Yield Ratio (%)
Government Debt Securities	3,588,284	39,023,078	9.20	4,212,077	40,985,713	10.28
- Treasury Bonds	2,089,935			2,735,629		
- Treasury Bills	803,739			590,397		
- Others (REPO)	694,610			886,051		
Equity	7,597,574	38,326,247	19.82	655,827	38,075,197	1.72
- Capital Gain/Losses	(721,337)			104,334		
- Dividend	8,318,911			551,493		
Corporate Debts	1,114,281	10,267,033	10.85	1,413,752	12,210,319	11.58
- Debentures	1,094,355			1,353,313		
- Commercial Papers	19,926			60,439		
Land and Buildings	10,484	10,389,225	0.10	-	11,468,638	-
Deposits	1,051,222	12,828,577	8.19	1,492,512	14,952,674	9.98
- Banks	818,071			1,131,569		
- Finance Companies	233,152			360,943		
Unit Trusts	96,798	1,486,219	6.51	102,045	1,335,332	7.64
Gold	-	2,599	-	-	1,353	-
Others	364,141	541,405	67.26	464,209	576,326	80.55
Total	**13,822,785**	**112,864,383**	**12.25**	**8,340,422**	**119,605,552**	**6.97**

Rs. 1,493 million in year 2017 (2016: Rs. 1,051 million).

Solvency position of Insurance Companies-General Insurance Business

Table 24 demonstrates details of Total Available Capital (TAC), Risk-based Capital Required (RCR) and Capital Adequacy Ratio (CAR) of general insurance business as at 31st December 2016 and 2017. The average CAR of general insurance business recorded for the years 2017 and 2016 stood at 177%. All general insurers except one company have complied with the minimum CAR requirement of 120% as at 31st December 2017. Despite the severe competition among the general insurance market players, most of the insurers were able to improve their CAR compared to 31st December

Table 24
Company-wise Analysis of Solvency Position - General Insurance Business as at 31st December 2016 & 2017

Insurer	As at 31st December 2016 (a) TAC (Rs'000)	RCR (Rs'000)	CAR (%)	As at 31st December 2017 (b) TAC (Rs'000)	RCR (Rs'000)	CAR (%)
Allianz Gen.	717,076	561,308	128	1,242,299	862,788	144
Amana Gen.	612,166	282,964	216	694,303	368,950	188
Ceylinco Gen.	4,808,967	2,898,591	166	5,256,966	2,683,035	196
Continental	990,264	362,339	273	1,254,166	435,656	288
Cooperative Gen.	930,531	668,347	139	1,255,470	707,534	177
Fairfirst	697,852	498,335	140	2,996,328	1,879,831	159
HNB Gen.	745,532	444,704	168	945,781	530,608	178
Janashakthi Gen.	5,555,651	2,960,794	188	6,950,621	2,944,742	236
LOLC Gen.	1,065,705	529,397	201	1,161,195	537,801	216
MBSL	(112,186)	395,693	-28	(188,192)	146,896	-128
Orient	524,830	219,733	239	565,891	311,104	182
People's	2,782,250	819,580	339	2,825,708	884,562	319
Sanasa	126,492	79,881	158	131,015	106,859	123
SLIC	25,791,641	13,866,523	186	27,050,916	13,501,434	200
UAGI	1,923,728	1,332,421	144			
Total	**47,160,499**	**25,920,610**	**177**	**52,142,466**	**25,901,800**	**177**

2016. Similar to previous year, two insurance companies were not able to comply with the minimum TAC requirement of Rs. 500 million as at 31st December 2017.

Accordingly, the IRCSL has taken appropriate action against such companies who have not complied with Solvency Margin (Risk Based Capital) Rules 2015. Further, companies who had reported CAR between 120% and the enforcement level of 160% were closely monitored in terms of the Enforcement Strategy on RBC issued by the IRCSL.

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

Table 25 illustrates TAC pertaining to general insurance business as at 31st December 2016 and 2017. As per Solvency Margin (Risk Based Capital) Rules 2015, TAC comprises of Tier 1 capital, Tier 2 capital and Deductions. Overall TAC of the general insurance business was Rs. 52,142 million as at 31st December 2017 and increased by 10.56% compared to Rs. 47,160 million recorded as at 31st December 2016. Tier 1 capital consists of issued and fully paid-up ordinary shares, capital reserves and other adjustments for retained earnings amounting to Rs. 74,745 million in 2017 (2016: Rs. 73,330 million). Tier 2 capital which cannot exceed 50% of Tier 1 capital amounted to Rs. 8,794 million as at 31st December 2017. Deductions from TAC comprised of inadmissible loans and advances, prepayments, inventory, pledged assets, deferred income tax etc. which amounted to Rs. 31,398 million in year 2017.

Table 25

Company-wise Analysis of Total Available Capital (TAC) as at 31st December 2016 and 2017 - General Insurance Business

Insurer	TAC as at 31st December 2016 (a) (Rs'000)	As at 31st December 2017 (b)			
		Tier 1 (Rs'000)	Tier II (Rs'000)	Deductions (%)	TAC (Rs'000)
Allianz Gen.	717,076	1,516,063	-	273,765	1,242,298
Amana Gen.	612,166	1,770,334	230,332	1,306,363	694,303
Ceylinco Gen.	4,808,967	9,728,950	-	4,471,984	5,256,966
Continental	990,264	1,436,054	-	181,888	1,254,166
Cooperative Gen.	930,531	1,821,632	299,401	865,563	1,255,470
Fairfirst	697,852	4,408,989	-	1,412,661	2,996,328
HNB Gen.	745,532	1,127,779	-	181,998	945,781
Janashakthi Gen.	5,555,651	7,411,668	130,046	591,093	6,950,621
LOLC Gen.	1,065,705	1,366,785	-	205,590	1,161,195
MBSL	(112,186)	(16,206)	(8,125)	163,861	(188,192)
Orient	524,830	655,315	-	89,424	565,891
People's	2,782,250	3,054,156	-	228,448	2,825,708
Sanasa	126,492	216,900	2,666	88,552	131,015
SLIC	25,791,641	40,247,281	8,140,049	21,336,414	27,050,916
Union Gen	1,923,728				
Total	**47,160,499**	**74,745,700**	**8,794,369**	**31,397,604**	**52,142,466**

Comparison of Risk Capital Required (RCR) by Insurance Companies – General Insurance Business

Table 26 illustrates the company wise composition of various risk charges relating to the Risk Based Capital requirement as at 31st December 2016 and 2017. Total RCR recorded by general insurance companies amounted to Rs. 25,902 million (2016: Rs. 25,921 million) after diversifation. Prior to diversification same amounted to Rs. 34,663 million. Market risk was the main risk category and represented 31.41% (2016: 32.47%) of the total risk capital charges before diversification in year 2017. Liability risk charge which consists of premium and claims liability represented 29.88% of the total risk charge which increased by 3.06% in year 2017 compared to 26.82% recorded in year 2016. Concentration risk applies to the value of assets that are not admissible and not required to be deducted from TAC, amounted to Rs. 10,305 million in year 2017 and decreased by 6.82% compared to Rs. 11,059 million recorded as at 31st December 2016.

Operational risk, credit risk and reinsurance risk were comparatively low in the general insurance business by representing 4.49%, 2.75% and 1.75% of total risk capital charge before diversification as at 31st December 2017 respectively.

Table 26

Company-wise Analysis of Risk Capital Required (RCR) as at 31st December 2016 and 2017 - General Insurance Business

Insurer	As at 31st December 2016 (a) (Rs'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Rsik	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	2,180	237,304	124,417	20,458	407,160	39,437	830,957	561,308
Amana Gen.	21,957	192,716	27,660	7,621	129,781	27,354	407,089	282,964
Ceylinco Gen.	91,744	1,236,712	933,655	160,111	1,580,436	192,073	4,194,731	2,898,591
Continental	30,840	82,511	120,790	25,043	251,418	30,039	540,641	362,339
Cooperative Gen.	41,868	287,050	257,654	7,504	303,897	37,511	935,485	668,347
Fairfirst	-	312,810	26,518	2,586	361,380	28,922	732,217	498,335
HNB Gen.	32,197	147,137	123,060	12,596	312,514	29,638	657,142	444,704
Janashakthi Gen.	221,028	742,781	1,593,990	90,617	1,314,322	157,305	4,120,044	2,960,794
LOLC Gen.	5,119	116,844	249,236	17,900	357,167	35,976	782,243	529,397
MBSL	7,643	319,052	21,438	19,040	147,104	10,870	525,146	395,693
Orient	20,370	130,676	39,334	10,125	88,783	14,058	303,347	219,733
People's	92,857	73,973	377,322	7,178	603,036	63,976	1,218,342	819,580
Sanasa	3,347	24,298	44,659	3,149	25,803	4,700	105,955	79,881
SLIC	129,353	6,754,211	6,640,757	100,841	2,485,869	675,194	16,786,224	13,866,523
Union Gen.	29,950	400,858	485,341	165,000	773,589	89,577	1,944,315	1,332,421
Total	**730,453**	**11,058,934**	**11,065,831**	**649,769**	**9,142,259**	**1,436,630**	**34,083,878**	**25,920,610**

Insurer	As at 31st December 2017 (b) (Rs'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	3,424	452,847	118,166	21,050	621,642	57,957	1,275,087	862,788
Amana Gen.	24,535	253,239	59,175	5,421	134,244	29,764	506,378	368,950
Ceylinco Gen.	132,763	1,000,487	790,817	155,445	1,680,795	221,894	3,982,201	2,683,035
Continental	51,223	78,492	111,412	21,073	345,841	37,968	646,009	435,656
Cooperative Gen.	81,205	237,695	265,311	12,193	377,975	45,177	1,019,556	707,534
Fairfirst	36,684	1,084,791	414,418	23,577	1,044,536	103,739	2,707,745	1,879,831
HNB Gen.	36,572	198,031	73,910	23,870	411,933	37,108	781,425	530,608
Janashakthi Gen.	263,296	626,577	1,538,642	161,096	1,389,150	188,889	4,167,651	2,944,742
LOLC Gen.	2,519	93,170	124,446	24,104	476,997	45,289	766,525	537,801
MBSL	3,255	82,679	24,758	6,259	88,708	5,645	211,303	146,896
Orient	24,077	217,405	27,829	2,783	149,976	16,047	438,118	311,104
People's	118,529	139,463	215,990	8,342	738,073	71,151	1,291,548	884,562
Sanasa	3,204	43,318	52,022	1,677	36,620	5,770	142,612	106,859
SLIC	172,360	5,796,802	7,069,453	138,351	2,860,164	689,716	16,726,847	13,501,434
Total	**953,646**	**10,304,996**	**10,886,349**	**605,241**	**10,356,654**	**1,556,114**	**34,663,005**	**25,901,800**

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

As depicted in Table 27 and Chart 19, net earned premium generated from main sub-classes of general insurance business including SRCC & T was Rs. 72,379 million which recorded a growth of 15.55% compared to Rs. 62,641 million recorded in year 2016. The growth experienced in GWP during 2017 favorably influenced the aforesaid growth recorded in net earned premium.

Total net claims incurred increased during the last five years and in 2017 increased by 18.49% (2016: 21.01%). Total net claims incurred amounted to Rs. 47,921 million excluding SRCC & T compared to Rs. 40,443 million recorded in 2016. The increase was largely due to adverse weather conditions prevailed

Table 27

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

Class	Net Earned Premium (Rs.'000)				
	2013	2014	2015	2016(a)	2017(b)
Fire	1,405,887	1,241,985	1,283,463	1,213,542	1,727,872
Marine	806,277	753,643	797,026	903,170	991,961
Motor	31,346,284	33,826,829	37,958,834	44,593,900	50,558,538
Health	5,204,603	7,079,162	8,071,777	9,349,093	11,496,828
Miscellaneous	5,640,974	4,402,900	3,270,599	3,306,901	3,869,039
Sub Total	**44,404,025**	**47,304,518**	**51,381,699**	**59,366,606**	**68,644,238**
SRCC & T	2,406,477	2,692,730	2,914,630	3,274,297	3,734,322
Total	**46,810,502**	**49,997,248**	**54,296,329**	**62,640,903**	**72,378,560**

Class	Net Claims Incurred (Rs.'000)				
	2013	2014	2015	2016(a)	2017(b)
Fire	810,281	717,626	645,231	1,024,290	1,604,152
Marine	432,748	266,560	295,624	266,057	343,612
Motor	19,514,319	20,281,109	24,274,415	28,966,019	31,189,912
Health	4,029,410	6,252,704	6,958,816	8,065,476	10,470,746
Miscellaneous	2,133,310	1,522,689	1,677,736	2,121,221	4,312,451
Sub Total	**26,920,068**	**29,040,687**	**33,851,822**	**40,443,063**	**47,920,873**
SRCC & T	-	56,897	780	33,677	(10,519)
Total	**26,920,068**	**29,097,585**	**33,852,602**	**40,476,740**	**47,910,354**

Class	Net Claims Ratio (%)				
	2013	2014	2015	2016(a)	2017(b)
Fire	57.63	57.78	50.27	84.40	92.84
Marine	53.67	35.37	37.09	29.46	34.64
Motor	62.25	59.96	63.95	64.96	61.69
Health	77.42	88.33	86.21	86.27	91.08
Miscellaneous	37.82	34.58	51.30	64.15	111.46
Sub Total	**60.63**	**61.39**	**65.88**	**68.12**	**69.81**
SRCC & T	-	2.11	0.03	1.03	(0.28)
Total	**57.51**	**58.20**	**62.33**	**64.62**	**66.19**

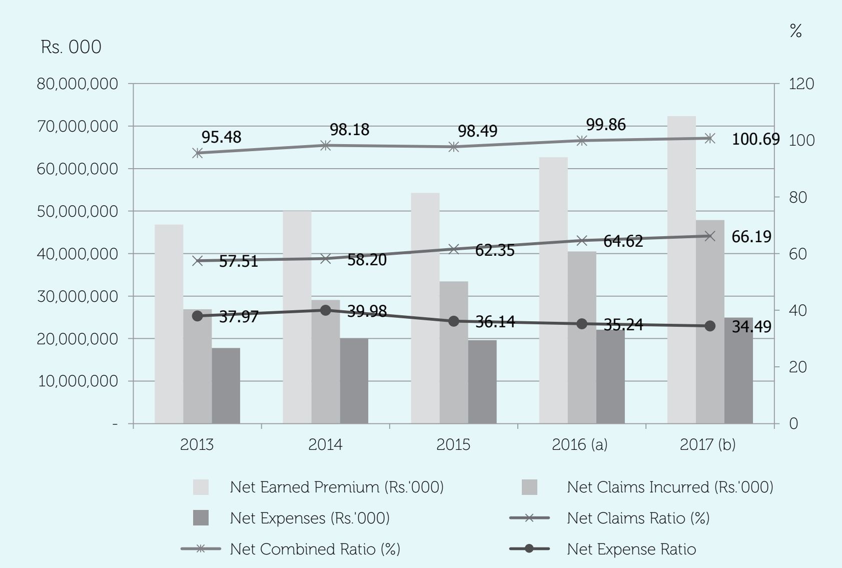
Description	Net Expenses (Rs.'000)				
	2013	2014	2015	2016(a)	2017(b)
Net Expenses for all classes of General Insurance Business except SRCC & T	17,359,623	19,524,543	19,134,713	21,421,928	24,262,663
SRCC & T	414,422	466,435	486,985	653,706	703,970
Total	**17,774,045**	**19,990,978**	**19,621,698**	**22,075,634**	**24,966,633**

Description	Net Expense Ratio (%)				
	2013	2014	2015	2016(a)	2017(b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	39.09	41.27	37.24	36.08	35.35
Net Expense Ratio of General Insurance Business	37.97	39.98	36.14	35.24	34.49

Description	Net Combined Ratio (%)				
	2013	2014	2015	2016(a)	2017(b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	99.72	102.67	103.12	104.21	105.16
Net Combined Ratio of General Insurance Business	95.48	98.18	98.49	99.86	100.69

in the country affecting a large number of people and property, and increased number of dengue cases reported which resulted in increase in claims in all the classes of general insurance business. Therefore, change in weather patterns, increase in the frequency and severity of rainfall have increased the risks for insurers, thus highlighting the need for efficient pricing and

Chart 19
Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business



assessment of such risks in an effective manner by insurers.

Motor insurance business has recorded net earned premium amounting to Rs. 50,559 million (2016: Rs. 44,594 million) representing 69.85% of total net earned premium including SRCC & T in year 2017. Motor insurance class recorded the highest net claims incurred amounting to Rs. 31,190 million (2016: Rs. 28,966 million) which represented 65.10% of the total claims incurred including SRCC & T in 2017 resulted in recording a net claims ratio of 61.69% (2016: 64.96%)

Health insurance business has recorded net earned premium amounting to Rs. 11,497 million (2016: Rs. 9,349) representing 15.88% of total net earned premium (including SRCC & T) for the year 2017. This class of business recorded the second highest net claims incurred reporting Rs. 10,470 million (2016: Rs. 8,065 million) and representing 21.85% (2016: 19.94%) of the total net claim incurred (excluding SRCC & T) in year 2017. High net claim ratio of 91.08% (2016: 86.27%) is a challenge for general insurance market.

Miscellaneous insurance business recorded net earned premium of Rs. 3,870 million an increase by 17% compared to Rs. 3,306 million recorded in year 2016. This sub-class recorded the highest net claims ratio of 111.46% in 2017 which significantly increased from claim ratio of 64.15% recorded in year 2016. This was mainly due to National Natural Disaster Insurance Scheme (NNDIS) introduced by the Sri Lankan government since 01st April 2016 as a protection scheme to cover damages caused to uninsured lives and properties, households and small business establishments due to cyclone, storm, tempest, flood, land slide, hurricane, earthquake, tsunami and any other similar natural perils, excluding drought. The total coverage of the above scheme was increased to Rs. 15 billion for 2017/2018 from Rs. 10 billion. NITF reported total claims incurred of Rs. 3.5 billion and Rs. 4.7 billion for the years ended 2016 and 2017 respectively. NNDIS was backed by reinsurance cover in 2016 and plans to recover Rs. 2.2 billion from reinsurers. However, for 2017/2018, the reinsurance cover came into effect after the May flood and claim payments were within the retention limits, which lead NITF to bear the total claim liability.

Net claims incurred for fire insurance business has increased to Rs. 1,604 million in year 2017 from Rs. 1,024 million recorded in year 2016 by 56.64% and recorded a net claim ratio of 92.84% which was higher than the 84.40% recorded in the year 2016 due to flood claims.

Similar to previous year, marine insurance recorded a low claims ratio of 34.64% which was slightly increased by 5.18% compared to the claim ratio of 29.46% recorded in year 2016.

As reflected in Table 27 and Chart 19 net expenses (including SRCC & T) incurred by general insurance sector amounted to Rs. 24,967 million in 2017 (2016: Rs. 22,076 million) which increased by 13.10%. Net expenses recorded for SRCC & T by NITF has continuously increased over the last five years and recorded Rs. 704 million in 2017 (2016: Rs. 654 million).

Net combined ratio which reflects the aggregate of net claims ratio and net expense ratio increased to 100.69% from 99.86% recorded in 2016. The combined ratio exceeding 100% reflects that the total claims and expenses incurred by the general insurance business above the earned premium.

Number of Policies Representing Gross Written Premium- General Insurance Business

Table 28 reflects the number of insurance policies pertaining to different sub-classes of general insurance business which had contributed to generate GWP from 2013 to 2017. The total number of insurance policies related to all sub-classes of general insurance business has significantly increased to 6,171,573 in 2017 from 5,768,607 policies reported in 2016.

Similar to previous year motor insurance business accounted for the largest number of policies from a single sub-class of general insurance business in the year 2017 and represented 87.96% (2016: 87.98%) of total policies in year 2017. Out of total motor insurance policies issued, majority was third party insurance indicating that people tend to look for a minimum level of protection for low premium to fulfil only the legal requirement. Insurance policies for all sub-classes had increased in 2017 compared to 2016 except fire and health insurance policies.

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

Table 29 and Chart 20 illustrate the details of new insurance policies, renewed policies and policies in force for years 2016 and 2017. The total number of policies in force pertaining to all sub-classes of general insurance business amounted to 6,051,867 in 2017 (2016: 5,909,818) and increased by 2.40% compared to 2016.

Similar to previous years, motor insurance represented the largest number of insurance policies in force as at end of the year 2017 by recording 5,354,234 policies (2016: 5,053,554) comprising of 2,780,940 third party policies (2016: 2,657,337) and 2,573,294 comprehensive policies (2016: 2,396,217). During the year policies in force for marine insurance & fire insurance have decreased by 29.98% and 29.62% respectively compared to previous year. Miscellaneous policies in force have marginally increased by 6.89% in 2017 compared to 2016.

Chart 20
Details of New, Renewed and Policies in Force - General Insurance Business

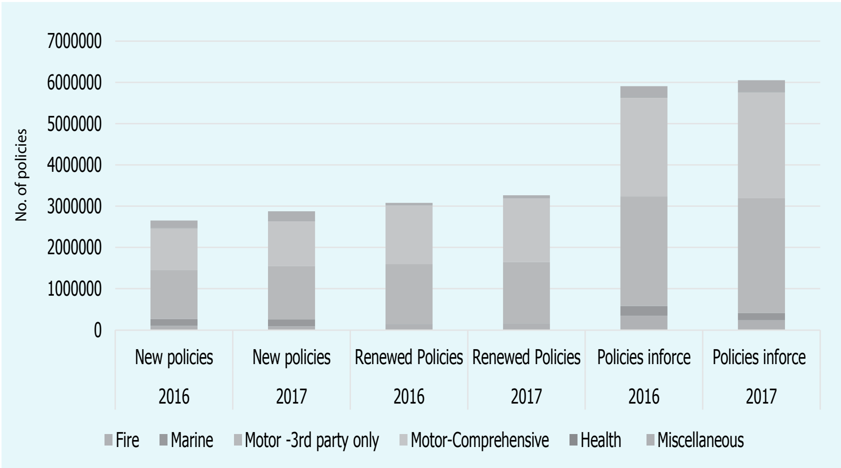


Table 28
Number of Policies Representing Gross Written Premium - General Insurance Business

	No. of policies				
	2013	2014	2015	2016 (a)	2017 (b)
Fire	177,749	188,578	227,800	246,058	242,184
Marine	158,893	186,447	190,720	191,966	196,293
Motor	3,795,059	4,004,162	4,531,187	5,075,622	5,428,618
3rd party only	2,126,037	2,229,153	2,460,596	2,628,255	2,785,000
Comprehensive	1,669,022	1,775,009	2,070,591	2,447,367	2,643,618
Health	11,609	13,716	15,053	16,040	14,121
Miscellaneous	186,131	204,285	202,038	238,921	290,357
Total	**4,329,441**	**4,597,188**	**5,166,798**	**5,768,607**	**6,171,573**

Table 29

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

	2016			2017		
	New policies	Renewed Policies	Policies in force at year end	New policies	Renewed Policies	Policies in force at year end
Fire	103,969	136,976	344,682	88,247	156,266	242,602
Marine	165,619	5,180	237,873	170,330	5,669	166,547
Motor	2,191,720	2,886,731	5,053,554	2,380,751	3,029,136	5,354,234
3rd party only	1,178,712	1,453,258	2,657,337	1,289,099	1,484,081	2,780,940
Comprehensive	1,013,008	1,433,473	2,396,217	1,091,652	1,545,055	2,573,294
Health	8,826	6,235	14,649	5,043	7,716	11,563
Miscellaneous	183,772	47,437	259,060	229,380	63,798	276,921
Total	**2,653,906**	**3,082,559**	**5,909,818**	**2,873,751**	**3,262,585**	**6,051,867**

Reinsurance Business

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 No. 1791/4 of 31st December 2012.

During the year 2017, NITF has recorded Rs. 3,683 million as reinsurance premium income, increasing by 53.64% compared to Rs. 2,397 million recorded in 2016.

In 2017, Rs. 175 million had been ceded to reinsurers as retrocession premium by NITF (2016: Rs. 252 million) which resulted in recording a retention ratio of 95.25% (2016: 89.50%). NITF reported net earned premium of Rs. 3,058 million (2016: Rs. 1,929 million) reflecting a positive increase of 58.53%.

Net claims incurred during 2017 amounted to Rs. 2,326 million (2016: Rs. 2,868 million) which resulted in a claims ratio of 76.06% (2016: 148.68%). Reinsurance business of NITF reported expense amounted to Rs.765 million during 2017 recording an increase of 31.22% over Rs.583 million incurred in 2016 and resulted in an expense ratio of 25.02% in 2017 (2016: 30.22%). Accordingly, the combined ratio which is the aggregate of claim ratio and expence ratio amounted to 101.08% decreasing significantly by 77.82% over 178.90% recorded in 2016.

Total assets held by the reinsurance business of NITF amounted to Rs. 4,250 million as at 31st December 2017 decreasing by 26.15% compared to assets worth of Rs. 5,755 million recorded as at 31st December 2016. Investments in government securities reported under NITF's Reinsurance business has significantly deteriorated by 78.65% to Rs. 347 million as at 31st December 2017 against Rs. 1,625 million reported as at 31st December 2016.

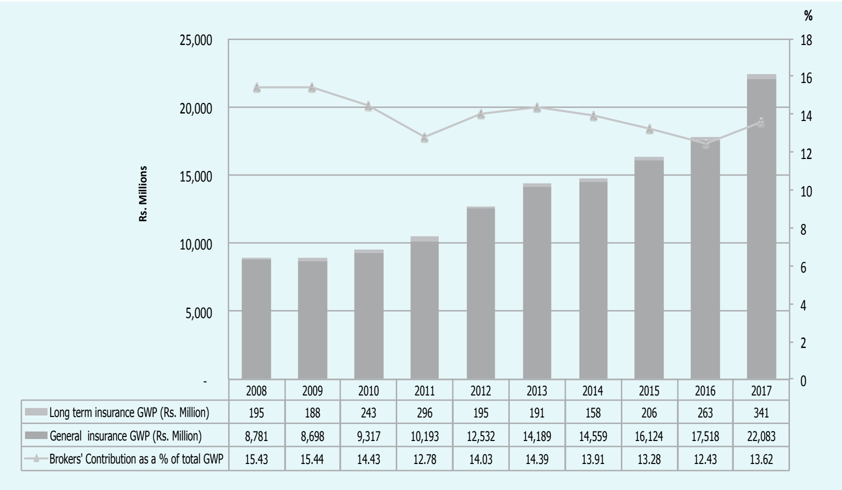
Reinsurance receivables accounted for Rs. 2,194 million (2016: Rs. 2,880 million) and represented 51.62% of total assets as at 31st December 2017, the main category of assets in the reinsurance business. The said balance remained unchanged since 2016. Accordingly, Reinsurance business of NITF does not have sufficient approved investments to meet insurance contract liabilities as at 31st December 2017.

Insurance Brokering Companies

During 2017, sixty insurance brokering companies operated and generated Gross Written Premium (GWP) amounting to Rs. 22,423 million. Accordingly, total GWP generated through insurance brokering business recorded a growth of 26.11% in 2017 when compared to Rs. 17,781 million generated in the year 2016. This total GWP consisted of premium income generated through long term insurance business and general insurance business which amounted to Rs. 341 million (1.52%) and Rs. 22,083 million (98.48%) respectively.

Similar to previous years, the contribution of insurance brokering companies towards long term insurance business was insignificant in 2017. As per the details provided by the brokering companies, only 0.48% of the total GWP of long term insurance business (Rs. 71,504 million) was generated through them. However, insurance brokering companies have generated 23.72% of the total GWP of general insurance business which amounted to Rs. 93,119 million (including SRCC & T premium).

Chart 21
Gross Written Premium generated through Insurance Brokering Companies from 2008 to 2017



In 2017, 27 insurance brokering companies procured GWP exceeding Rs. 100 million each and these companies collectively generated GWP amounting to Rs. 21,264 million. The remaining 33 insurance brokering companies generated Rs. 1,159 million as depicted in Table 30.

Table 30
Gross Written Premium generated through Insurance Brokering Companies – 2017

		Gross Written Premium					
		Long Term Insurance Business		General Insurance Business		Total	
	Name of the Broker	Rs.('000)	Market Share(%)	Rs.('000)	Market Share(%)	Rs.('000)	Market Share (%)
1	ADZ Insurance Brokers (Pvt) Ltd.	14,725	4.32	692,419	3.14	707,144	3.15
2	Aitken Spence Insurance Brokers (Pvt) Ltd.	3,745	1.10	627,123	2.84	630,868	2.81
3	Alfinco Insurance Brokers (Pvt) Ltd.	882	0.26	684,235	3.10	685,117	3.06
4	Allion Insurance Brokers (Pvt) Ltd.	6,671	1.96	120,540	0.55	127,211	0.57
5	Assetline Insurance Brokers (Pvt) Ltd.	403	0.12	1,829,565	8.29	1,829,968	8.16
6	Ceynergy Insurance Brokers (Pvt) Ltd.	510	0.15	131,486	0.60	131,996	0.59
7	CF Insurance Brokers (Pvt) Ltd.	79	0.02	2,704,243	12.25	2,704,322	12.06
8	Colombore Insurance Brokers (Pvt) Ltd.	6,445	1.89	272,431	1.23	278,876	1.24
9	Commercial Insurance Brokers (Pvt) Ltd.	35,560	10.44	2,527,181	11.44	2,562,741	11.43
10	Delmege Insurance Brokers (Pvt) Ltd.	73,091	21.45	967,461	4.38	1,040,552	4.64
11	Equity Insurance Brokers (Pvt) Ltd.	-	-	158,195	0.72	158,195	0.71
12	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	23,806	6.99	462,280	2.09	486,087	2.17
13	Finlay Insurance Brokers (Pvt) Ltd.	20,006	5.87	1,251,088	5.67	1,271,094	5.67
14	Foresight Insurance & Re Insurance Brokers (Pvt) Ltd.	-	-	143,942	0.65	143,942	0.64
15	Global Insurance Brokers and Services (Pvt) Ltd.	5,307	1.56	115,258	0.52	120,565	0.54
16	InsureMe Insurance Brokers (Pvt) Ltd.	23,898	7.01	130,859	0.59	154,758	0.69
17	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	2,169	0.64	157,476	0.71	159,645	0.71
18	Mercantile Insurance Brokers (Pvt) Ltd.	159	0.05	326,290	1.48	326,449	1.46
19	Nations Insurance Brokers Ltd.	7,194	2.11	1,612,609	7.30	1,619,803	7.22
20	Procare Insurance Brokers (Pvt) Ltd.	5,995	1.76	350,873	1.59	356,868	1.59
21	Protection & Assurance Insurance Brokers (Pvt) Ltd.	-	-	1,301,599	5.89	1,301,599	5.80
22	R M S Insurance Brokers (Pvt) Ltd.	-	-	106,778	0.48	106,778	0.48
23	Reliance Insurance Brokers (Pvt) Ltd.	26,383	7.74	579,623	2.62	606,006	2.70
24	Senaratne Insurance Brokers (Pvt) Ltd	18,092	5.31	1,469,745	6.66	1,487,837	6.64
25	Senkadagala Insurance Brokers (Private) Ltd.	-	-	1,082,045	4.90	1,082,045	4.83
26	Strategic Insurance Brokers (Pvt) Ltd.	8,676	2.55	954,691	4.32	963,367	4.30
27	Zenith Insurance Brokers (Pvt) Ltd.	923	0.27	219,709	0.99	220,632	0.98
	Sub total	**284,719**	**83.56**	**20,979,745**	**95.01**	**21,264,464**	**94.83**
	Other Insurance Brokering Companies (33)	**55,998**	**16.44**	**1,103,022**	**4.99**	**1,159,020**	**5.17**
	Grand Total	**340,717**	**100**	**22,082,767**	**100.00**	**22,423,484**	**100.00**

Review of Operations

Supervisory Review

Insurance Companies

1. Review of Returns

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

Insurance companies are required to submit their Annual Statutory Returns and Audited Financial Statements to the Commission within four months following the end of the respective financial year as amended Determination - 14. Further, insurers who are engaged in long term insurance business are required to submit Actuarial Reports and Abstracts along with their Annual Statutory Return to the Commission.

The Commission closely monitors the timely submission of the Returns and scrutinizes them for the accuracy and compliance with the relevant Rules and Regulations of the Act. Insurance companies were advised to rectify the deviations observed from statutory requirements, within stipulated deadlines. Follow up actions were taken by the Commission to ensure that insurers comply with the relevant Rules and Regulations of the Act. In addition, certain matters observed during the review of returns were addressed at the onsite inspections conducted.

b) Risk Assessment Report (RAR)

Risk Assessment Report was revised during the year in order to be compatible with the RBC framework. The insurance companies were required to submit their Risk Assessment Report (RAR) for the year 2016, to the Commission on or before 31st October 2017. All insurance companies, except four did not submit the RAR to the Commission within the time period given. The Commission reviewed the information disclosed in RARs pertaining to organizational structure and ownership, business profile, and senior management, functions such as marketing and distribution, claims administration, risk management, etc. to obtain an overview of companies' operations.

c) Reinsurance Arrangements

All insurance companies are required to inform annually, their reinsurance arrangements to the Commission in terms of Section 31(1) of the Act. The Commission reviews the said documents to ensure that reinsurance covers are obtained from regulated reinsurers who satisfy the rating requirements prescribed by the Commission, availability of covers for all classes of business which insurer is engaged in, and whether the compulsory cession to NITF had been ceded, etc. Any non-compliance or deviations observed by the Commission were informed to relevant companies to take corrective action within stipulated timelines.

Further, all insurers are required to submit the facultative reinsurance arrangements on a quarterly basis. The Commission reviews the said arrangements on above areas. In addition, views of NITF were obtained in case of not ceding the compulsory cession to NITF and deviations observed were communicated to relevant insurance companies, to take corrective action within stipulated timelines.

d) Quarterly Returns

Insurance companies are required to submit their Quarterly Returns to the Commission within forty-five days from the end of each quarter as per the provisions of the Act. Quarterly returns submitted during the year 2017 were reviewed by the Commission to assess their performance and to ensure compliance with relevant Rules and Regulations of the Act.

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

The financial position of every insurer for each quarter was continuously monitored by analyzing their asset and liability position, capital adequacy ratio (solvency), liquidity and capital adequacy. Any discrepancies and non-compliances observed during the review of quarterly returns were communicated to the respective insurers and instructed to rectify within the stipulated time limits.

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

e) Monthly Returns

During 2017, five insurance companies were required to submit Returns on a monthly basis under RBC framework within twenty-one days from the end of each month. This decision was taken due to the non-compliances reported by these companies and the requirement to scrutinize their financial stability and compliance in a frequent manner. Accordingly, the Commission reviewed the Returns submitted by these companies, in order to ensure their financial position complies with the Act, Rules and Regulations.

2. Monitoring Compliance with Solvency Margin (Risk Based Capital) Rules

According to the Solvency Margin (Risk Based Capital) Rules, every insurance company is required to maintain a minimum Total Available Capital (TAC) and Capital Adequacy Ratio (CAR) for both general and long term insurance businesses and to submit the solvency margin (Risk Based Capital) computations together with the Monthly, Quarterly and Annual Returns. The Commission reviews and analyzes such computations to ensure the compliance with the Solvency Margin Rules. If Insurers are unable to fulfill the required Solvency Margin requirements or if the computations are inaccurate, the Commission instructs them to take immediate action to comply with the Solvency Margin (Risk Based Capital) Rules and rectify the same within stipulated timelines.

3. Monitoring Compliance with Investment Specifications

a) Investment in Government Securities

As per Section 25 of the Act, insurers are required to invest in government securities not less than 20% of the Technical Reserve and not less than 30% of the Long Term Insurance Fund. Investments in government securities were closely monitored by the Commission to ensure compliance with Section 25 of the Act on monthly, quarterly and annual basis, based on the returns submitted. The Commission reviews the Statements of Holding issued by the Central Bank of Sri Lanka in order to substantiate the accuracy and ownership of the investments in government securities reported in the returns.

Any non-compliance or deviations observed by the Commission were informed to relevant companies to rectify within stipulated timelines.

b) Other Investments as per the Determination 1

Every Insurer is required to invest the balance assets available after having invested the minimum percentages of the Technical Reserve and the Long Term Insurance Fund, in government securities, in accordance with the Determination 1 of 1st March 2011 and its subsequent amendments. The Commission reviews the investments of the insurers to ensure compliance with Determination 1.

Any non-compliances or deviations observed with the above requirements are communicated to respective insurers for necessary rectifications within the stipulated timelines.

c) Enforcement Strategy on Solvency Margin (Risk Based Capital) Rules

If an insurance company fails to maintain the capital adequacy requirements as stipulated in Solvency Margin (Risk Based Capital) Rules, the Commission will intervene and take corrective action against them by requiring the companies to comply with the Enforcement Strategy on RBC. The purpose is to identify troubled insurance companies at an early stage so that practical and effective remedies can be introduced to resolve problems before they grow beyond control and become a significant enforcement issue. This will enable the Commission to closely monitor the performance of the respective insurance companies, to prevent the occurrence of a significant deterioration of financial condition or solvency which might lead to a crisis situation.

4. Onsite Inspections

During the year 2017, the Commission conducted three onsite inspections at insurance companies based on risk based supervisory methodology. One of the main objectives of conducting onsite inspections in the year 2017 was to gain a better understanding on company's enterprise-wide risk management and internal controls. The Commission reviewed the operations, systems, policies and procedures of insurers to ensure compliance with the provisions of the Act and other Rules and Regulations issued by the Commission. Further, interviews were conducted with the senior officials of the insurers, Internal/External Auditors and the Actuaries in order to gather more information relating to insurers' operations, liability valuations, procedures and systems. Compliance with Anti Money Laundering (AML) guidelines were also verified when conducting onsite inspections.

Observations made during the onsite inspections together with the Commission's recommendations for areas which needed improvements were communicated to the respective insurers.

5. Further Financial Evaluations

The Commission carries out further financial evaluations in respect of information received as part of an investigation/complaint. Additional financial information was gathered in respect of complains received and analyzed further to facilitate the Commission to arrive at decisions. Occasional onsite inspections were also conducted to verify the matters affirmed in the complaint. During the year 2017, the Commission conducted one onsite inspection of this nature.

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

Based on the information and statistics collated from the Quarterly Returns, the Commission submitted financial information relating to performance of the insurance industry on quarterly basis to the Financial System Stability Department of the Central Bank of Sri Lanka. In order to ascertain the performance of insurance industry, the Commission analyzed details on total assets, premium income for different classes of insurance business, underwriting results, net profit of insurance companies and ratios on earnings, profitability, liquidity, retention, etc.

7. Industry Handbook 2016

The Commission compiled information and statistics of the insurance industry for the year ended 31st December 2016 and published the "Industry Handbook" for the benefit of the insurance industry and its stakeholders. The industry handbook contained detailed information on individual insurance companies such as total assets, gross written premium for different classes of insurance business and market share, underwriting results, total available capital, solvency position, etc.

8. Guidelines on Investment for Insurance Companies

The Commission issued guidelines on Investment for Insurance Companies, with the objective of ensuring the funds under its management are invested in sound and prudent manner. These Guidelines set out the minimum policies that need to be observed in governance of investment management, management of investment portfolios and associated risks.

Insurance Brokering Companies

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

Insurance brokering companies are required to submit Quarterly Returns to the Commission within 45 days from the end of each quarter as per the Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010.

Most of the insurance brokering companies submitted their Quarterly Returns to the Commission within the deadline. The Commission reviewed the Quarterly Returns, in order to ensure their financial position, performance and compliance with the regulatory requirements. Non-compliance or deviations observed by the Commission were communicated to respective brokering 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 Commission reviewed the Audited Financial Statements and deviations from regulatory requirements were communicated to the respective insurance brokering companies for rectification.

2. Monitoring Premium Collections

As per Section 89 of the Act, insurance premiums collected by insurance brokering companies are required to be remitted to insurers within two weeks of collection. The Commission closely monitored insurance brokering companies for compliance with Section 89 of the Act through a review of quarterly returns and this was assured during the onsite inspections. Actions were taken by the Commission against non-compliances.

3. Onsite Inspection

During the year 2017 the Commission carried out eight on-site inspections at insurance brokering companies to assess the compliance with the Rules and Regulations of the Commission. Observations made during the onsite inspections were brought to the notice of the respective brokering companies together with the Commission's recommendations for corrective actions. Further, appropriate regulatory actions have been taken by the Commission for any violations.

4. Renewal of Registrations

Applications were received from insurance brokering companies for renewal of their annual licenses for the year 2018. The Commission analyzed Audited Financial Statements and Quarterly Returns to ascertain their financial position and performance prior to renewal.

5. Registration of new brokering companies

Applications were received from companies for registration as brokering companies. The Commission analyzed the applicant's audited financial statements, business plan, organizational chart, availability of infrastructure prior to recommending for registration.

Regulatory Review

Registration of Insurance Companies

New registration applications were not received by the Commission during the year. Accordingly, the number of registered insurers remained at 28. However, one insurance company is no longer accepting any new insurance business and is in the process of exiting from Sri Lanka.

Appendix I: Provides names of all insurance companies registered with the Commission 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 Commission in 2016. Accordingly, the Commission received 9 new business proposals during the year from persons who are interested to be registered as insurance brokers, and out of which, the Commission granted name approval to 5 persons during the year. The Commission also granted 3 new registrations as insurance brokers during the year. Further, 2 registered insurance brokers (for General Insurance business) have requested to register for long term insurance business and they were granted registration accordingly.

Applications from 57 insurance brokering companies, seeking renewal of registration for year 2018 were received by the Commission during the year, and renewal of registration was granted to all companies for the year 2018 in view of them fulfilling necessary requirements under the Act.

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

Enforcement Action

Insurance Companies

Suspensions

The Commission, after considering the deteriorating financial status of an Insurance Company (where the financial viability of the company was in serious doubt and it would adversely affect the policyholders of such insurer), suspended its registration granted to carry on both Long Term and General Insurance Businesses, with effect from 28th June 2017. Accordingly, the company was required to show cause in writing to the Commission, why such suspension should be removed and submit for the consideration of the Commission, a capital plan to immediately meet the regulatory requirements in compliance with the provisions of the Act. Since, the Company failed to do so, the suspension imposed on the Company was extended from 20th July 2017, until it complies with the regulatory capital requirement as per the Act.

The suspension imposed on Ceylinco Takaful Limited in year 2009 continues. During the year, Ceylinco Takaful Limited has settled all the claims that have been identified as genuine by the Commission. However, the claim settlement process could not be concluded since there were ongoing Court cases against Ceylinco Takaful Limited.

In terms of Section 18 (1) of the Act, the Commission 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 Commission 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 Commission under the Act.

Warnings

In terms of Section 57 of the Act, the Commission has issued a Direction to an insurer requiring them to furnish Monthly Returns with effect from August 2017 within 21 days from the end of each month. However, the company has failed to submit same for the month of August 2017, despite several reminders made by the Commission. Therefore, the Commission warned the company for violating the provisions of the Act, particularly the direction issued.

Enforcement Action

Insurance Brokering Companies

Warnings

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

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

Directions

1. It was observed by the Commission that certain insurance brokers were engaged in providing ancillary services to their clients in addition to the normal brokering services provided by them. The commission having taken into consideration the definition of an Insurance broker as given in the Act and the opinions expressed by the industry, directed all insurance brokers to seek prior approval from the Commission in order for them to provide ancillary services, other than insurance brokering business defined in the Act.

2. Section 101 of the Act prohibits a person in Sri Lanka from directly or indirectly placing any insurance business with an insurer not registered with the Commission, unless it is approved by the Commission. By issuing Circular #36, the Commission has provided for an exemption from the aforementioned prohibition to insurance brokers who have obtained authorization from the Commission to place foreign health insurance products. However, the Commission has further issued a direction to all insurance brokers informing that such authorization is not transferrable and cannot be delegated to another insurance broker.

3. In terms of Section 94 of the Act, insurance companies and insurance brokering companies are required to appoint a Principal Officer, with whom the Commission will communicate in all regulatory matters. However, the Commission have understood that certain communications have not been properly brought to the attention of their respective Board of Directors by the Principal Officer of the company. Therefore, the Commission has issued a Direction to all insurers and insurance brokers requiring all Principal Officers of insurers and insurance brokers to provide all communications with the Commission to the attention of their respective Board of Directors, as early as possible.

4. The Commission having observed that one insurance brokering company has arranged international health insurance covers for their corporate clients in support of another insurance broker, has issued a direction requiring the company to refrain from placing international health insurance covers on behalf of another brokering company.

5. Having observed that the net capital of two broker companies was less than the regulatory requirement of 2.5 million rupees, the Commission directed them to infuse necessary capital and to submit its' returns on a monthly basis, in addition to the Quarterly Returns the companies are required to submit to the Commission.

Regulatory/Advisory Measures

1. The Commission issued certain directions to an insurance company in the year 2015, requiring them to seek approval of the Commission prior to a winding up application being made to court and prohibiting remittance of money out of Sri Lanka until the legal process is concluded with regard to winding up. The said insurance company sought approval of the Commission to voluntarily liquidate the company, without the supervision of Courts. The Commission acceded to same subject to certain undertakings provided by the company. Further, the company also sought approval to remit Legal fees to a Law Firm based in the UK, in order to settle certain claims and the Commission acceded to same.

2. The approval of the Commission was sought by a shipping entity, to continue placing hull, machinery and war risk insurance cover with

a foreign insurer, for a certain fleet of ships, for a period of one year from 01st June 2017. The said cover was approved by the Commission, in terms of Section 101 of the Act, for a period of one year in 2016, subject to the said shipping entity requesting approval of the Commission in the event they wish to continue to place same for year 2017. The Commission considering the information submitted, acceded to the said request. Subsequently, upon a request being made by the said shipping entity, the Commission also granted approval to include a new vessel to the approved fleet of ships for the same period.

In terms of Section 101 of the Act, no person in Sri Lanka, shall without the prior written approval of the Commission, directly or indirectly place any insurance business with an insurer not registered with the Commission, except in relation to reinsurance business. Further, such approval is granted only upon taking into consideration the policy of the Government in respect of the insurance industry and the national interest.

3. The approval of the Commission was sought by a new insurance company created upon amalgamation of two general insurance companies, in terms of Section 15A of the Act, for an extension to list itself on the Colombo Stock Exchange and the Commission acceded to same in view of the circumstances concerned.

   In terms of Section 15A of the Act, every insurance company is required to list itself on a licensed stock exchange, within three years of being issued with a licence.

4. The Commission 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 Commission. The said insurance company sought approval of the Commission to obtain services and products from certain related parties during the year. The Commission considering the request, decided that the said Direction can be amended, subject to the company complying with the minimum capital requirement and the segregation requirement.

5. The Commission issued a Direction in year 2016, requiring the Principal Officers of all insurance companies and brokering companies to 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, by 12th May 2017. Considering the requests for an extension to same, the Commission granted an extension till 31st December 2017 to all insurers and insurance brokers to comply with same.

6. The Commission has granted authorization to a number of applications made by insurance brokering companies to place foreign health insurance products in terms of Circular # 36.

   Circular # 36 requires any insurance brokering company who wishes to place foreign health insurance covers, to seek approval from the Commission for the product that they wish to place.

7. Approval of the Commission was sought by insurance companies to accept electronic signatures of their External Actuaries, due to the practical difficulty of obtaining the signatures of them for the hard copies of the Returns submitted to the Commission, as most of them reside overseas. The Commission, in terms of the Electronic Transaction Act, No. 19 of 2006, approved the acceptance of scanned signatures of such Actuaries as legally valid, subject to the insurance companies providing the Commission with a Board Resolution, indicating the official email address of the company from which any electronic document would be sent; and the name and specimen signature of the Appointed Actuary, having considered the qualifications submitted

8. The Commission has 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 (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 the said 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 by the Commission on a case by case basis.

9. The Commission decided not to entertain the registration of a company which sought approval to register as an insurance company since the application was pending with the Commission for a long time, due to non-compliances of registration requirements in terms of the Act. Further, the Commission informed same to the Registrar of Companies.

10. The Commission has granted approval to several brokering companies in terms of Direction # 10, for conducting business other than Insurance Brokering Business.

    Direction # 10 requires all insurance brokering companies to seek prior approval from the Commission to provide ancillary services, other than insurance brokering business defined in the Act.

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

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

13. The Commission has responded to several applications received under the Right to Information Act, No. 12 of 2016.

Investigatory Review

The Commission, 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 Commission by claimants. The Commission 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 Commission (against an insurer, broker or an agent), all the parties concerned are given an opportunity of being heard by the Commission before making a decision on same. The insurers are required to establish the basis for its decisions relating to claims, with supporting information and documents. Where required, third party verifications and expert opinions are also obtained and considered by the Commission in arriving at decisions.

Analysis of Total Referrals

During the year under review, 348 matters were referred to the Commission and 341 matters were settled or closed during the same period. Out of the matters settled, 78 claims were honored by insurers based on the Commission's intervention. Aggregate value of such claims honored by insurers, during the year 2017, is around Rs. 20 Million (approximately; settlement values of certain claims have not been reported).

During the past five (5) year period, a total of 1,549 matters have been referred to the Commission. As per Chart 1, a slight decrease in the number of matters referred to the Commission is observed in the period under review compared to the year 2016.

Chart 2 shows the month wise breakdown of the number of matters referred to the Commission during the year under review. Highest number of referrals (35) has been recorded in the months of February and March whereas the month of April recorded the lowest no. of referrals (22). On average, 29 matters per month have been referred to the Commission during the year under review and the months; January, February, March, September and November have recorded referrals above average.

Chart 1
Total annual referrals during last five (5) years

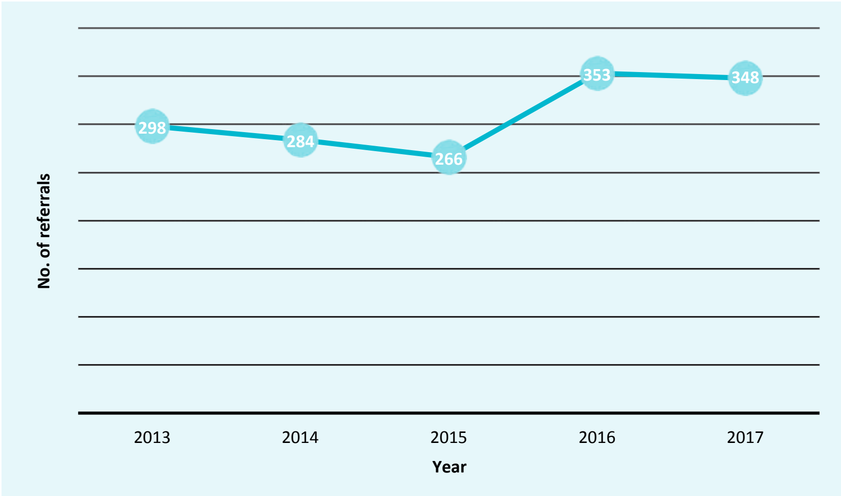


Chart 2
Month wise analysis of referrals during the year 2017

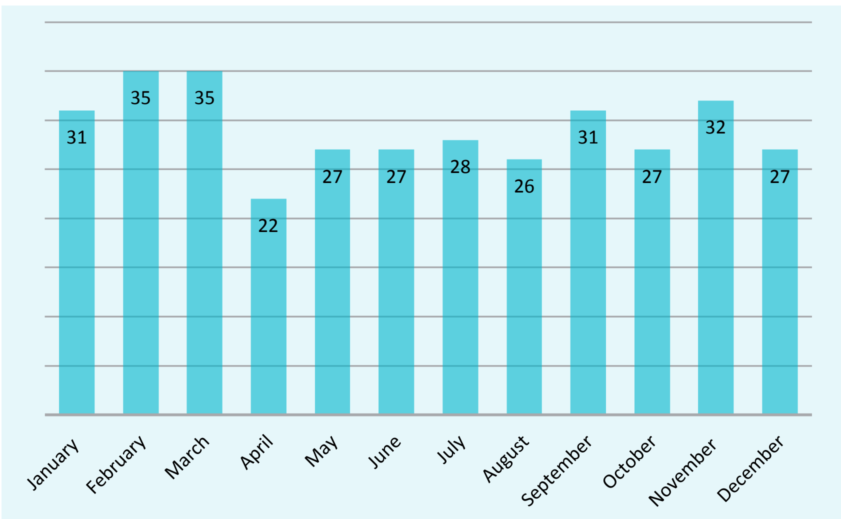


Chart 3
Classification of total matters referred to in the year 2017

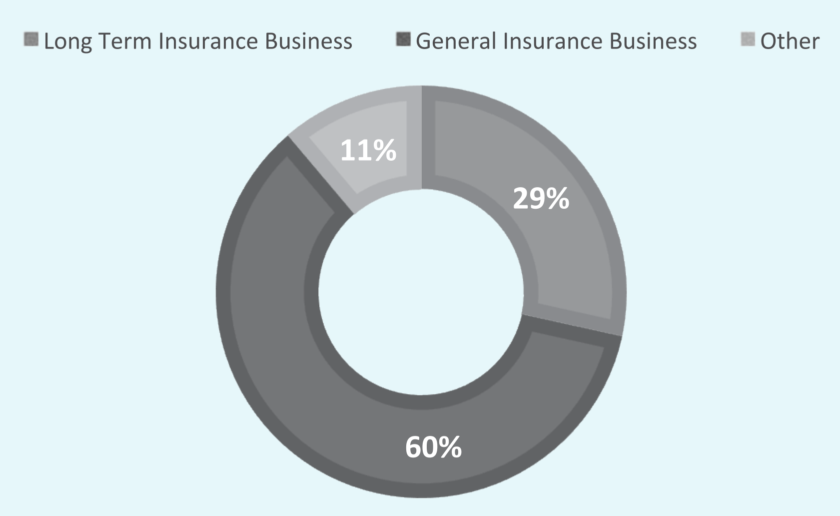


Chart 3 portrays the composition of total matters referred to the Commission in the year 2017. Majority of referrals i.e. 210 (60%) were with respect to general insurance business and 99 (29%) referrals were relating to long term insurance business. The balance 39 (11%) referrals are general in nature and cannot be categorized into a specific line of business. The composition of total referrals has not been significantly changed in 2017, when compared to previous year.

Analysis of Referrals on Long Term Insurance Business

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

Table 1
Referrals on long term insurance business: issue wise

Issue	#	%
Repudiation of claim	28	28.2
Disagreement with benefits offered	26	26.3
Request to cancel or revive	26	26.3
Other	19	19.2
TOTAL	99	100.0

As per Table 1, main issue (28% of the total) for referrals under the long term insurance business has been on repudiation of claims. The root-cause-analysis of referrals revealed that the main cause of repudiation is the non-disclosure or misrepresentation of material facts at the commencement or revival of the policy. The fundamental legal principle of insurance contracts, i.e. uberrimae fidei (utmost good faith) acts vice versa on the both parties of the contract (insurer as well as insured). An insurer decides on the acceptability of risk of proposer's life and the relevant terms and conditions, based on the information disclosed by the proposer in the proposal form. As such, any non-disclosure or misrepresentation of material facts would amount to the breach of uberrimae fidei principle by the policyholder.

In certain instances, it was observed that the cause relating to non-disclosure/misrepresentation has been the lack of knowledge on relevant insurance principles and obligations of policyholders. Hence, the insurers need to take further measures to ensure that the policyholder or proposer is duly informed of their duty of disclosure and adverse effects on non-disclosure. The Commission, based on the findings of the investigations, was able to assist the claimants where it could be established that the non-disclosure was not intentional i.e. innocent misrepresentation and hence does not fall under fraudulent or deliberate misrepresentation.

Claims have also been repudiated as the policies being lapsed at the time of claim due to failure to settle the premium before the due date. The insurance policies indicate 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 the specified time limits. Insurers are required to acknowledge the receipt of any moneys paid as premiums and policyholders need to retain proof of their payments to be produced in case of a dispute. With regard to matters referred to, the Commission could assist only where timely payment of premiums could be established or the delay could be justified.

26.3% of the referrals was in relation to the policyholders disputing the benefits offered, mainly due to the misunderstanding of contents of policy schedules and the lack of clarifications and explanations provided by insurers. Upon inquiring from insurers, the required clarifications and explanations were provided to policyholders in writing and at the discussions conducted at the Commission. In few instances, where it was noted that the policy documents lack clarity and detail, the insurers agreed to reconsider their offers in the interest of policyholders on the request of the Commission.

26.3% of the referrals was in relation to requests to cancel the policies and obtain refund of premiums. Such matters could not be assisted with, as the policyholders do not have a right to cancel the policy after the lapse of cooling-off period i.e. 21 days from the date of receipt of the policy document. However, insurers agreed to grant a relief considering the hardships experienced by policyholders in few instances.

Main cause of other referrals pertaining to long term insurance business (19.2%) were relating to misappropriation of premiums by sales staff or insurance agents. The relevant parties were called upon for inquiries and the Commission could assist the policyholders only in the instances where the misappropriation could be established by verifiable evidence. As a preventive measure, a Direction was issued requiring the industry to refrain from recruitment of persons, whose services had been terminated on the grounds of financial misappropriation or fraud, by insurers and insurance brokers.

Analysis of Referrals on General Insurance Business

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

Majority of referrals under general insurance business were pertaining to 'motor insurance' while the balance consisted of claims under fire policies, marine policies and financial guarantees issued by insurers. The Table 2 shows that the main issue for referrals (63.3%) under the general insurance business has been on repudiation of claims. The root-cause-analysis of referrals revealed that the main causes for repudiation have been: excluded usage, driver substitution, drunken driving, absence of insurable interest, driver not having a valid driving license or the policy being cancelled due to non-payment of premium within the credit period. Detailed inquiries were conducted on matters (claim repudiations) by calling observations from the Government Analyst's Department, the Police and witnesses (where required). The Commission could assist the claimants in the instances where the policy covers the cause of loss and there were no fraud or deliberate misrepresentation of facts relating to the claim.

Table 2

Matters on general insurance business: issue wise

Issue	#	%
Repudiation of claim	133	63.3
Disagreement with the benefits offered	40	19.1
Delays in settling claims	12	5.7
Other	25	11.9
TOTAL	210	100.0

Disagreement with the amount offered was the other main issue for referrals (19.1%). Misunderstanding of policy wordings and lack of clarity in explanations provided by insurers on loss adjustments/ deductions were the main causes for referrals of this nature. These could be resolved by facilitating the provision of required explanations from insurers to the claimants.

All matters relating to delays in settlement were duly settled based on the Commission's intervention. Other referrals under general insurance business (11.9%) were mostly relating to policy cancellations by insurers due to non-payment of premiums and bad claim records. The Commission could assist the policyholders, where the payment of full premium within the specified period was established.

Other Referrals

Other matters (39) referred to Commission, not specific to a line of business, 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 Commission under the Act.

Conduct of Business Regulation

1. Guidelines on Complaints Handling by Insurers and Brokers

As required under these Guidelines, issued by the Commission with effect from October 2016, the insurers formulated and filed their complaints management policies (approved by their Boards) and complaints handling procedures. The companies also furnished bi-annual performance reports required to be submitted in terms of the Guidelines. The compliance with the Guidelines are being monitored through examination of submissions by companies.

2. Insurance Agents

A joint-committee was formed with the representation of the Commission, 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. The Committee was dissolved after the completion of the only pending matter i.e. issuance of Code of Conduct for insurance agents, prepared by IASL in consultation with the Commission. The Code was approved by the Commission in March 2017 and was issued along with the following requirements:

- The companies shall issue a copy of the Code to all registered insurance agents and a written undertaking has to be obtained from agents that they have read and understood the same
- The Code shall be issued in the language preferred by the agent
- The Companies shall endeavor to ensure that the principles contained in the Code are reflected in the human resources and administrative policies/strategies, including performance management and rewarding, pertaining to all personnel engaged in selling and marketing of insurance products
- IASL and SLIBA to publish the Code on their websites in all three languages

3. ICP 19 Conduct of Business

Insurance Core Principles (ICPs), formulated by the International Association of Insurance Supervisors (IAIS), provide a globally accepted framework for the supervision for the insurance sector. ICP 19 "Conduct of Business" is focused on fair treatment of customers both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. ICP 19 consists of 13 standards, grouped into following specific arears:

- Standards 19.1 to 19.2 – Fair Treatment of Customers
- Standards 19.3 to 19.7 – Pre-sale Process
- Standards 19.8 to 19.13 – Policy Servicing

The Commission, considering the findings of a gap analysis conducted internally based on guidance materials published by IAIS, is in the process of taking measures to fill the gaps pertaining to supervisory requirements specified under ICP 19.

Principles on Fair Treatment of Customers

Fair treatment of customers encompasses concepts of ethical behavior and acting in good faith by insurers and intermediaries. Given the nature of business, the success of the insurance industry largely depends on the trust and confidence that the customers place on insurers

Table 3
Principles on Fair Treatments of Customers

Principle 01	Fair treatment of customers shall be at the heart of the business model of all companies
Principle 02	Products are developed and marketed in a way that pays due regard to the interests of customers
Principle 03	Customers are provided with clear information before, during and after the point of sale
Principle 04	Suitability of advice
Principle 05	Managing reasonable expectations of customers
Principle 06	Fair handling of claims
Principle 07	Analysis of customer feedback and fair handling of complaints

and intermediaries as well as the products and services on offer. Hence, in December 2017, the Commission decided to issue these Principles to promote fair treatment of customers by insurers and intermediaries. The Principles cover the key areas affecting the customers identified in Table 3.

4. Employment of Persons Terminated on the grounds of Financial Misappropriation or Fraud

Based on the findings of an investigation conducted on alleged misappropriation of premiums by an employee (a Branch Manager) of an insurer, a Direction under Section 96A was issued requiring the industry to refrain from employing persons whose service had been previously terminated on the grounds of financial misappropriation or fraud. The Direction was issued to ensure that the insurance business is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of policyholders.

5. Formalization of Insurance Dispute Resolution Scheme

Asian Development Bank TA-9263 SRI: Capital Market Development Programme

The Asian Development Bank (ADB) has approved a policy-based loan to the Government of Sri Lanka for the development of capital market. In terms of Tranche 2 of the loan programme, the Commission is required to establish and staff a dispute resolution panel for the insurance sector, that submits its recommendations to the Commission.

Following the initial visit by the consultants (appointed by ADB) based on the discussions held with stakeholders and a desk review, an inception report was submitted outlining the scope & context of the project, tasks, issues, deliverables and activities under same.

During the consultant's next visit, several consultative sessions with the industry stakeholders (i.e. IASL, SLIBA, and Insurance Ombudsman) were conducted on proposed changes to the current dispute resolution mechanism and key issues to be resolved such as - legal means of establishment, enforcement of awards, funding, etc. During this visit, the consultant also made presentations to the Commission and to the industry representatives. Thereafter, a draft framework, implementation plan and terms of reference for panel members was submitted.

The submissions by consultants are currently being reviewed by the Commission, in order to determine the most efficient and appropriate insurance dispute resolution scheme for Sri Lanka.

Request to Formalize the Insurance Ombudsman Scheme

The Commission received requests from IASL as well as the current Insurance Ombudsman to formalize the present Insurance Ombudsman Scheme. Having reviewed the requests, the Commission decided to maintain the current status quo until the alternative dispute resolution scheme for insurance disputes is formalized under the above ADB TA project. Further, the Commission advised the companies to inform if any dispute referred to the Commission, is being or had been inquired into by the Ombudsman (along with the outcome), in order that the Commission may consider same.

Other Interventions

Dispute Resolution under 'Suraksha' Insurance Scheme for School Children

The Commission, having reviewed the conditions and nature of the insurance policy, advised the Sri Lanka Insurance Corporation Limited (insurance service provider) to introduce a simplified alternative dispute resolution method in agreement with the Ministry of Education, in place of Arbitration.

Market Development and External Relations (MDER) Review

The Commission is mandated to safeguard the interests of policyholders and potential policyholders. In this regard, it is vital that the general public possess a sound understanding about the importance of insurance as a "risk management tool". Insurance is considered as a unique and the most important financial instrument, used to cover the risk of future financial losses that might arise as a result of unforeseen events. Hence, insurance plays a crucial role in sustainable growth of an economy.

Despite the availability of various insurance products (offered by licensed insurers) and its importance for the society and economy, insurance penetration in Sri Lanka is low compared to other countries in the region mainly due to lack of financial and insurance literacy. Thus, promoting awareness on insurance provides and expands opportunities for individuals as well as business community, to protect themselves from future economic losses, thereby facilitating the development of the insurance industry. In this context, the Commission engages in improving public awareness on insurance.

Awareness Programmes

Programmes at Divisional Secretariats

During the period under review, the Commission conducted awareness programmes for government officials such as Grama Niladharies, Police, Excise, Divinaguma, Development, Agricultural and Field Officers, who are attached to the relevant Divisional Secretariats. The participants were made aware on the role of the Commission (as the Regulator of the insurance industry), importance of having the required insurance policy, to cover the risks on life and property, rights and duties of an insurance policyholder, key factors to be considered when purchasing and maintaining an insurance policy and what they should know when making a claim under an insurance policy. The interaction with the aforesaid government officials, who interact frequently with the general public while serving at the grass root level of the society, was vital as it provided an insight into the mind-set and experiences of the general public regarding the matters relating to insurance.

Ten (10) awareness programmes were conducted on the 'Divisional Day Meetings' at Tangalle, Kesbewa, Hanguranketha, Galewela, Udunuwara, Kekirawa, Beliatta, Medadumbara, Dambulla and Chavakachcheri Divisional Secretariats covering approximately 796 Gramaseva Niladhari Divisions. Approximately 1782 government officers of the respective areas participated at these programmes.

Program at a Div. Secretariat

Other Programmes

The Commission conducted the following programme for school children in addition to the mainstream awareness programmes conducted at the Divisional Secretariats:

- An awareness programme for the students and teachers in the Advanced Level Commerce Section of Sri Chandrajothi Vidyalaya, Yakkala.

School Programme

Awareness through Electronic Media

The Commission, having realized the crucial role played by the electronic media in promoting communication in the society through various ways, conducted three television programmes and two radio programmes during the period under review. The officials of the Commission participated at the following programmes to create awareness on matters relating to insurance:

Television Programmes

- 'Coffee Table', a recorded discussion telecasted on Independent Television Network (ITN).

- 'Salmalyaya', a recorded discussion telecasted on Independent Television Network (ITN).
- The ITN telecasted a 'news segment' in its main news bulletin in Sinhala Language.

Radio Programmes

- 'Sara Praba Gira', a live discussion was held in Sri Lanka Broadcasting Corporation (SLBC)
- 'Coffee with Dan', a live programme at 'City FM' channel of Sri Lanka Broadcasting Corporation (SLBC).

Awareness through Print Media

The Commission published the following press releases and press notices during the period under review:

Press Releases

- Performance of the insurance industry Quarter 03, 2016.
- Performance of the insurance industry during the year 2016.
- Performance of the insurance industry Quarter 01, 2017.
- Performance of the insurance industry 1st Half, 2017.
- Guidelines on conducting investigations on insurance claims.
- Clarification by the Insurance Regulator regarding the institutions that are not regulated or supervised by the Commission.
- Name change of the Insurance Regulator.

Press Notices

- The yearly notice on registered insurance companies and insurance brokering companies under the title 'Special Notice to Public'.
- A notice on 'Message to insurance policy holders – Do you know your rights and duties', highlighting the rights & duties of an insurance policyholder.
- Clarification by the Insurance Regulator - Unregulated Entities.

Press interview

- An interview conducted with the Director General was published in 'Ada' newspaper.

Publications

The awareness brochure about the Insurance Regulatory Commission of Sri Lanka (IRCSL) was reprinted and distributed mainly at the awareness programmes during the year under review.

A document titled "Message to Insurance Advisors from the IRCSL", containing areas that require special attention to promote professional conduct of insurance advisors, was prepared and forwarded to Insurance Association of Sri Lanka (IASL) and Sri Lanka Insurance Brokers Association (SLIBA), requesting to ensure conveyance of the message to all insurance advisors, by publication on the websites of IASL and SLIBA (in all three languages) and requiring the membership of IASL and SLIBA to deliver a copy of the message to all registered (at present and new) insurance advisors.

National Insurance Day

The Government declared 1st September in each year as the "National Insurance Day", marking an important milestone in the insurance industry of Sri Lanka, recognizing the contribution made by the insurance industry to the national economy and welfare of the society. This is a realization of a joint effort by the Commission and IASL.

A special commemorative stamp and a first day cover were presented to His Excellency the President to commemorate the inaugural National Insurance Day by the Hon. Deputy Minister of Posts, Postal Services and Muslim Religious Affairs, in the presence of representatives of the Commission and IASL at the Official Residence of His Excellency the President. An event, organized by IASL, was held to launch the inaugural National Insurance Day, ceremonially, on 1st September 2017 at the Independence Arcade, at which representatives from the Commission, Asian Development Bank, SLIBA and insurance companies participated.

The Commission, with a view to taking this opportunity to create public awareness on the 'importance of insurance', organised several activities to celebrate the inaugural National Insurance Day and the Insurance Awareness Month in September.

(1) Issuance of a Stamp and a First -Day Cover to commemorate the National Insurance Day

(2) Radio programmes

(a) 'Sara Praba Gira' a live discussion in Commercial FM channel of Sri Lanka Broadcasting Corparation (SLBC)

(b) 'SLBC News Package' programme, which aired pre-recorded short messages after main news bulletin in all channels of SLBC.

(3) Television Programmes

(a) 'Sal Mal Yaya', a recorded interview on Independent Television Network (ITN)

(b) 'Sanhinda', a live discussion telecasted on Sri Lanka Rupavahini Corporation (SLRC)

(4) Press Releases

(a) A Press Release was published regarding the declaration of 1st September as the "National Insurance Day".

(5) Message to Insurance Advisors from the IRCSL

(a) The above document (in all three languages) was distributed to all insurance advisors, through the insurance companies, during the regional activation programmes organised by the IASL during the month of September and is published on the website of the Commission.

Stamp and Cover

ADB Capital Market Development Programme

Asian Development Bank (ADB), under the Capital Market Development Programme, appointed a Consultant to advise and assist the Commission with regard to developing a comprehensive strategy for expanding financial literacy of insurance products. The Consultant, in April 2017, submitted the inception report outlining the scope & context of the project, tasks, issues, deliverables and activities under the aforementioned TA.

Several consultative sessions with the industry stakeholders on existing programmes, communication channels, strategies adopted, curriculum, etc. took place to identify gaps in Sri Lanka, in comparison to the international best practices. The Gap Analysis Report, thus prepared, was submitted to the Commission in June 2017.

The Consultant conducted the final round of consultative sessions with the industry stakeholders and the Commission in October 2017 in order to discuss the gaps identified in the Gap Analysis Report. The Education Strategy and Implementation Plan, thus prepared, identifying detailed actions, timelines for implementation and required resources for same was presented to the Members of the Commission in December 2017.

Having perused the Education Strategy and Implementation Plan, the Commission informed the Consultant to submit further information/clarifications required in order to ensure that the 'proposed activities' are;

- In line with the agreed policy action;
- Achievable, considering the scope and resources of the Commission; and
- Clear, specific and results are measurable.

In response, the Consultant as well as the ADB agreed to submit a revised Education Strategy and Implementation Plan.

Other Engagements

Product Gap Analysis

The reports on gap analysis on Motor, Health and Fire product categories (performed in previous years) were revised during the period under review, based on recent developments in regulatory framework and market conditions. The revised reports were then forwarded to the industry (IASL) for comments/ response. The Commission held several consultative sessions with the industry (representatives of IASL and SLIBA) regarding the recommendations. Thereafter, the Commission's recommendations were forwarded to the IASL for necessary action as agreed at the discussions.

Responses to Public Queries

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

Reviewing the Curriculum of Agency Pre-recruitment Test

The Commission, with a view to further improving the contents in the course books in respect of 'market conduct matters', examined the current course books and sample examination papers of the agency pre-recruitment test. The Commission proposed certain changes for further improvements.

Development of comprehensive document on 'Frequently Asked Questions' (FAQs)

A comprehensive set of FAQs has been prepared covering the role of the Commission and its regulatory activities, life insurance and motor insurance.

Creation of 'YouTube' account for uploading awareness videos

A YouTube channel was created to upload the awareness related recorded videos and sound clips. All the recorded (video and audio) programmes conducted by the Commission in electronic media have been uploaded to the YouTube channel.

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 knowledgeable & experienced human resource is the backbone of the success strategy of the Commission.

The Commission 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 and six Executives were recruited to the Commission during the year under review. Total staff strength of the Commission stood at 44 as at 31st December 2017.

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

Training

Focus on training is a key to develop the knowledge and exposure of staff to achieve the goals of the organization. During the year, investments were made as depicted in the table for local as well as overseas training opportunities.

Category	2016 (Rs.)	2017 (Rs.)
Local Training	2,021,522/-	1,297,577/-
Conferences & Foreign Training	8,370,750/-	4,741,449/-

Staff Welfare

Caring for the well-being of its employees is an important factor for the development of the organization. Hence, the Commission 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 Commission provides opportunities to enhance the relationships with staff and their families by organizing annual get-togethers.

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
44	07	02	04	07	09	03

Financial Review

Policyholders' Protection Fund (PPF)

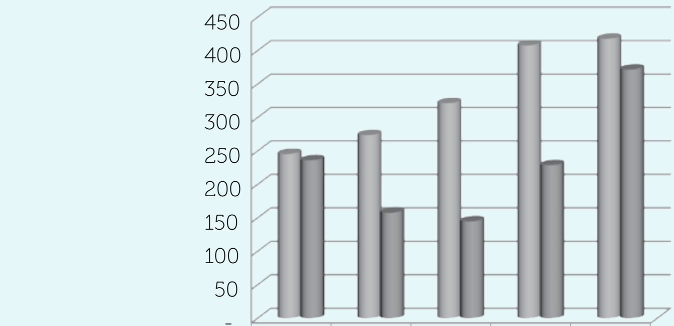
The CESS collected to the Policyholders' Protection Fund (PPF) has been invested by the Commission in a prudent manner to yield good returns. Chart 1 depicts the Cess collection and investment income earned.

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 2016 to 2017.

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

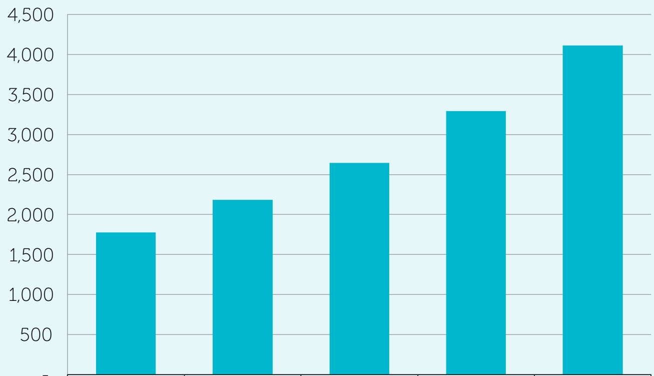
The composition of assets of the Fund as at 31st December 2017 is depicted below.

Chart 1
Cess Income and Investment Income for the period 2013-2017



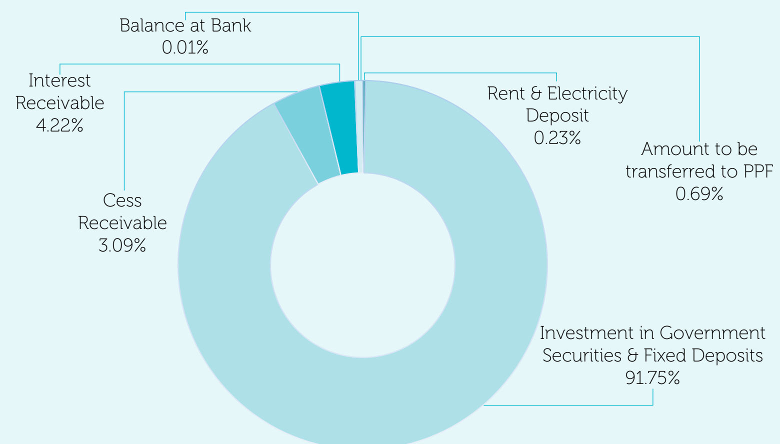
	2013	2014	2015	2016	2017
Cess Income (Rs. Mn)	246	274	322	408	418
Investment Income (Rs. Mn)	236	158	145	229	372

Chart 2
Policyholders' Protection Fund Values for the period 2013 - 2017



	2013	2014	2015	2016	2017
Fund Value (Rs. Mn)	1,778	2,183	2,643	3,292	4,110

Chart 3
Asset Composition of Policyholders' Protection Fund as at 31 December 2017



Income of the Commission

The income of the Commission is derived from the following sources:

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

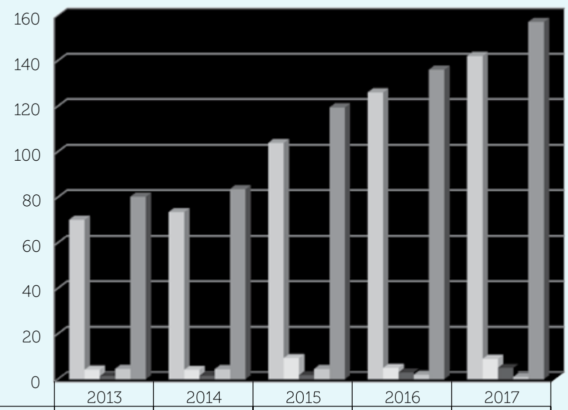
Chart 4 depicts the breakup of overall income received for the period 2013 to 2017.

Expenses of the Commission

A slight increase can be seen in expenditure for the year 2017 compared with the year 2016 and the Commission has recorded a surplus of around Rs. 31.0 Mn in the year 2017. 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.

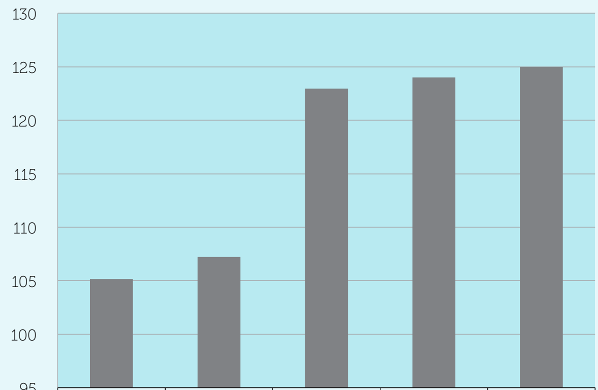
Chart 5 below depicts the total expenses of the Commission for the period 2013 to 2017.

Chart 4
Income of the Commission for the period 2013-2017



	2013	2014	2015	2016	2017
Annual Fees (Rs. Mn)	70	73	104	126	142
Registration & Renewal Fees (Rs. Mn)	4	4	9	5	9
Other Income (Rs. Mn)	1	2	2	3	3
Recognition of Grants (Rs. Mn)	5	4	5	2	1
Total Income (Rs. Mn)	80	83	119	136	157

Chart 5
Total Expenses of the Commission for the period 2013-2017



	2013	2014	2015	2016	2017
Total Expenses (Rs. Mn)	105	107	123	124	125

Financial Information

STATEMENT OF FINANCIAL POSITION

AS AT 31st DECEMBER 2017

	Notes	As at 31.12.17 Rs.	As at 31.12.16 Restated Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant and Equipment	1	7,324,758	7,629,457
Policyholders' Protection Fund-Rent & Electricity Deposits and Treasury Bonds	2	1,086,252,949	1,091,418,880
CURRENT ASSETS			
Inventories	3	347,299	393,033
Policyholders' Protection Fund-Investments and Others	2&16	3,023,706,256	2,200,446,486
Other Current Assets	4	12,194,049	13,505,456
Investments in Government Securities		42,000,000	22,700,000
Cash and Cash Equivalents	5	5,796,222	5,207,234
TOTAL ASSETS		4,177,621,532	3,341,300,546
RESERVES AND LIABILITIES			
RESERVES			
Policyholders' Protection Fund	6&16	4,109,959,205	3,291,865,366
Revaluation Reserve		7,389,652	7,389,652
LIABILITIES			
NON CURRENT LIABILITIES			
Grant	7	5,718,532	3,523,232
Retirement Benefit Obligation	8	10,902,547	9,842,625
		16,621,079	13,365,857
CURRENT LIABILITIES			
Receipt in Advance	16	7,358,099	8,238,794
Other Current Liabilities	9&16	36,293,496	20,440,878
		43,651,596	28,679,671
TOTAL RESERVES & LIABILITIES		4,177,621,532	3,341,300,546

The Members of the Insurance Regulatory Commission 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 88 to 96.

Mano Tittawella
Chairman

A. R Desapriya
Member

Damayanthi Fernando
Director General

Chaya Vithanawasam
Director Finance & Administration

Colombo, Sri Lanka
30th May 2018

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31st DECEMBER 2017

	NOTE	Year Ended 31.12.17 Rs	Year Ended 31.12.16 Rs
INCOME			
Revenue	10	150,783,219	130,972,036
Recognition of Grant	7	1,455,019	2,061,963
Interest Income		4,486,296	3,112,336
Other Income	11	302,826	258,370
TOTAL INCOME		157,027,360	136,404,704
EXPENDITURE			
Staff Costs	12	(69,941,211)	(71,862,315)
Professional Charges	13	(2,000,000)	(2,801,156)
Operational Expenses	14	(53,212,244)	(49,032,420)
Finance and Others	15	(114,876)	(150,126)
Surplus Transferred to Policyholders' Protection Fund	6	(31,220,674)	(12,185,206)
TOTAL EXPENDITURE		(156,489,005)	(136,031,223)
Net Surplus / (Deficit) Before Tax		538,355	373,480
Taxation		(538,355)	(373,480)
Net Surplus / (Deficit) After Tax		-	-
Net Surplus for the Year		-	-

The accounting policies and notes appearing on pages from 88 to 96 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2017

	NOTE	Year Ended 31.12.17 Rs	Year Ended 31.12.16 Restated Rs
Cash Flows from Operating Activities			
Net Increase / (Decrease) for the Period		-	-
Provision for Depreciation		3,955,019	4,259,214
Provision for Retirement Benefit		1,893,706	1,807,178
Profit / (Loss) on Disposal		(41,449)	(66,590)
Payment made-Retirement Benefit		(833,784)	-
Recognition of Grant		(1,455,019)	(2,061,963)
Income Tax		538,355	373,480
Interest Income		(4,486,296)	(3,112,336)
Net Increase before Working Capital Changes		(429,467)	1,198,985
Change of Working Capital			
(Increase) / Decrease in Inventories		45,735	52,869
(Increase) / Decrease of Receivables	16	1,289,668	3,712,122
Increase / (Decrease) of Receipt in advance		(880,694)	742,508
Increase / (Decrease) of Creditors and Accruals	16	15,852,619	13,220,213
Cash Flow used in Operating Activities		16,307,328	17,727,712
Net Cash Flows from Operating Activities		15,877,861	18,926,697
Cash Flows from / (used in) Investing Activities			
Investment in Government Securities		(19,300,000)	(21,700,000)
Interest Income		3,969,678	2,683,182
Proceeds from Sale of Property, Plant and Equipment		41,449	71,419
Purchase of Property Plant and Equipments		(3,650,319)	(619,406)
Net Cash used in Investing Activities		(18,939,191)	(19,564,804)
Cash Flow from Financing Activities			
Capital transfer from Policyholders' Protection Fund		3,650,319	619,406
Net Cash Flows from Financing Activities		3,650,319	619,406
Net Increase / (Decrease) in Cash and Cash Equivalents		588,988	(18,701)
Cash and Cash Equivalents at the beginning of the year		5,207,234	5,225,935
Cash and Cash Equivalents at the end of the year		5,796,222	5,207,234
Cash at Bank and in Hand	5 & 18	5,796,222	5,207,234

The accounting policies and notes appearing on pages 88 to 96 form an integral part of the Financial Statements.

POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2017

	Note	Year Ended 31.12.17 Rs	Year Ended 31.12.16 Rs
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		818,093,839	648,638,132
Net Increase before Working Capital changes		818,093,839	648,638,132
Change of Working Capital			
(Increase) / Decrease of Interest Receivable on Government Securities		(68,356,404)	(46,126,635)
(Increase) / Decrease of Cess Receivable		(15,572,411)	(24,664,812)
(Increase) / Decrease of Rent Deposit		5,165,931	-
Increase / (Decrease) of Amount to be Transferred From PPF		(16,376,099)	(19,967,093)
		(95,138,983)	(90,758,539)
Net Cash from Operating Activities		722,954,856	557,879,592
Cash Flow from / (used in) Investing Activities			
Investments in Government Securities		1,049,400,000	362,599,903
Investments in Fixed Deposits		(1,772,300,000)	(922,000,000)
Net Cash from Investing Activities		(722,900,000)	(559,400,097)
Net Increase / (Decrease) in Cash and Cash Equivalents		54,856	(1,520,505)
Cash and Cash Equivalents at the beginning of the year		503,267	2,023,772
Cash and Cash Equivalents at the end of the year		558,124	503,267
Cash at Bank	2 & 18	558,124	503,267

The accounting policies and notes appearing on pages 88 to 96 form an integral part of the Financial Statements.

ACCOUNTING POLICIES

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The Financial Statements of the Commission 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 Regulatory Commission 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 GOING CONCERN

When preparing the Financial Statements, the Members of the Commission assessed the ability of the Commission to continue as a going concern. The Members of the Commission have a reasonable assurance that IRCSL will continue in operation and meet its statutory obligations for the foreseeable future. The IRCSL does not foresee a need for liquidation or cessation of operations, after taking in to account all available information about the future. Accordingly, the IRCSL continues to adopt the going concern basis in preparing the Financial Statements.

1.4 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.

1.5 COMPARATIVE FIGURES

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

1.6 TAXATION

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

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

1.7 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

ACCOUNTING POLICIES

equivalents consist of cash at banks and cash in hand.

3. LIABILITIES AND PROVISIONS

3.1 RETIREMENT BENEFITS

3.1.1 DEFINED BENEFIT PLANS - GRATUITY

According to the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service. To meet the liability a provision is made, equivalent to half a month salary based on the last drawn salary at the end of the financial year for all employees who have completed one year of service.

3.1.2 DEFINED CONTRIBUTION PLANS – EPF AND ETF

All employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Commission 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 Commission has been charged to revenue in ascertaining the income over expenditure.

4.3 CASH FLOW STATEMENT

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

NOTES TO THE FINANCIAL STATEMENTS

1 Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
COST					
Balance as at 1 January 2017	10,000,000	13,538,944	22,422,500	141,450	46,102,894
Additions	-	703,387	2,946,931	-	3,650,319
Disposals	-	(89,900)	(333,840)	-	(423,740)
Balance as at 31 December 2017	10,000,000	14,152,432	25,035,591	141,450	49,329,474
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2017	5,893,773	11,861,247	20,576,966	141,450	38,473,436
Charge for the year	2,500,000	532,847	922,172	-	3,955,019
Disposals	-	(89,900)	(333,840)	-	(423,740)
Balance as at 31 December 2017	8,393,773	12,304,194	21,165,298	141,450	42,004,716
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2017	1,606,227	1,848,237	3,870,294	-	7,324,758
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2016	4,106,227	1,677,696	1,845,535	-	7,629,457

* An adjustment of Rs. 1,393/- has been done to the opening balance of asset category - Furniture, Fixtures & Fittings.

** Fully depreciated fixed assets values are as follows.

	Amount Rs.
Furniture & Fixtures	4,622,633
Fixtures & Fittings	6,279,005
Office Equipment - EDP	16,466,253
Office Equipment - Others	2,446,483
Training Equipment	141,450
	35,386,801

NOTES TO THE FINANCIAL STATEMENTS

		Notes	As at 31.12.17 Rs.	As at 31.12.16 Restated Rs.
2	POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS			
	NON CURRENT ASSETS			
	Rent and Electricity Deposits		9,593,949	14,759,880
	Treasury Bonds		1,076,659,000	1,076,659,000
			1,086,252,949	1,091,418,880
	CURRENT ASSETS			
	Investment in the Government Securities		-	1,049,400,000
	Investment in Fixed Deposits		2,694,300,000	922,000,000
	Interest Receivable on the Government Securities and Fixed Deposits		173,597,603	105,241,199
	CESS Receivable	17	127,037,223	111,464,812
	Balance at Bank	18	558,124	503,267
	Amount to be transferred to PPF	16	28,213,306	11,837,206
			3,023,706,256	2,200,446,486
			3,023,706,256	2,200,446,486
	Total Assets		4,109,959,205	3,291,865,366
3	INVENTORIES			
	Printing, Stationery and Computer Accessories		331,359	352,633
	Stamps		15,940	40,400
			347,299	393,033
4	OTHER CURRENT ASSETS			
	Deposits		202,895	195,363
	Savings - NSB		500	-
	Other Receivables		79,420	3,106,577
	WHT Recoverable		1,934,725	1,515,446
	VAT Control		1,735,599	1,607,046
	Interest Receivable - Government securities		211,727	121,919
	Staff Loans *		5,769,159	5,764,542
	Advance and Pre-payments		1,965,955	1,062,196
	Economic Service Charge		279,070	132,365
	Receivable from SEC		15,000	-
			12,194,049	13,505,456
	*Loans Granted to Staff			
	Balance as at 1st January		5,764,543	4,948,645
	Loans Granted during the year		3,319,000	4,162,000
			9,083,543	9,110,645
	Repayments during the year		(3,314,383)	(3,346,103)
	Balance as at 31st December		5,769,159	5,764,543
5	CASH & CASH EQUIVALENTS			
	Cash at Banks			
	Balance at Fund Management Account	18	9,373,734	5,643,249
	Bank of Ceylon - as per Ledger	18	(3,577,513)	(438,314)
	Cash in Hand		-	2,301
			5,796,222	5,207,234

NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.17 Rs.	As at 31.12.16 Restated Rs.
6 POLICYHOLDERS' PROTECTION FUND			
Opening Balance	16	3,291,865,366	2,643,227,233
Cess Received during the year		418,234,960	408,178,592
Interest on Treasury Bill Investment		-	2,647,461
Interest on Repo and Call Account		28,364,495	127,179,906
Interest on Treasury Bond Investment		95,120,708	95,381,313
Interest on Fixed Deposits		248,496,708	3,437,951
Interest on Fund Management Account		331,799	263,804
Net Surplus of the Commission		31,220,674	12,185,206
		4,113,634,709	3,292,501,466
Less:			
Transfers for Operational Expenses		-	-
Transfers for Capital Expenses		3,650,319	619,406
Total transfers - Policyholders' Protection Fund		3,650,319	619,406
Bank charges		25,186	16,695
		3,675,504	636,100
Closing Balance		4,109,959,205	3,291,865,366
7 GRANT			
Balance at the beginning of the year		3,523,232	4,965,789
Capital Expenditure from Policyholders' Protection Fund		3,650,319	619,406
Less: Amortized during the year		(1,455,019)	(2,061,963)
Balance at the end of the year		5,718,532	3,523,232

Note - Recognition of Grant

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%	
8 RETIREMENT BENEFIT OBLIGATIONS			
Balance at the beginning of the year		9,842,625	8,035,447
Provision made during the year		1,893,706	1,807,178
(-) Payment made during the year		(833,784)	-
Balance at the end of the year		10,902,547	9,842,625
9 OTHER CURRENT LIABILITIES			
Accrued Expenses		6,403,725	7,448,565
EPF Payable		694,744	654,487
ETF Payable		104,212	98,174
PAYE Payable		193,832	195,330
Amount to be transferred to PPF	16	28,213,306	11,837,206
Others		683,677	207,115
		36,293,496	20,440,878

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.17 Rs.	As at 31.12.16 Rs.
10 Revenue		
Annual Fees from Insurance Companies	142,174,726	125,489,332
Registration and Renewal Fees	8,608,493	5,482,704
	150,783,219	130,972,036
11 Other Income		
Interest on Vehicle Loan	38,235	26,129
Interest on Distress Loan	160,369	146,279
Profit on disposal	41,449	66,590
Sundry Income	62,773	19,371
	302,826	258,370
12 Staff Costs		
Staff Salaries	40,561,287	39,765,213
EPF 12%	4,867,354	4,775,620
ETF 3%	1,216,839	1,193,905
Chairperson - Allowance	1,200,000	1,200,000
Chairperson - Fuel Allowance	238,680	238,680
Board Members - Sitting Allowance	630,000	750,000
Interns Allowance	25,000	225,037
Overtime	144,169	137,226
Staff Medical Expenses	1,767,019	1,662,539
Staff Medical Insurance	1,080,307	920,277
Insurance Fire and Personal	254,026	367,374
Staff Welfare	946,202	1,264,417
Staff Training Local & Subscription	1,297,577	2,021,522
Board Members and Staff - Overseas Training & Travelling	4,741,449	8,370,750
Performance Based Incentives	2,093,426	2,072,650
Advertising Recruitment	536,990	137,520
Directors Telephone Residence	463,199	300,613
Leave Encashment	714,347	758,115
Vehicle Operating Lease Charges	970,032	-
Driver Allowance	111,290	-
Directors Vehicle Allowance	3,243,548	3,000,000
Directors Fue1l Allowance	944,764	893,680
Staff Gratuity	1,893,706	1,807,178
	69,941,211	71,862,315
13 PROFESSIONAL CHARGES		
Consultancy Fee	2,000,000	2,801,156
	2,000,000	2,801,156

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.17 Rs.	As at 31.12.16 Rs.
14 OPERATIONAL EXPENSES		
Rent	32,175,621	29,495,421
Parking Fees	508,670	384,743
Telephone Expenses & Internet	1,605,633	1,686,159
Electricity	1,324,406	1,315,853
Office Upkeep	473,899	617,424
Printing & Stationary	2,096,822	1,328,183
Public Awareness	3,334,383	2,922,135
Entertainment	32,515	54,591
Traveling - Local	92,044	105,542
Office Equipment Maintenance EDP & Others	1,178,671	1,216,309
International Membership of IAIS(CHF 14,200)	2,784,043	2,717,637
Advertising - Others	85,950	31,040
Meeting Expenses	559,353	705,435
Subscription Newspapers & Library Books	135,959	126,414
Postage & Courier Charges	990,554	207,402
Audit Fees - Auditor General	227,100	223,500
Depreciation	3,955,019	4,259,214
General Expenses	98,343	118,475
Legal Expenses	12,960	8,040
Investigation Expenses	4,492	6,798
Supervision Expenses	2,000	-
Vehicle Maintenance	422,040	494,627
Vehicle Insurance	107,011	130,859
Vehicle Running Charges	182,727	202,343
Safety Locker Rental	3,000	-
Nation Building Tax	819,026	674,276
	53,212,244	49,032,420
15 FINANCE & OTHER EXPENSES		
Bank Charges	114,876	150,126
	114,876	150,126

NOTES TO THE FINANCIAL STATEMENTS

16. RESTATEMENT

Due to an oversight renewal income amounting to Rs. 30,000/- had not been recognized as an income in the year 2014. Accordingly, receipt in advance account opening balance was reduced by Rs. 30,000/- and the amount to be transferred to the Policyholders' Protection Fund (PPF) was increased by Rs. 30,000/-. Further, opening balance of the PPF was also increased by Rs. 30,000/-.

17. DUES FROM NATIONAL INSURANCE TRUST FUND (NITF)

Cess income includes an amount of Rs. 10,062,587/55 of cess to be received from NITF for the year 2017.

The said estimated figure was arrived by adding 10% increase to the average cess receipts from NITF for the years 2015 and 2016. IRCSL has not received cess on quarterly basis from NITF.

18. FUND MANAGEMENT ACCOUNTS, LEDGER BALANCES & BANK BALANCES

IRCSL operates two Fund Management Accounts linked to our two current accounts (for the Commission & 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 IRCSL 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 2017, are as follows.

The Commission - Rs. 999,250/-

The PPF - Rs. 558,123/72

19. TAXATION

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

19.1 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 Commission 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 Commission for that year of assessment.

Accordingly, the net income earned by the Commission 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. 301,876/18 for the year 2017 has been recognized in the Financial Statement for the year ended 31 December 2017.Interest income from the secondary market transactions in Government Securities of the Policyholders' Protection Fund has been accounted at the net value.

20. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2017.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2017.

22. EVENTS AFTER THE REPORTING PERIOD

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

23. RELATED PARTY DISCLOSURES

Mrs. Indrani Sugathadasa (Chairperson), Mr. A.R. Desapriya, Mr. D.N.R. Siriwardena (Ex-Officio Members), Mr. Jeremy Bolling and Dr. Ali Asger Shabbir Gulamhusein held office of the Commission during the whole year of 2017.

Mr. P. Samarasiri ceased to be an Ex-Officio Member of the Commission on 19th August 2017 and Mr. C.J.P. Siriwardana assumed duties as an Ex-Officio Member on 19th August 2017.

NOTES TO THE FINANCIAL STATEMENTS

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

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd National Development Bank	Director Director
Mr. A.R. Desapriya	Regional Development Bank Welfare Benefits Board Sri Lanka Telecom PLC	Board Director Board Director Board Director (from 03rd October 2017)
Mr. C.J.P Siriwardana	Colombo Dockyard PLC Credit Information Bureau Securities and Exchange Commission of Sri Lanka	Director Chairman (from 19th August 2017) Commissioner (from 25th September 2017)
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" Fund	Chairman Chairman Member Member Up to 19th August 2017
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	Board Member Board Member Board Member
Mr. Jeremy Bolling	Octagon Consultants (Pvt) Ltd. Endless Outdoors (Pvt) Ltd.	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 Regulatory Commission of Sri Lanka, with the said institutions during the year.

AUDITOR GENERAL'S REPORT

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No.	TRE/C/IRCSL/2017/FS/16	ඔබේ අංකය / உமது இல. / Your No.	දිනය / திகதி / Date	31 August 2018

The Chairman,

Insurance Regulatory Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31 December 2017 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 8(3) of Regulation of Sri Lanka Insurance Industry Act, No. 43 of 2000 as amended by Regulation of Insurance Industry (Amendment) Act No. 23 of 2017. My comments and observations which I consider should be published with the Annual Report of the Commission 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 Commission on 18 July 2018.

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 Commission'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 Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

AUDITOR GENERAL'S REPORT

management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Change of the name of Insurance Board of Sri Lanka (IBSL) as the Insurance Regulatory Commission of Sri Lanka

With the objective of exempting from being listed on a stock exchange licensed under the provisions of the Securities and Exchange Commision of Sri Lanka Act of all insurance companies registered under the Insurance Board of Sri Lanka, the name of Insurance Board of Sri Lanka had been changed as the Insurance Regulatory commission of Sri Lanka by the Regulation of Insurance Industry (Amendment) Act No. 23 of 2017.

1.5 Basis for Qualified Opinion

My opinion is qulified 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 Regulatory Commission of Sri Lanka as at 31 December 2017 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard - 7

Motor vehicles purchased in the years 2006, 2008 and 2012, the carrying amount of which amounted to Rs. 2,604,348 had been revalued for Rs. 10,000,000 in the year 2014. In terms of paragraph 47 of the standard, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. However, a revaluation had not been carried out after the year 2014.

(b) As the residual value and the useful life of non-current assets had not been reviewed at least at each annual reporting date, assets costing Rs. 31,724,786 except motor vehicles had been fully depreciated, though they had been further used, in terms of paragraph 65 of the standard. Accordingly, action had not been taken to rectify the estimated error.

2.2.2 Accounting Policies

The following observations are made.

(a) In applying for the registration as an insurance institution, a specific period of time to fulfill the requirements thereof had not been determined. According to the conditions stated in the application, when the institute which had submitted applications for the registration as an insurance institution had withdrawn that application, it was stated that only 50 per cent of the relevant amount would be refunded. However, without doing so, it was observed in 3 occations subjected to audit examination that in one instance, the total sum of Rs. 500,000 spent had been refunded, an instance where the total amount paid had been retained and accounted as payable amount and one instance where the entire amount had been taken to revenue.

AUDITOR GENERAL'S REPORT

(b) The policy in respect of library books adopted by the Commission was that the cost of all books had been brought to accounts as the expenditure of the year of purchase. However, it was observed that the books costing over Rs. 100,000 purchased by the Commission had been brought to accounts as expenditure as stated above according to the library accession register.

2.2.3 Accounting Deficiencies

According to the section 61(1) and (2) of the Regularization of Insurance Industry Act No. 43 of 2000, every insurer should pay annual fee on the total recorded premium of its insurance companies to the Insurance Regulatory Commission of Sri Lanka, Accordingly, a sum of Rs. 1,460,687 receivable from an insurance company which suspended its business on 28 June 2017, had not been brought to accounts.

2.2.4 Unexplained differences

Even though, a sum of Rs. 10,062,587 had been shown in the financial statements of the Commission as cess income receivable from the National Insurance Trust Fund for the year 2017, according to the financial statements of the National Insurance Trust Fund for the year 2017 the cess income payable to the Commission amounted to Rs. 16,107,274 and as such a difference of Rs. 6,044,687 had been observed.

2.3 Accounts Receivable

A sum of Rs. 500,000 received from an Insurance Company in the year 2015 which applied for the separation of insurance entities as long term (life insurance) and general insurance in terms of Section 38(1)(b) of the Regularization of Insurance Industry Act No. 43 of 2000 and a tax amounting to Rs. 71,429 receivable relating thereto had not been separated even by the time of audit as per the Act, and as such it had not been settled.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Section 38(1) (b) of the Regularization Act No. 43 of 2000.	Even though, assets of the long term insurance (life insurance) business should be separately kept from the assets of another class of insurance business, 2 Insurance Companies out of 12 registered insurance companies had not done so up to now.
(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371	Even though, a sub-imprest obtained should be settled immediately after the completion of the purpose for which it is granted, and advanced of Rs. 755,996 obtained had not been settled up to the date of audit though it had elapsed for more than 06 months.
(c) Paragraph 9.14 of Public Enterprises Circular No. PED/12 of 02 June 2003.	Even though, an Administrative manual should be prepared and to submit and obtain the sanction of the Secretary to the Treasury with the approval of the Board of Directors, the sanction of the Secretary to the Treasury had not been obtained for the manual even by the date of audit.

3. Financial Review

3.1 Financial Results

After tax surplus or a deficit had not been indicated in the financial statements of the Commission since the inception of the Commission. The Commission had negated the above mentioned surplus

AUDITOR GENERAL'S REPORT

or deficit by adjusting the expenditure over revenue against the Insurance Policy owners Security Fund. According to the financial statements presented, the income of the Commission had increased by Rs. 20,622,656 as compared with that of the previous year and the total expenditure of the Commission had also increased by Rs. 20,457,782 representing 15 per cent. Increase of transfer of funds to the Insurance Policy holders Security Fund by Rs. 19,035,468 and increase of operating expenses by Rs. 4,179,824 had mainly attributed to increase the expenditure.

Although, an operating surplus had not been reported during the 5 years from 2013 to 2017 of the Commission according to the financial statements, the contribution of the Commission had gradually increased in the year 2013, 2014, 2015 and 2016 in the examination of overall contribution variances during the past 5 years. The contribution of the year under review had also increased but it had been only 19 per cent as compared with the previous year. The main reasons therefore was the transfer of funds to insurance policy holders fund during the year under review.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

According to the annual action plan, the following observations are made in respect of the progress of the Investigations, Supervisions, Legal and Market Development and External Relationship divisions.

(a) Investigation Division

(i) According to the guideline letter dated 01 October 2016 issued in respect of the procedure to be followed in the settlement of consumers complaints by the insurers and insurance agents, the insurance companies should sent information within 30 days to the Commission half yearly form 01 January 2017 in the specimen form introduced in respect of complaints, such information had not been sent by 09 insurance companies out of 27 up to the date of audit.

(ii) Out of 348 complaints received in the year 2017, 57 complaints or about 16 per cent had remained unresolved even by 24 July 2018, the date of audit.

(b) Supervision Division

(i) In terms of Section 38(3)(a) of the Regulation of Insurance Industry Act No. 43 of 2000, each insurer can be requested to provide a periodical report from time to time in a specific form determined. Their monthly statutory reports so requested should be submitted to the Commission within 21 days after the end of the month. Even though, 3 insurance companies had not submitted such report so requested within the specific period to the Commission, action had not been taken by the Commission in that regard.

(ii) According to the Action Plan the Insurance Industry Manual for the year 2016 had been planned to be published within the 3rd and 4th quarters of the year 2017. However, it had been published in April 2018 after a delay of over 4 months.

(iii) As the post of Actuary had fallen vacant since 31 October 2017, liabilities in accordance with risk based capital frame work of the Insurance companies had not been reviewed from 3rd & 4th quarters of the year 2017 to date.

(iv) In terms of Section 48(1) of the Regularizations of Insurance Industry Act No. 43 of 2000 the actuarial information presented by insurers should be reviewed and recommended but the actuarial reports submitted by insurers had not been reviewed up to now since 2016 as the post of actuary had fallen vacant.

(v) Sixty Insurance brokers' companies had been registered under the Sri Lanka Insurance Regulatory Commission of these companies, field inspection supervision had been carried out only in 8 companies during the year 2017, representing about 13 per cent of the total number of brokers' companies.

AUDITOR GENERAL'S REPORT

(c) Legal Division

(i) Registration of brokers, defined in Section 114 of the Regularization of Insurance Industry Act No. 43 of 2000 had been temporary suspended with effect from 27 April 2012 and that prohibition had been removed on 02 May 2016 and the registration of new insurance brokers had been commenced. However, it was observed that there were long delays in the registration activities as the commission had not introduced a specific methodology or procedure for the registration of brokers companies.

(ii) The commission had informed all insurance companies and 60 insurance brokers' entities by its Direction No. 9 dated 13 March 2016 that every insurance and insurance brokers entity should appoint the Chief Executive Officer or Executive Manager or a responsible officer as the the principal officer in order to execute monitoring/advisory functions and informed the Commission before 12 May 2017. Even though, this period had been extended up to 30 September 2017 on the requests made by those companies, two insurance entities had not appointed a principal officer even up to 24 July 2018, the date of audit.

(iii) The Commission had suspended the business of Ceylinco Thakaful Ltd. in the year 2009. According to the decision delivered by the Supreme Court at the Fundamental Rights Case No.SC(FR)191/09, in order to settle genuine Insurance Claims systematically, made available to that company, a memorandum of understanding had been entered into with the company by the then Board to dispose of that company's assets. However, out of 142 genuine claims, 132 had been settled and the present position of 10 case files was not made available even up to 24 July 2018, the date of audit.

(d) Market Development and External Relations Division

(i) Even though 10 awareness programs had been conducted in the District Secretariats targeted at Grama Niladharies of the Disional Secretariats, Police, Divineguma, Development Agriculture and field officers including other public officers, it was observed in audit that such awareness programs had not been conducted being targeted at general public. Furthermore, 50 per cent of the programs had been conducted only in the Central Province.

(ii) Comments on the contents and the successfulness of the awareness programs conducted in the District Secretariats had been obtained from the officers participated through a questionnaire. Accordingly, it was not observed in audit that the program had been updated and replies had been reviewed in accordance with the response, though it was stated that presenting the questionnaire had been useful for the improvement of the quality of future programs.

(iii) It was planned to conduct 2 awareness programs to school children but only 01 program had been conducted during the year under review.

(iv) According to the Action Plan, it was planned to publish the progress of insurance industry in Sri Lanka in the year 2016 in printed media in 3 languages in Sinhala, Tamil and English but it had been published only in English.

(v) According to the action plan for the year 2017, it was planned to prepare replies to questions regularly asked via website of the Commission and to include in the website. However, it had not been so done even up to 18 May 2018.

(vi) Even though 08 brochures and 03 handouts published in the website had been printed they had not been updated and new handouts whatsoever had not been published.

(vii) Even though action had been taken to open a YouTube account as "Sri Lanka Insurance Board" for the awareness of insurance through social media, to link as electronic and printed media awareness in 2016 and to include in the website of Sri Lanka Insurance Regulatory commission, the websites had not been updated after September 2016.

(viii) A program proposed to be implemented for acquiring knowledge on the insurance policies in Sri Lanka in giving technical assistance by the Asian Development Bank and in that case, a

AUDITOR GENERAL'S REPORT

gap analysis had been carried out and identified the weaknesses. Accordingly, the Education Strategies and implementation plan had been given to the commission in October 2017 but a proposed program therefore commencement of program not observed even by 24 July 2018.

(e) Finance and Administration Division

According to the data of the budget for the year 2017, provisions of Rs. 3,000,000 and Rs. 10,000,000 had been made for the local and foreign training respectively on capacity building of the staff but it was observed that the actual expenditure incurred thereon had decreased to Rs. 1,297,577 and Rs. 4,741449 respectively.

4.2 Management Functions

The following observations are made.

(a) Property, Plant and Equipment classes of assets, carrying value of which amounted to Rs. 7,324,758, included in the financial statements of the year 2017 had included 145 items which had been identified at the year end board of survey classified as redundant or damaged. According to the register of fixed assets and identified in audit as non-usable, the cost of those items totalled Rs. 2,331,989. Action had not been taken to dispose of the stock which had been identified as non-usable or damaged.

(b) In terms of Section 103(1) of the Regularization of Insurance Industry Act No. 43 of 2000, a fund named as "Insurance Policy Holders Security Fund" had been established with the objective of settling insurance claims of bankrupt insurance companies and the money accrued from cess had to be credited to this Fund. This fund was a long term fund and the balance thereof as at 31 December 2017 amounted to Rs. 4,109,959,205 but there had been no opportunities arisen to spent money from this fund since the inception of the Fund. As such, the money of this fund could have been invested to earn a higher interest income but it had been invested for a few number of days, based on liquidity. Therefore, it was observed that the fund had been deprived of getting a higher interest income which could have been earned. Nevertheless, the Commission had informed the audit that, as the receipt of annual fees had been delayed, money of the fund had to be used to settle day today expenses, money had been invested in short terms.

(c) In terms of internal circular No. 36 of 05 October 2015, any person is permitted to operate a foreign health insurance through a brokers' company and the related brokers' company should be registered therefore. Under this method, the approval had been granted initially to two insurance companies for a period of one year but such approval had not been granted in writing and the extension of the approved period had been stated only in the website. The Commission had informed the audit that the extension of period stated in the website had been done without a proper authority and an investigation in that connection was being carried out.

(d) The Commission had paid festival advances at Rs. 50,000 in the months of April and December to its officers with effect from 2009 but the Commission had not taken a special approval thereon.

(e) At the physical verification of Library books observed that 11 books lent outside had not been returned within the periods ranging from 01 to 07 years, Similarly, 2 books valued nearly Rs. 100,000 were not physically existence within the Library.

4.3 Uneconomic Transactions

A building had been taken on rent for the operation of the Head Office of the Commission at a monthly rental of Rs. 330,096 since 01 April 2005. Attention of the Board of Directors was paid in 2 occasions to find a new building due to increase the rent, since the period of rent agreement had been terminated as at 31 March 2008. However, it had not been implemented and an agreement had been entered again into with the owner of the same building for the period of 2 years from 01 October 2017 at the monthly rental payment of Rs. 1,472,208.

AUDITOR GENERAL'S REPORT

4.4 Personnel Administration

The following observations are made.

(a) Four vacant posts as at 31 December 2017 had been vacant even by the date of audit.

(b) The scheme of recruitments relating to the approved posts of the Commission had not got approved in terms of paragraph 9.3.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

(c) Even though, the Administrative manual prepared on 19 March 2012 had been submitted to the Ministry of Finance for approval on 30 March 2017, the approval had not been received up to now. However, all the functions such as recruitments, salaries and reimbursement of allowance and payment of advances had been carried out in accordance with the Administrative manual by the Commission.

(d) The first salary scales of the Commission had been approved by the Department of Management Services in the year 2005 and differences between those salary scales and actual scales paid now were observed. It was thus revealed that the National Salaries and Cadre Commission as well as the Line Ministry had informed that the salary increase could not be recommended. Despite, the salary scales had been increased on the basis of a Letter No.PED/360/12/2(ii) dated 18 July 2012 issued by the treasury representation of the commission in the years 2012 - stating that there was no objection to revise salaries subjective to a maximum of 25 per cent of the basic salaries of officers.

(e) As a result of being inclined for a Risk Based capital Scrutinizing System (RBC) introduced inplace of the Solvency Legal framework of insurance companies from the beginning of the year 2016, one Actuarial post, one Assistant Actuarial post and 2 Senior executive/Executive post had been approved for the establishment of the Actuarial unit on 09 June and 07 December 2016. A female officer had been recruited in the year 2016 for the post of actuary on contract basis, that post had fallen vacant since 31 October 2017 and the Assistant Actuary post had also been vacant from the year 2016 to 24 July 2018.

5. Sustainable Development

5.1 Reaching Sustainable Development objectives

Every public entity should act in accordance with the agenda of the United Nations 2030 on Sustainable Development but the insurance Regulatory Commission of Sri Lanka was not aware how to act in respect of functions come under the scope of the Commission relating to the year under review.

6. Accountability and Good Governance

6.1 Presentation of financial statements

Even though, the annual draft report and the financial statements should be presented to audit within 60 days after the closure of the financial year in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the finally approved financial statements for the year under review had been presented to audit on 01 June 2018.

6.2 Procurement and Contract Process

6.2.1 Delayed Projects

An agreement had been entered into with the Central Engineering consultancy Bureau on 11 May 2016 at a contract value of Rs. 1,758,654 (excluding VAT) for the installation of coolant system to the computer systems operating room and an advance of Rs. 50,000 had been paid on 07 June 2016. Even though, this work should have been completed by February 2018, it had not been completed even up to 06 August 2018, the date of audit.

AUDITOR GENERAL'S REPORT

6.3 Budgetary Control

As compared the budgeted income and expenditure of the Commission with actuals of the year under review, variations ranging from 100 per cent to 246 per cent were observed and as such the budget had not been made use of as an effective instrument of management control.

7. Systems and Control

Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Commission from time to time. Special attention in needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
(a) Operating Control	Withdrawing money from the annual interest income of insurance policy holders preservation Fund, subject to a maximum of 20 per cent in order to cover up the expenditure of the Commission.
(b) Stock Control	(i) Stock not stored as to identify easily each item separately. (ii) Stock levels not indicated in the stationery stock books. (iii) Existence of slow moving stationery. (iv) Existence of differences between the physical verification of stationery stock and stock book balances.
(c) Financial Control	(i) Delays in settling imprests. (ii) Granting advances without being properly estimated. (iii) Registers not updated.
(d) Revenue Control	Revenue relating to the year under review not specifically identified.
(e) Assets Control	Incorrect identification code numbers.

H.M. Gamini Wijesinghe
Auditor General

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
2.2	**Comments on financial Statements**	
2.2.1	**Sri Lanka Public Sector Accounting Standards**	
(a)	Sri Lanka Public Sector Accounting Standard – 7 Motor vehicles purchased in the years 2006, 2008 and 2012, the carrying amount of which amounted to Rs.2,604,348 had been revalued for Rs.10,000,000 in the year 2014. In terms of paragraph 47 of the standard, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. However, a revaluation had not been carried out after the year 2014.	Intend to revalue again after the end of year 2018.
(b)	As the residual value and the useful life of non-current assets had not been reviewed at least at each annual reporting date, assets costing Rs.31,724,786 except motor vehicles had been fully depreciated, though they had been further used, in terms of paragraph 65 of the standard. Accordingly, action had not been taken to rectify the estimated error.	Intend to adjust accounts after taking necessary steps regarding revaluing of other assets except motor vehicles.
2.2.2	**Accounting Policies** The following observations are made.	
(a)	In applying for the registration as an insurance institution, a specific period of time to fulfill the requirements thereof had not been determined. According to the conditions stated in the application, when the institute which had submitted applications for the registration as an insurance institution had withdrawn that application, it was stated that only 50 per cent of the relevant amount would be refunded. However, without doing so, it was observed in 3 occations subjected to audit examination that in one instance, the total sum of Rs.500,000 spent had been refunded, as instance where the total amount paid had been retained and accounted as payable amount and one instance where the entire amount had been taken to revenue.	The said situations are not coming under the criteria prescribed in the application. Actions have been taken on the grounds given in the application form up to now. For varying situations practical approaches have been taken accordingly, so that there is a clear policy regarding this situation. As that company should forward a new application it is not fair to keep 50% so that the due tax amount is taken and rest is paid back. The money received from the company was kept as Receipt in Advance till the registration is given by the Commission. Hence, the money received as advance cannot be identified as an income based on the realization concept. The company has forwarded the application in 2014 (the respective amount has been paid in 2014). Regarding this we have given several chances to fulfil the necessary legal conditions, as they failed to do so, the total amount has been identified as an income. As this happened in 2017 it is suitable to consider this as an income in 2017.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(b)	The policy in respect of library books adopted by the Commission was that the cost of all books had been brought to accounts as the expenditure of the year of purchase. However, it was observed that the books costing over Rs.100,000 purchased by the Commission had been brought to accounts as expenditure as stated above according to the library accession register.	As it is not suitable to consider the books belonging to the Commission as an asset according to the criteria prescribed in SLPSAS 7 it has been accounted as an expenditure of the year and majority of those books are of small values. So a clear policy has been followed on this.
2.2.3	**Accounting Deficiencies**	
	According to the section 61(1) and (2) of the Regularization of Insurance Industry Act No.43 of 2000, every insurer should pay annual fee on the total recorded premium of its insurance companies to the Insurance Regulatory Commission of Sri Lanka. Accordingly, a sum of Rs.1,460,687 receivable from an insurance company which suspended its business on 28 June 2017, had not been brought to accounts.	Already settled by the insurance company.
2.2.4	**Unexplained differences**	
	Even though, a sum of Rs.10,062,587 had been shown in the financial statements of the Commission as cess income receivable from the National Insurance Trust Fund for the year 2017, according to the financial statements of the National Insurance Trust Fund for the year 2017 the cess income payable to the Commission amounted to Rs.16,107,274 and as such a difference of Rs.6,044,687 had been observed.	Necessary action will be taken.
2.3	**Accounts Receivable**	
	A sum of Rs.500,000 received from an Insurance Company in the year 2015 which applied for the separation of insurance entities as long term (life insurance) and general insurance in terms of Section 38(1)(b) of the Regularization of Insurance Industry Act No. 43 of 2000 and a tax amounting to Rs 71,429 receivable relating thereto had not been separated even by the time of audit as per the Act, and as such it had not been settled.	The value regarding the tax cannot be cleared as the company has not given the segregation plan up to now.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
2.4	**Non-compliance with Laws, Rules, Regulations and Management Decisions** The following non-compliances were observed.	
(a)	Section 38(1)(b) of the Regularization of Insurance Industry Act No.43 of 2000 Even though, assets of the long term insurance (life insurance) business should be separately kept from the assets of another class of insurance business, 2 Insurance Companies out of 12 registered insurance companies had not done so up to now.	Out of 15 insurance companies, 3 companies have not segregated their insurance business. Out of it, 2 companies have not provided required capital for segregation and the other company is waiting for Treasury recommendation for segregation.
(b)	Financial Regulation of the Democratic Socialistic Republic of Sri Lanka Financial Regulation 371 Even though, a sub-imprest obtained should be settled immediately after the completion of the purpose for which it is granted, an advance of Rs.755,996 obtained had not been settled up to the date of audit though it had elapsed for more than 06 months.	Three advance items out of the 5 amounting to Rs. 755,996/- have been settled by now. Steps will be taken to submit the original invoice as a compulsory requirement at the time of settling the advance considering the unsettled advance payments made to outsiders due to absence of the original invoice. The procedure mentioned in the administration manual is followed for staff advances.
(c)	Paragraph 9.14 of Public Enterprises Circular No.PED/12 of 02 June 2003 Even though, an Administrative manual should be prepared and to submit and obtain the sanction of the Secretary to the Treasury with the approval of the Board of Directors, the sanction of the Secretary to the Treasury had not been obtained for the manual even by the date of audit.	Several reminders have been sent by now. They have intimated that there is a delay with regard to the approval.
3.	**Financial Review**	
3.1	**Financial Results**	
	After tax surplus or a deficit had not been indicated in the financial statements of the Commission since the inception of the Commission. The Commission had negated the above mentioned surplus or deficit by adjusting the expenditure over revenue against the Insurance Policy Owners Security Fund. According to the financial statements presented, the income of the Commission had increased by Rs.20,622,656 as compared with that of the previous year and the total expenditure of the Commission had also increased	An evaluation note.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
	by Rs.20,457,782, representing 15 per cent. Increase of transfer of funds to the Insurance Policy holders Security Fund by Rs.19,035,468 and increase of operating expenses by Rs. 4,179,824 had mainly attributed to increase the expenditure. Although, an operating surplus had not been reported during the 5 years from 2013 to 2017 of the Commission according to the financial statements, the contribution of the Commission had gradually increase in the years 2013, 2014, 2015 and 2016 in the examination of overall contribution variances during the past 5 years. The contribution of the years under review had also increased but it had been only 19 per cent as compared with the previous year. The main reasons therefore was the transfer of funds to insurance policy holders fund during the year under review.	
4.	**Operating Review**	
4.1	**Performance**	
4.1.1	**Operations and Review** According to the annual action plan, the following observations are made in respect of the progress of the Investigations, Supervisions, Legal and Market Development and External Relationship divisions.	
(a)	**Investigation Division**	
(i)	According to the guideline letter dated 01 October 2016 issued in respect of the procedure to be followed in the settlement of consumers complaints by the insurers and insurance agents, the insurance companies should sent information within 30 days to the Commission half yearly from 01 January 2017 in the specimen form introduced in respect of complaints, such information had not been sent by 09 insurance companies out of 27 up to the date of audit.	Relevant action has been taken to obtain the said information from insurance companies that have not sent the information for the year 2017 (with the information relevant to the first quarter 2018) by 30.07.2018.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(ii)	Out of 348 complaints received in the year 2017, 57 complaints or above 16 per cent had remained unresolved even by 24 July 2018, the date of audit.	Only 35 complaints received in the year 2017 had been unsettled as at the audit date; 22nd June 2018 (This is confirmed as per the copy of the complaints Register submitted to the officers of the Audit Department). The current status of the said 35 complaints is as follows: Complaints 02 – Investigations have been completed with the approval of the Board of Directors. Complaints 08 – Investigations have been completed and the relevant recommendations have been submitted for the approval of the Board of Directors (at the 183rd meeting of the Board of Directors). Complaints 12 - Investigations have been completed and the relevant recommendations are to be submitted for the approval of the Board of Directors (at the 184th meeting of the Board of Directors). Complaints 07 – Has been settled. Complaints 02 – Details required for further investigation are to be received from the Insurance company's/ broker companies.
(b)	**Supervision Division**	
(i)	In terms of Section 38(3)(a) of the Regulation of Insurance Industry Act No.43 of 2000, each insurer can be requested to provide a periodical report from time to time in a specific form determined. Their monthly statutory reports so requested should be submitted to the Commission within 21 days after the end of the month. Even though, 3 insurance companies had not submitted such report so requested within the specific period to the Commission, action had not been taken by the Commission in that regard.	There can be a delay in sending reports due to various circumstances in the companies. Reminders are sent for the reports not submitted on due date.
(ii)	According to the Action Plan the Insurance Industry Manual for the year 2016 had been planned to be published within the 3rd and 4th quarters of the year 2017. However, it had been published in April 2018 after a delay of over 4 months.	There was a delay in proof-reading and action has already been taken to publish on agreed dates this year. In order to avoid any delay, the soft copies are uploaded to the website from the year 2018.
(iii)	As the post of Actuary had fallen vacant since 31 October 2017, liabilities in accordance with risk based capital framework of the Insurance Companies had not been review from the 3rd and 4th quarters of the year 2017 to date.	Cannot agree with the observations. As per the risk based capital framework, the responsibility is vested with the insurance company to value their liabilities. The Insurance Regulatory Commission does not value company's liabilities. We have received the said documents for the quarters mentioned here.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(iv)	In terms of Section 48 (1) of the Regularization of Insurance Industry Act No.43 of 2000 the actuarial information presented by insurers should be reviewed and recommended but the actuarial reports submitted by insurers had not been reviewed up to now since 2016 as the post of actuary had fallen vacant.	A suitable actuary could not be appointed as there is a shortage of actuaries in Sri Lanka. However, it is expected to appoint an actuary through the World Bank, Financial Sector Modernization Project.
(v)	Sixty Insurance brokers' companies had been registered under the Sri Lanka Insurance Regulatory Commission. Of these companies, field inspections supervision had been carried out only in 8 companies during the year 2017, representing about 13 per cent of the total number of brokers' companies.	On-site inspections are conducted with available staff members and it has been planned to conduct more on-site inspections in future with staff members and using a computerized evaluation system.
(c)	**Legal Division**	
(i)	Registration of brokers, defined in Section 114 of the Regularization of Insurance Industry Act No. 43 of 2000 had been temporary suspended with effect from 27 April 2012 and that prohibition had been removed on 02 May 2016 and the registration of new insurance brokers had been commenced. However, it was observed that there were long delays in the registration activities as the Commission had not introduced a specific methodology or procedure for the registration of brokers companies.	After a company has submitted the application to be registered as an insurance broker, the Commission sends its observations to the said company. The Commission cannot register until all the required criteria are met. The companies also take sometime to fulfil the criteria. Accordingly, the Commission has applied a clear procedure to register companies as brokers and the time period taken for the registration depend on the time period taken by respective companies to fulfil all requirements.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(ii)	The Commission had informed all insurance companies and 60 insurance brokers' entities by its Direction No.9 dated 13 March 2016 that every insurance and insurance brokers entity should appoint the Chief Executive Officer or Executive Manager or a responsible officer as the principal officer in order to executive monitoring/advisory functions and informed the Commission before 12 May 2017. Even though, this period had been extended up to 30 September 2017 on the requests made by those companies, two insurance entities had not appointed a principal officer even up to 24 July 2018, the date of audit.	All the other insurance companies and insurance broker companies except 2 insurance companies have fulfilled the relevant requisites of the Direction # 9. The insurance business activities of one company have been suspended by now. The other insurance company has requested until 31st July 2018.
(iii)	The Commission had suspended the business of Ceylinco Takaful Ltd. In the year 2009. According to the decision delivered by the Supreme Court at the Fundamental Rights Case No.SC(FR)191/09, in order to settle genuine Insurance Claims systematically, made available to the company, a memorandum of understanding had been entered into with the company by the then Board to dispose of that company's assets. However, out of 142 genuine claims, 132 had been settled and the present position of 10 case files was not made available even up to 24 July 2018, the date of audit.	There is no possibility for the pending law suits to be settled as at the audit date as settlements will have to go through the court proceedings.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(d)	**Market Development and External Relations Division**	
(i)	Even though 10 awareness programs had been conducted in the District Secretariats targeted at Grama Niladharies of the Divisional Secretariats, Police, Divineguma, Development Agriculture and field officers including other public officers, it was observed in audit that such awareness programs had not been conducted being targeted at general public. Further more, 50 per cent of the programs had been conducted only in the Central Province.	Within the year 2017 awareness programs have been conducted at the Divisional Day Meetings at the Divisional Secretariats where Grama Niladaris, officers in the Police, Divineguma, Development, Agriculture and field officers meet. Awareness programmes for the other communities are conducted through television and radio programmes and through newspapers. The divisional Action Plan clearly mentions about this. The general insurance is discussed at the awareness programmes. In addition, the printed awareness materials of IRCSL proves the same. Out of the 10 awareness programs in the Divisional Secretariats, only 2 programs have been conducted in the Kandy district (20%). Five programs have been conducted in the year 2017 within the Central Province.
(ii)	Comments on the contents and the successfulness of the awareness programs conducted in District Secretariats had been obtained from the officers participated through a questionnaire. Accordingly, it was not observed in audit that the program had been updated and replies had been reviewed in accordance with the response, though it was stated that presenting the questionnaire had been useful for the improvement of the quality of future programs.	When the content of the awareness programmes are considered, there is a distinct difference in 2017 than 2016. The Power Point Presentations used in these programs are reviewed and updated every year. The opportunity and the time allocated for us in the programs of the Divisional Secretariats are decided as per the discretion of the Divisional Secretariat. Therefore, the matters presented at such programs have to be limited to a certain extent and only the most important and necessary matters are included in the content.
(iii)	It was planned to conduct 2 awareness programs to school children but only 01 program had been conducted during the year under review.	Conducting programs for the school children can only be done if the approval of the principal is received. Therefore, the Capital Market Development Programmed of the Asian Development Bank has mentioned that a strategic method has to be implemented when school programs are conducted. Accordingly, the expert Consultant appointed by the Asian Development Bank has to present what that strategic method is. The programs for the schools are to be revised based on his recommendations.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(iv)	According to the Action Plan, it was planned to publish the progress of Insurance Industry in Sri Lanka in the year 2016 in printed media in 3 languages in Sinhala, Tamil and English but it had been published only in English.	These paper notices are published free of charge. Newspapers provides space for the notices of the Commission depending on its discretion and availability. Hence, it is beyond the control of the Commission. The Commission sends notices in all three languages to the newspaper though they publish it only in English newspapers.
(v)	According to the action plan for the year 2017, it was planned to prepare replies to questions regularly asked via website of the Commission and to include in the website. However, it had not been so done even up to 18 May 2018.	Preparing the content of the Frequently Asked Questions has been finalized. With the change of the name of the Insurance Board of Sri Lanka into the Insurance Regulatory Commission of Sri Lanka, the Finance and Administration Department has prepared a report on the changes to be made to our website. It is planned to include the Frequently Asked Questions to the website along with the changes to be made as per such report. We believe that instead of doing various revisions from time to time, it is better to do all the changes at once.
(vi)	Even though, 08 brochures and 03 handouts published in the website had been printed they had not been updated and new handouts whatsoever had not been published.	In reprinting the handouts, updating the content of the handouts and reprinting the new content of the handouts require a considerable period of time. The procurement process also takes some time. As the logo of the Commission had to be included in these publications, the relevant Department had to wait until the logo was finalized i.e. till 22/03/2018. A printing company has been selected by now for printing the handouts. It is not planned to prepare a handout titled Insurance Policies on Investments in the year 2017 and it is a part of the 2016 Action Plan. The new logo has been included in such handout and the printing has been completed.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(vii)	Even though action had been taken to open a Youtube account as "Sri Lanka Insurance Board" for the awareness of insurance through social media, to link as electronic and printed media awareness in 2016 and to include in the website of Sri Lanka Insurance Regulatory Commission, the website had not been updated after September 2016.	In order to make the public aware on insurance on social media, the Insurance Regulatory Commission of Sri Lanka opened a YouTube account on 08.11.2016. However, with the change of the name of the Insurance Board of Sri Lanka, it was observed that there were changes to be made in the website as well. A report has been prepared by Finance and Administration Division studying the changes to be effected to the website of the Insurance Regulatory Commission of Sri Lanka with the change of the name from the Insurance Board of Sri Lanka. According to the report, it has been planned to update to YouTube account with the changes to be effected to the website. We believe that instead of doing revisions from time to time, it is appropriate to effect all the changes at once.
(viii)	A program proposed to be implemented for acquiring knowledge on the insurance policies in Sri Lanka in giving technical assistance by the Asian Development Bank and in that case, a gap analysis had been carried out and identified the weaknesses. Accordingly, the Education Strategies and implementation plan had been given to the Commission in October 2017 but a proposed program therefore commencement of program not observed even by 24 July 2018.	At the 179th Meeting of the Commission, it was decided to confirm on the following matters of the Education Strategy and the Implementation Plan submitted by the Expert Consultant of the Asian Development Bank on 07th December 2017; • agreement on the agreed policy procedures; • it is reachable as per the scope and resources of the Commission; • clear, specific outcome can be measured and obtain further information/ clarifications. Accordingly, on 01/02/2018 the Commission has informed the amendments to the Education Strategy and the Implementation Plan to the Asian Development Bank. The Asian Development Bank has to submit a new plan to the Commission. However, the Asian Development Bank has not submitted such new plan as yet.
(e)	**Finance and Administration Department**	
	According to the data of the budget for the year 2017, provisions of Rs.3,000,000 and Rs.10,000,000 had been made for the local and foreign training respectively on capacity building of the staff but it was observed that the actual expenditure incurred thereon had decreased to Rs.1,297,577 and Rs.4,741,449 respectively.	It was the provision for the Residential Training Programme and such high amount of balance is shown as such programme was not conducted. It is expected to fully utilize the provisions allocated in this year for trainings. In the year 2017, more focus was on foreign training as such programme expenses were incurred by the organizers. Therefore, it caused an excess in the said provisions.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
4.2	**Management Functions** The following observations are made.	
(a)	Property, Plant and Equipment classes of assets, carrying value of which amounted to Rs.7,324,758, included in the financial statements of the year 2017 had included 145 items which had been identified at the year end board of survey classified as redundant or damaged. According to the register of fixed assets and identified in audit as non-usable, the cost of those items totaled Rs.2,331,989. Action had not been taken to dispose of the stock which had been identified as non-usable or damaged.	There is only a quantification of assets at the Board of Survey at present. Comparison is done with the fixed assets register only when removing assets from the register. Hope to take necessary steps to do the board of survey in comparison with the fixed assets register.
(b)	In terms of Section 103(1) of the Regularization of Insurance Industry Act No.43 of 2000, a fund named as "Insurance Policy Holders Security Fund" had been established with the objective of settling insurance claims of bankrupt insurance companies and the money accrued from cess has to be credited to this Fund. This fund was a long term fund and the balance thereof as at 31 December 2017 amounted to Rs.4,109,959,205 but there had been no opportunities arisen to spent money from this fund since the inception of the Fund. As such, the money of this could have been invested to earn a higher interest income but it had been invested for a few number of days, based on liquidity. Therefore, it was observed that the fund had been deprived of getting a higher interest income which could have been earned. Nevertheless, the Commission had informed the audit that, as the receipt of annual fees had been delayed, money of the fund had to be used to settle day today expenses, money had been invested in short terms.	Name of the fund should be "Policy Holders Protection Fund" and money received from cess is usually invested in long term investments. The income of the Insurance Regulatory Commission of Sri Lanka is primarily based on the annual fee. Receiving the annual fee in year 2017 went on until September of the said year and the money received from time to time was invested in short term as it was used to cover the daily expenses of the Commission.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(c)	In terms of internal circular No.36 of 05 October 2015, any person is permitted to operate a foreign health insurance through a brokers' company and the related brokers' company should be registered therefor. Under this method, the approval had been granted initially to two insurance companies for a period of one year but such approval had not been granted in writing and the extension of the approved period had been stated only in the website. The Commission had informed the audit that the extension of period stated in the website had been done without a proper authority and an investigation in that connection was being carried out.	The extension of the approved period as mentioned in the website was done without any proper approval. An investigation is carried out in this regard.
(d)	The Commission had paid festival advances at Rs.50,000 in the months of April and December to its officers with effect from 2009 but the Commission had not taken a special approval thereon.	Approval of the Board of Directors was obtained for the festival advance of Rs. 50,000 and entered as Chapter 14 in the administration handbook. Attachment II of the administration handbook mentions the maximum amount payable. The employees can request for the said maximum amount or any amount below as they wish and request once a year (in April or December)
(e)	At the physical verification of Library books observed that 11 books lent outside had not been returned within the periods ranging from 01 to 07 years. Similarly, 2 books valued nearly Rs.100,000 were not physically existence within the Library.	The institute has a limited number of officers and books relevant to each Department are used by one person for a long time due to the professional requirements. If another officer is in need of such book, action is taken to provide it. However, such officers are questioned depending on the period lapsed. As the relevant two books are of high value they are kept in another secure place. However, if an officer needs a book it can be taken at any time.
4.3	**Uneconomic Transactions**	
	A building had been taken on rent for the operation of the Head Office of the Commission at a monthly rental of Rs.330,096 since 01 April 2005. Attention of the Board of Directors was paid in 2 occasions to find a new building due to increase the rent, since the period of rent agreement had been terminated as at 31 March 2008. However, it had not been implemented and an agreement had been entered again into with the owner of the same building for the period of 2 years from 01 October 2017 at the monthly rental payment of Rs.1,472,208.	Written inquiries were made on the Mehewara Piyasa and the said building is in the construction level. It is difficult to find a building with a rental lower than the existing one for maintaining as the regulator of the insurance industry. It is hereby informed that this matter on the office building was mentioned in the previous Audit report and discussed and finalized at the COPE Committee as well.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
4.4	**Personnel Administration** The following observations are made.	
(a)	Four vacant posts as at 31 December 2017 had been vacant even by the date of audit.	The candidate selected for the post of Driver was recruited on 26.02.2018 and he did not report to work from 27.02.2018. Action was taken to recruit the second candidate and he also did not report to work. Therefore, action will be taken to publish paper advertisements for all the posts.
(b)	The scheme of recruitments relating to the approval posts of the Commission had not got approved in terms of paragraph 9.3.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	The answer of the Board given for (b) under the administration of the Staff in the 2016 Auditor-General's report 14.2 C is as follows: The Board, from its inception, has obtained the approval for the scheme of recruitment at the time of obtaining approval for cadre. Approval for the scheme of recruitment has been obtained from time to time when requesting creation of posts. Recruitment process with subsequent amendments have been included to the administration manual and has been sent for approval in 2012. The necessary information has been included to the scheme of recruitment. Approval for the scheme of recruitment for recently approved posts has been obtained separately.
(c)	Even though, the Administrative manual prepared on 19 March 2012 had been submitted to the Ministry of Finance for approval on 30 March 2017, the approval had not been received up to now. However, all the functions such as recruitments, salaries and reimbursement of allowance and payment of advances had been carried out in accordance with the Administrative manual by the Commission.	The Commission has acted according to the Sections 5 (e), 10 (1) and 10 (2) of the Regulation of Insurance Industry Act No. 43 of 2000 which has established the Insurance Regulatory Commission of Sri Lanka.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(d)	The first salary scales of the Commission had been approved by the Department of Management Services in the year 2005 and differences between those salary scales and the actual scales paid now were observed. It was thus revealed that the National Salaries and Cadre Commission as well as the Line Ministry had informed that the salary increase could not be recommended. Despite, the salary scales had been increased on the basis of a Letter No.PED/360/12/2(ii) dated 18 July 2012 issued by the Treasury Representative of the Commission in the year 2012 stating that there was no objection to revise salaries subject to a maximum of 25 per cent of the basic salaries of officers.	The salary scales of the Insurance Regulatory Commission of Sri Lanka has never been in accordance with the salary scales of circular No. 30 (1) of the Management Services Circular. The initial salary scales were approved by the Department of Management Services in 2005 and the basic salary was increased by 25% based on the approval received from the Secretary to the Treasury in 2012. Insurance Regulatory Commission of Sri Lanka has been following the provisions of the Act.
(e)	As a result of being inclined for a Risk Based Capital Scrutinizing System (RBC) introduced in place of the Solvency Legal framework of insurance companies from the beginning of the year 2016, one Actuarial post, one Assistant Actuarial post and 2 Senior executive/Executive post had been approved for the establishment of the Actuarial unit on 09 June and 07 December 2016. A female officer had been recruited in the year 2016 for the post of actuary on contract basis, that post had fallen vacant since 31 October 2017 and the Assistant Actuary post had also been vacant from the year 2016 to 24 July 2018.	Though recruitments were made for the posts of actuary, assistant actuary and executive posts in the Actuarial Unit, there were no qualified candidates for the posts of actuary, assistant actuary. It is hereby mentioned that there are only a few professional actuaries in Sri Lanka.
5.	**Sustainable Development**	
5.1	**Reaching Sustainable Development objectives**	
	Every public entity should act in accordance with the agenda of the United Nations 2030 on Sustainable Development but the Insurance Regulatory Commission of Sri Lanka was not aware how to act in respect of functions come under the scope of the Commission relating to the year under review.	Action will be taken to communicate with the line ministry.

Matters raised by the Auditor General and the Responses made by the Commission for 2017

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
6.	**Accountability and Good Governance**	
6.1	**Presentation of financial statements**	
	Even though, the annual draft report and the financial statements should be presented to audit within 60 days after the closure of the financial year in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the finally approved financial statements for the year under review had been presented to audit on 01 June 2018.	The draft financial statements were produced to the Auditor-General on 27th February 2018. The meeting of the Commission with the participation of the new members was conducted on 18th May 2018 and the approved financial statements were sent to the Auditor General on 01st June 2018.
6.2	**Procurement and Contract Process**	
6.2.1	Delayed Projects An agreement had been entered into with the Central Engineering Consultancy Bureau on 11 May 2016 at a contract value of Rs.1,758,654 (excluding VAT) for the installation of coolant system to the computer systems operating room and an advance of Rs.50,000 had been paid on 07 June 2016. Even though, this work should have been completed by February 2018, it had not been completed even up to 06 August 2018, the date of audit.	There was a delay in installing the relevant air-conditioning machine due to various practical issues emerged in the process. However, the installation of the air-conditioning system is being completed by now.
6.3	**Budgetary Control**	
	As compared the budgeted income and expenditure of the Commission with actual of the year under review, variations ranging from 100 per cent to 246 per cent were observed and as such the budget had not been made use of as an effective instrument of management control.	
7	**Systems and Control**	
	Weakness in systems and controls observed in audit were brought to the attention of the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.	

	Auditor General's Report	Response made by the Insurance Regulatory Commission of Sri Lanka
(a)	Operating control Withdrawing money from the annual interest income of insurance policy holders preservation Fund, subject to a maximum of 20 per cent in order to cover up the expenditure of the Commission.	
(b)	Stock Control (i) Stock not stored as to identify easily each item separately. (ii) Stock levels not indicated in the stationery stock books. (iii) Existence of slow moving stationery. (iv) Existence of differences between the physical verification of stationery stock and stock book balances.	Necessary attention will be paid on the relevant areas in the future activities
(c)	Financial Controls (i) Delays in settling imprests. (ii) Granting advances without being properly estimated. (iii) Registers not updated.	
(d)	Revenue Control Revenue relating to the year under review not specifically identified.	
(e)	Assets Control Incorrect identification code numbers.	

APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2017

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 Ltd.	General Insurance
Janashakthi Insurance PLC	Long Term Insurance
Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
LOLC General Insurance Limited	General Insurance
LOLC Life Assurance Limited	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
Janashakthi General Insurance Ltd.	General Insurance

* AIG Insurance Ltd. - No longer accepting any new insurance business and is in the process of exiting from Sri Lanka.

MBSL Insurance Company Limited - Registration granted to carry on Long Term and General Insurance Businesses, has been suspended with effect from 28th June 2017

AIA General Insurance Lanka Limited has been amalgamated with Janashakthi General Insurance Limited with effect from 29th January 2016

Union Assurance General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017

APPENDIX II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2017

No	Name of Broker	Class of Business	Period of registration granted
1	3 D H Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
2	A. M. W. Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
3	ADZ Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
4	Aitken Spence Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
5	Alfinco Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
6	Allion Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
7	AMTRUST Insurance Brokers Private Limited	Long Term and General Insurance	01.01.2017 – 31.12.2017
8	Aquiline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
9	Aseki Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
10	Assetline Insurance Brokers Ltd.	General Insurance	01.01.2017 – 31.12.2017
		Long Term Insurance	25.09.2017 – 24.09.2018
11	Ax Insurance Brokers (Pvt) Ltd.	General Insurance	02.01.2017 – 31.12.2017
12	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
13	Ceyexxe Insurance Brokers Ltd.	General Insurance	01.01.2017 – 31.12.2017
14	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
15	Ceynergy Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
		Long Term Insurance	11.08.2017 – 31.12.2017
16	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
17	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
18	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
19	D S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance	01.01.2017 – 31.12.2017
20	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
		Long Term and General Insurance	01.01.2017 – 31.12.2017
21	Eagle DVRS Insurance and Reinsurance Brokers (Private) Limited	General Insurance	09.05.2017 – 08.05.2018
22	E A P – R M S Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
23	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
24	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
25	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
26	Foresight Insurance & Re Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
27	George Steuart Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
28	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
29	Grand Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
30	Guardian Insurance Brokers (Pvt) Ltd.	General	01.01.2017 – 31.12.2017
31	InsureMe Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	09.09.2017 – 31.12.2017
32	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
33	JF Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
34	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
35	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
36	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
37	Maxwell Insurance Brokers (Private) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017

APPENDIX II CONTD...

38	Mercantile Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
		Long Term Insurance	25.09.2017 – 24.09.2018
39	Mutual Insurance Brokers (Pvt) Ltd.	General Insurance	27.06.2017 - 26.06.2018
40	My Insurance Brokers (Pvt) Ltd.	General Insurance	17.01.2017 – 31.12.2017
41	Nations Insurance Brokers Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
42	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
43	Procare Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
44	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
45	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
46	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
47	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
48	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance	01.01.2017 – 31.12.2017
49	S Y M Insurance Brokers (Pvt) Ltd.	General Insurance	02.01.2017 – 31.12.2017
50	Samson Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
51	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
52	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
53	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
54	Trust Insurance Brokers (Pvt) Ltd.	General Insurance business	01.01.2017 – 31.12.2017
55	UN Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
56	United Insurance Brokers (Pvt) Ltd.	General Insurance	01.01.2017 – 31.12.2017
57	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
58	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance	01.01.2017 – 31.12.2017
59	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance	01.01.2017 – 31.12.2017
60	Zenith Insurance Brokers (Pvt) Ltd	Long Term and General Insurance	01.01.2017 – 31.12.2017

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 Actuary is a professional trained in evaluating the financial implications of contingency events. Actuaries require an understanding of the stochastic nature of insurance and other financial services, the risks inherent in assets and the use of statistical models. In the context of insurance, these skills are, for example, often used in establishing premiums, technical provisions and capital levels.

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 of financial loss resulting from default or movements in the

GLOSSARY CONTD...

credit rating assignment of issuers of securities (in the insurer's investment portfolio), debtors (e.g. mortgagors), or counterparties (e.g. on reinsurance contracts, derivative contracts or deposits) and intermediaries, to whom the company has an exposure. Credit risk includes default risk, downgrade or migration risk, indirect credit or spread risk, concentration risk and correlation risk. Sources of credit risk include investment counterparties, policyholders (through outstanding premiums), reinsurers, intermediaries and derivative counterparties.

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.

Endowments

Life insurance contract that only cover the individual's life in case of an unfortunate event, but also offer a maturity benefits at the end of the term.

(a life insurance contract designed to pay a lump sum after a specific term (on its 'maturity') or on death.)

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 there from 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.

Insurtech solutions

Insurtech refers to the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model. Insurtech is a portmanteau of "insurance" and "technology" that was inspired by the term fintech.

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

The ratio of claims incurred to earned premiums. Gives an indication of how well the pricing of an insurer matches the risks taken in the insurance contracts. [Related definitions: Claims incurred, Underwriting year basis]

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

GLOSSARY CONTD...

net earned premium (i.e. after deducting relevant reinsurance).

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

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.

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

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).

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

Excess of total policy liabilities under the NPV regime as at 31st December 2015 over the total policy liabilities under the RBC regime as at 1 January 2016. (Surplus created due to change in valuation method of policy liabilities from Net Premium Valuation to Gross Premium Valuation).

One off Surplus transfer

Transfer of surplus created due to the change in valuation method of policy liabilities from Net Premium Valuation(NPV) to Gross Premium Valuation(GPV) to shareholder fund.

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 arising from the inadequacy or failure of internal systems, personnel, procedures or controls leading to financial loss. Operational risk also includes custody risk.

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 insurance contract between one insurer or reinsurer (the reinsurer) and another insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium).

Reinsurance Commission

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

Reinsurance Inwards

The acceptance of risks under contract of reinsurance.

Reinsurance Outwards

The placing of risks under contract of reinsurance.

Reinsurance Profit Commission

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

Retention

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

Retrocession

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

Risk Capital Required (RCR)

Risk based capital required is the aggregate of the capital required to address all relevant and material

GLOSSARY CONTD...

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 :

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

(b) for long term insurance business :

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

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 made under Section 105 read with Section 26(1) of the Regulation of Insurance Industry Act, No. 43 of 2000.

Surplus Transfers

Transfer of excess amount of asset exceed the policy liabilities from life fund to shareholders' fund based on the recommendation of the Actuary.

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.

Term Insurance

Type of life insurance policy that provides coverage for a certain period of time, or a specified "term" of years. If the insured dies during the time period specified in the policy and the policy is active - or in force - then a death benefit will be paid

Technical Provision

The amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, reinsurance and of the capital required to cover the remaining risks.

Tier 1 capital

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

Tier 2 capital

Capital that lacks some of the absorbency characteristics of the Tire 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).

GLOSSARY CONTD...

Universal Life

Permanent life insurance with an investment savings element and low premiums like term life insurance. Most universal life insurance policies contain a flexible premium option. However, some require a single premium (single lump-sum premium) or fixed premiums (scheduled fixed premiums)

Whole Life Insurance

Whole life insurance provides coverage for the life of the insured. In addition to providing a death benefit, whole life also contains a savings component where cash value may accumulate. These policies are also known as permanent or traditional life insurance.

GENERAL INFORMATION

OFFICE ADDRESS

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

Telephone	:	+94 11 2396184-9
Fax	:	+94 11 2396190
E-mail	:	info@ircsl.gov.lk
Web site	:	www.ircsl.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 COMMISSION

The object and responsibility of the Commission 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

INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

11, East Tower, World Trade Centre, Colombo 01, Sri Lanka
Telephone : +94 11 2396184-9 | Fax : +94 11 2396190
E-mail : info@ircsl.gov.lk | Web site : www.ircsl.gov.lk