



INSURANCE BOARD OF SRI LANKA

ANNUAL REPORT 2001

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DIVISIONAL REPORTS

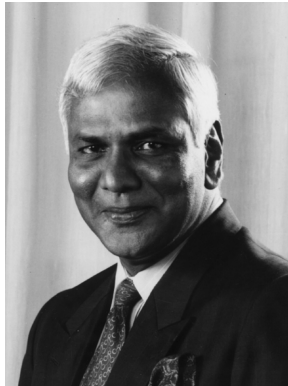
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MISSION

STATEMENT

“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 policy-holders and potential policy- holders”

MEMBERS OF THE BOARD



Mr. Ken Balendra
Chairman
(From March - December 2001)



Mr. Faiz Mohideen
Board Member



Mr. P M Nagahawatte
Board Member



Dr. Dayanath C Jayasuriya
Board Member



Mr. Anil Tittawella
Board Member
(From March - December 2001)



Mrs. Dayani de Silva
Board Member
(From March - December 2001)



Mr. Nihal Jinasena
Board Member

PART I

ADMINISTRATION OF THE REGULATION OF INSURANCE INDUSTRY ACT

**ADMINISTRATION
OF THE
REGULATION
OF INSURANCE
INDUSTRY ACT**

Legislation

The insurance industry is regulated and supervised in terms of the provisions of the Regulation of Insurance Industry Act No. 43 of 2000 (hereinafter referred to as the Act) which was enacted by the Parliament in August 2000 and came into operation with effect from 1 March 2001. The Insurance Board of Sri Lanka (hereinafter referred to as the Board) was established under the Act and the Board took over the regulatory function of the insurance industry from the Controller of Insurance of the Ministry of Finance who regulated the insurance industry in terms of the Control of Insurance Act No. 25 of 1962 which was repealed with the enforcement of the new legislation.

Insurance Rules, Regulations and Determinations

In terms of the provisions of the Regulation of Insurance Industry Act No.43 of 2000, the insurance rules, regulations and determinations relating to solvency margin, admitted assets for the purpose of calculating the solvency margin, admitted assets for the investment of long term insurance fund and technical reserve of general insurance business, minimum capital requirement, commissions payable to insurance brokers and insurance agents on long term insurance business and general insurance business are in the process of being drafted. The Control of Insurance (Miscellaneous Provisions) Regulations-1987 enacted under the previous legislation continues to remain in operation to regulate the insurance industry until the new rules and regulations are enacted.

Licensing and Market Structure

Insurance companies and insurance brokers are registered by the Board. In terms of the present Act, insurance companies are not required to renew their registration but they are required to pay an annual fee, whereas insurance brokers are required to renew their registration annually. One insurance company was licensed during the year to engage in both long term insurance business and general insurance business.

As at the end of the year 2001, there were 10 registered composite insurance companies carrying on both long term insurance business and general insurance business.

Amana Takaful Ltd, a non-conventional insurance company, carrying on both long term insurance business and general insurance business according to Islamic principles, was not regulated by the Controller of Insurance as it was exempted by the Minister of Finance under the powers vested in the Minister by the Control of Insurance Act No.25 of 1962. As the Regulation of Insurance Industry Act No.43 of 2000 did not confer any power on the Minister of Finance to exempt any insurance company from the provisions of the Act and since there were no transitional provisions permitting the continuation of this Company as a licensed insurer, the Board requested Amana Takaful Ltd. to obtain registration after satisfying all the conditions required under the Act. The Company submitted the application for registration with the request that it be permitted to invest in bullion as in terms of Islamic principles the company is prohibited from investing in interest bearing investments. The Board agreed to take steps to amend section 25 of the Act which deals with the investments of long term insurance fund and technical reserves of general insurance business to accommodate the request made by Amana Takaful Ltd. This company was registered under the Act in February 2002.

The registration of 38 insurance brokers was renewed during the year. In terms of the Act, it is necessary for an insurance broker to be a member of an Association of Insurance Brokers approved by the Board, in order to obtain registration or to renew the registration. The Board has approved the Insurance Brokers' Association of Sri Lanka for this purpose.

Insurance Agents

Insurance agents are appointed by the insurance companies or insurance brokers. An insurance agent can work only with one insurance company or one insurance broker. Insurance agents are neither regulated nor licensed by the Board but the insurance companies and the insurance brokers are required to submit to the Board the details of the insurance agents appointed by them.

Company Status and Changes in Equity

In terms of the provisions of the Act all insurance companies should be incorporated as a public company under the Companies Act No. 17 of 1982 and registered as an insurance company under the Regulation of Insurance Industry Act No. 43 of 2000. Regulations are being drafted under the Act to increase the minimum paid up share capital requirement from the existing minimum paid up share capital of

Rs. 25 million for long term insurance business and Rs. 50 million for general insurance business.

In the case of insurance brokers, the company must be incorporated as a public limited liability company or as a private limited liability company under the Companies Act, with a minimum issued share capital of Rs. 200,000 and it must also be registered under the Act fulfilling all the conditions for the registration required under the Act.

The paid up share capital of insurance companies at the end of the year was Rs. 1,894 million which shows a 10.6% growth when compared with the total paid up share capital of Rs. 1,712 million for the previous year. The total share holders fund at the end of the year was Rs. 7,157 million which indicates a 35% growth when compared with Rs. 5,305 million for the year 2000.

During the year 2000 Janashakthi Life Insurance Company Ltd. took over the assets and liabilities of Janasakthi General Insurance Company Ltd. and changed its name as Janashakthi Insurance Company Ltd. It operates as a composite insurance company.

In terms of the Gazette notification by the Controller of Exchange of the Central Bank of Sri Lanka dated 7 March 2000 80% foreign equity participation in insurance companies has been permitted and two insurance companies have around 80% foreign equity participation. On 19 April 2002 the Government permitted 100% foreign shareholding in insurance companies.

Solvency Margin

Rules are being drafted under the Act for the minimum solvency margin required to be maintained in respect of long term insurance business and general insurance business. Under the previous legislation the insurance companies were required to maintain a minimum solvency of 10% of the net written premium in respect of general insurance business. However there was no requirement for the maintenance of minimum solvency margin in respect of long term insurance business. Rules are also being drafted relating to the admissibility of assets for the purpose of computation of solvency margin.

Investment of Insurance Funds

In terms of the Act, insurance companies are required to invest 30% of the long term insurance fund of long term insurance business and 20% of the technical reserves of general insurance fund in Government securities and the balance in other investments as determined by the Board. Determinations are being formulated indicating the assets in which the balance funds could be invested.

Levy of Cess from Insurance Companies

The Board decided after consulting the industry to levy 0.4 % and 0.2% on the net premium of general insurance business and long term insurance business, respectively. Once the order for levy of cess is signed by the Minister of Finance and published in the Government Gazette, the insurance companies will be required to remit the cess on a quarterly basis to the Board.

Policy Holders Protection Fund

Under the Act the Board is empowered to set up a Policy Holders Protection Fund and the cess received from the insurance companies must be credited to the Fund. The Fund can be utilized for the general protection of policy holders and for any other specific purpose as may be determined by the Board, by rules made in that behalf.

Insurance Tariff

Fire and Workmen's Compensation continue to be subject to tariff but motor insurance tariff was de-regulated with effect from 1 January 2002 by the Board. With regard to fire and workmen's compensation the Board has made available for public comment discussion papers prepared by the Insurance Association of Sri Lanka.

Strike, Riot, Civil Commotion and Terrorism Fund (SRCC&T Fund)

The Government established the SRCC&T Fund in 1987 as the insurers found it difficult to obtain reinsurance cover against risks due to strike, civil commotion and terrorism. All the insurance companies are members of the SRCC&T Fund and the Board of the Fund consists of a member nominated by each insurance

company and approved by the Secretary, Ministry of Finance. An officer from the Ministry of Finance is appointed by the Secretary, Ministry of Finance as the Chairman of the Board of the Fund. It is mandatory in terms of the Constitution of the Fund for all insurance companies to cede all the premium that are collected in respect of risks covered by them against strike, riot, civil commotion and terrorism. As at 31 December 2001 the accumulated amount in the SRCC&T Fund was approximately Rupees 10 billion.

In August 2001 the Secretary, Ministry of Finance issued a directive conferring on the Board authority over the SRCC&T Fund with regard to regulatory matters.

Having considered the representations made in respect of Terrorism cover for commercial vehicles, the Board decided to reduce the Terrorism cover premium to 0.4% for all commercial vehicles with effect from 1 January 2002.

Exemptions

Provisions of the Regulation of Insurance Industry Act do not apply in respect of 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 under 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.

The provisions of the Act also do not apply to the enterprises which enter into agreements with the Board of Investments (BOI) under section 17 of the Greater Colombo Economic Commission Law, No. 4 of 1986 and are exempted by the Minister of Finance under the powers vested in him by the Insurance Corporation (Amendment) Act No. 43 of 1986 and published in the Government Gazette.

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

Other related matters

Insurance Association of Sri Lanka

The Insurance Association was established in 1989. Every insurance company registered under Act is eligible for membership of the Association. The members are entitled to nominate a representative who is usually the CEO of the company to the Executive Committee.

The Executive Committee is responsible for the overall management of the Association. The Executive Committee is assisted by the Life Insurance Forum, the General Insurance Forum and the Finance and Actuarial Sub-Committees, which consider and make recommendations to the Executive Committee on subjects relating to their respective areas.

The Association maintains a close working relationship with the Insurance Board.

Insurance Brokers' Association of Sri Lanka

The Insurance Brokers' Association of Sri Lanka is the only association of insurance brokers approved by the Board and all insurance brokers seeking registration are required to be members of this Association. The members of the Association are subject to the code of conduct formulated by the Association.

Sri Lanka Insurance Institute

The Sri Lanka Insurance Institute was established in 1982. It is a non-profit making organisation and its main objective is to develop the skills and knowledge of the persons engaged or employed in insurance business. Funding for the Institute is through contributions paid by the insurance companies and the annual subscriptions from the members. The Institute conducts classes for those who are preparing for the examinations of the Chartered Insurance Institute of London, Insurance Institute of Australia and Insurance Institute of India.

The Institute is affiliated to the Chartered Insurance Institute, London and administers the examinations of professional bodies such as the Chartered Insurance Institute, London; Insurance Institute of Australia; Insurance Institute of India and the Actuarial Society of India. The Institute conducts short-term diploma courses in insurance to persons who are employed in the insurance industry.

South Asian Insurance Regulators' Forum

The Board took the initiative to form a South Asian Insurance Regulators' Forum. The inaugural meeting for the formation of the Forum was held during the third week of December in Colombo and representatives from the Insurance Regulatory Offices of India, Nepal, Bhutan and Sri Lanka participated. The Constitution for the Forum was drafted and was adopted at the meeting.

Dr. Dayanth Jayasuriya, Director General of Insurance Board of Sri Lanka was elected as the Chairman of the Forum and Mr. N. Rangachary, Chairman, Insurance Regulatory and Development Authority of India, Mr. Sonam Wangchuk, Managing Director, Royal Monetary Authority of Bhutan and Mr. Prafulla Kumar Kafle, Chairman, Beema Samiti (Insurance Board) were elected as the Vice-Chairmen.

The objectives of the Forum are to promote co-operation among South Asian Insurance Regulators to facilitate regulatory activities; the sharing of information and experiences; and harmonization of legislative approaches and financial reporting systems, to the extent feasible.

PART II

PERFORMANCE OF THE INSURANCE INDUSTRY

**THE
PERFORMANCE
OF THE
INSURANCE
INDUSTRY
IN THE
YEAR 2001**

PREMIUM INCOME

The combined premium income of Rs.16,860 million (2000 : Rs.14,867 million) from long term insurance and general insurance represents 1.20% (2000 : 1.18%) of the gross domestic product (GDP). The major contribution of Rs. 9,366 million or 55.6 % (2000: Rs. 8,615 million or 57.9%) of the premium income was generated from general insurance business and the balance premium income of Rs. 7,494 million or 44.4% (2000 : Rs. 6,252 million or 42.1%) came from long term insurance business. During the year the overall premium growth was 13.39% which shows a marginal increase in the growth rate when compared with the growth rate of 12.52 % for the year 2000. (Table 1)

Table 1

Premium Income

(in million rupees)

	1997	1998	1999	2000	2001
Long Term Insurance	4,166	4,876	5,453	6,252	7,494
General Insurance	6,594	7,111	7,762	8,615	9,366
Total Premium Income	10,760	11,987	13,215	14,867	16,860
Total premium as a % of GDP	1.22	1.20	1.21	1.18	1.20
Growth rate as a %	-	11.40	10.23	12.52	13.39

ASSETS

The total assets of Rs.51,449 million (2000: Rs.42,036 million) of the insurance companies accounted for 3.67% (2000: 3.34%) of GDP and 6.0% (2000: 5.39%) of the total assets of the financial sector which includes the licensed commercial banks, merchant banks and finance companies. The total assets showed a 22.42 % growth rate when compared with the growth rate of 15.21% for the year 2000. (Table 2)

Table 2**Assets of Insurance Companies**

(in million rupees)

	1997	1998	1999	2000	2001
Long Term Insurance	15,407	18,442	22,978	26,546	32,990
General Insurance	11,261	11,979	13,510	15,490	18,459
Total Assets (in million rupees)	26,668	30,422	36,488	42,036	51,449
Total Assets as a % of GDP	3.03	2.99	3.29	3.34	3.67
Total Assets as a % of Assets of the Financial System	5.17	5.21	5.36	5.39	6.00
Growth rate as a%	-	14.08	19.94	15.21	22.42

PENETRATION RATE

The total number of long term insurance and general insurance policies issued during the year showed a penetration rate of 12.6% (long term insurance 5.3% and general insurance 7.3%) of the total population when compared with the penetration rate of 11.3% in the previous year (long term insurance 4.8% and general insurance 6.5%, for the previous year.) The penetration rate of long term insurance appears to be very low when compared with the penetration rate of countries such as Malaysia and Singapore. There is high potential for the development of long term insurance business in Sri Lanka. (Table 3)

Table 3

	1997	1998	1999	2000	2001
Penetration Rate					
Total No. of Long Term Insurance Policies	751,950	829,548	863,933	931,609	986,061
Penetration as a % of the Population	4.1	4.4	4.5	4.8	5.3
Total No. of General Insurance Policies	1,030,608	1,140,062	1,210,698	1,260,217	1,373,843
Penetration as a % of the Population	5.6	6.1	6.4	6.5	7.3
Penetration of Long Term and General Insurance as a % of the Population	9.7	10.5	10.9	11.3	12.6

PERFORMANCE OF LONG TERM INSURANCE BUSINESS

NEW BUSINESS

The total number of 228,157 long term insurance policies issued during the year showed a 5.9% growth rate which is identical to the previous year's growth rate with 215,496 policies. The premium income of Rs.2,745 million from new business shows a growth rate of 25.6% when compared with that of the previous year's growth rate of 36.1%. (Table 4)

Table 4

New Business

Year	No of Policies	Sum Insured Rs. '000	Total Premium Rs. '000
1997	242,003	22,382,257	1,485,676
1998	241,484	24,076,023	1,562,048
1999	203,448	22,720,605	1,605,536
2000	215,496	29,189,350	2,186,224
2001	228,157	34,479,405	2,744,974

BUSINESS IN FORCE

A total number of 986,061 (2000 : 931,609 policies) long term insurance policies were in force during the year which shows a 5.8% growth rate when compared with the previous year's growth rate of 7.8%. The total policies in force shows a penetration rate of 5.3% of the population when compared with the penetration rate of 4.8% for the previous year. This shows that there is scope for the insurance companies to improve the penetration rate by educating the public relating to the benefits of long term insurance and to market insurance products that are affordable to the consumers. (Table 5)

Table 5**Business in Force**

Year	No. of Policies	Sum Assured Rs.'000	Annual Premia Rs.'000
1997	751,950	64,514,344	4,166,493
1998	829,548	72,758,052	4,875,863
1999	863,933	78,705,711	5,453,919
2000	931,609	95,848,872	6,252,608
2001	986,061	143,358,917	7,494,087

PREMIUM INCOME AND MARKET SHARE COMPANY-WISE

The premium income of Rs. 7,494 million (2000 : Rs.6,252 million) showed a growth rate of 19.9% when compared with the growth rate of 14.6% for the previous year.

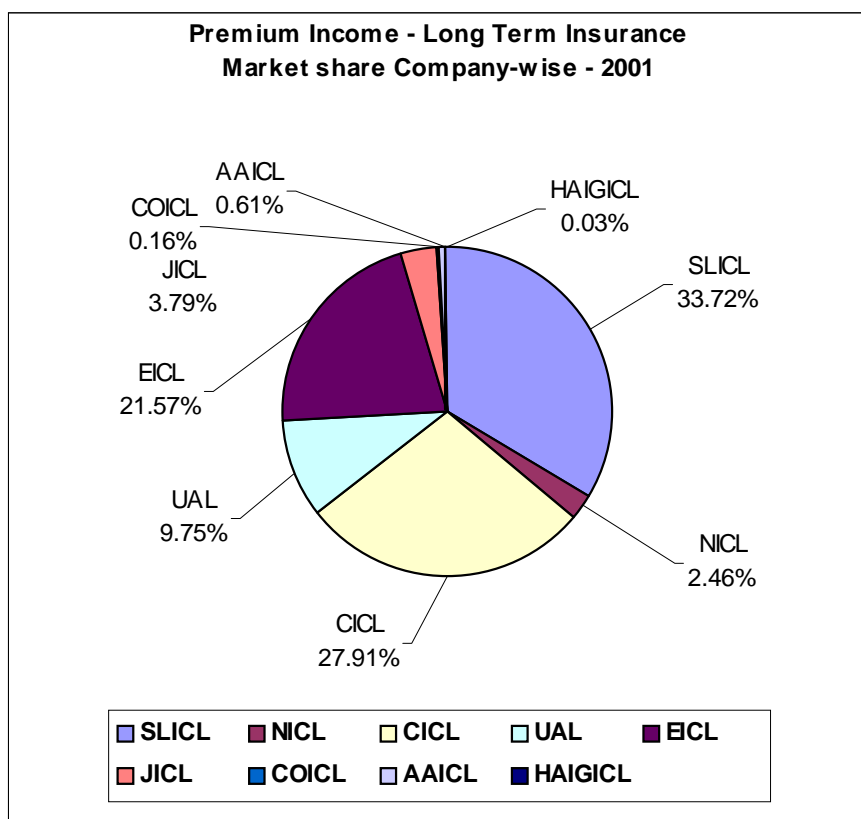
For the year 2001 the Sri Lanka Insurance Corporation Ltd accounted for 33.72% (Rs.2,527 million) of the premium income on long term insurance followed by Ceylinco Insurance Company Ltd with 27.91% (Rs.2,092 million) , Eagle Insurance Company Ltd with 21.57% (Rs.1,617 million) and the other six insurance companies accounted for the balance 16.80% (Rs.1,256 million) . HNB Assurance Ltd which was granted registration in 2001 did not engage in long term insurance business during the year. (Table 6 and Chart 1)

Table 6

Premium Income and Market Share Company-wise

Company	1997		1998		1999		2000		2001	
	Premium Rs.'000	%	Premium Rs.'000	%	Premium Rs.'000	%	Premium Rs.'000	%	Premium Rs.'000	%
SLICL	1,623,724	38.97	1,906,119	39.09	2,064,863	37.86	2,260,288	36.15	2,526,814	33.72
NICL	148,853	3.57	168,314	3.45	163,061	2.99	179,444	2.87	184,308	2.46
CICL	990,491	23.77	1,155,928	23.71	1,312,434	24.06	1,428,052	22.84	2,091,907	27.91
UAL	323,460	7.76	401,113	8.23	495,040	9.08	701,957	11.23	730,417	9.75
EICL	916,675	22.00	1,056,839	21.67	1,185,481	21.74	1,386,325	22.17	1,616,758	21.57
JICL	163,290	3.92	187,550	3.85	231,400	4.24	280,600	4.49	284,008	3.79
COICL		-		-	1,640	0.03	9,000	0.14	11,700	0.16
AAICL		-		-		-	6,942	0.11	45,902	0.61
HAIGICL		-		-		-		-	2,273	0.03
HNBAL		-		-		-		-	-	-
TOTAL	4,166,493	100.0	4,875,863	100.0	5,453,919	100.0	6,252,608	100.0	7,494,087	100.0
% Increase		18.8		17.0		11.9		14.6		19.8

Chart 1



INCOME AND OUTGO

The total net Income from long term insurance business amounted to Rs.5,571 million (2000: Rs.3,463 million) which shows a growth rate of 60.9% for the year when compared with the growth rate of 15.2% for the previous year. Around 35% of the income came from investment income. (Table7)

Table 7

Income and Outgo

	Item	1997 Rs.' 000	1998 Rs.' 000	1999 Rs.' 000	2000 Rs.' 000	2001 Rs ' 000
1	Income					
1.1	Premium Income	4,166,493	4,875,863	5,453,919	6,252,608	7,494,087
1.2	Net Investment Income	1,593,706	1,744,138	2,173,448	2,805,407	4,156,852
1.3	Profit on Sale of Assets		22	-	-	601
1.4	Miscellaneous Income	27,043	16,996	23,735	45,252	265,392
1.5	Total	5,552,060	6,456,040	7,551,23	9,181,479	11,916,932
2	Outgo					
2.1	Net Policy Benefits	1,472,870	1,776,895	2,284,3	2,741,856	3,172,276
2.2	Agency Remuneration	736,584	811,151	863,745	940,777	1,047,181
2.3	Management Expenses	891,292	1,078,578	1,106,842	1,493,251	1,537,968
2.4	Loss on Disposal of Assets				-	1,303
2.5	Other Outgo	283,668	323,856	388,798	464,019	588,324
2.6	Total	3,383,414	3,990,480	4,643,734	5,639,904	6,346,051
	Excess of income over outgo (1.5 - 2.6)	2,404,083	2,646,539	3,007,368	3,463,363	5,570,881

ASSETS OF LONG TERM INSURANCE BUSINESS

The total assets of long term insurance business was Rs. 32,157 million (2000 : Rs. 26,546 million) at the end of the year which shows a growth rate of 21.1% when compared with the growth rate of 15.5% for the previous year. Further it was observed that around 65% of the assets were in the form of Government securities and all the insurance companies maintained the minimum investment of 30% in Government securities as required under the Act. The balance assets were in the form of listed shares, debentures, policy loans and others investments as shown in Table 8.

Table 8

Assets of Long Term Insurance Business

Type of Investment	1997 Rs.' 000	1998 Rs.' 000	1999 Rs.' 000	2000 Rs.' 000	2001 Rs.' 000
Fixed Assets	207,176	263,176	286,507	292,598	628,070
Loans					
Mortgage	694,989	796,290	814,359	816,045	970,387
Policy	567,889	670,247	784,652	800,603	1,141,622
Others	144,552	249,596	255,447	411,268	270,622
Investments					
Government Securities	8,034,284	10,954,918	13,771,564	17,802,563	21,174,365
Listed Equities	800,723	762,569	824,842	593,135	1,311,255
Unit Trusts	196,281	138,247	140,375	120,884	368,906
Commercial Paper	31,136	285,250	269,653	15,000	137,786
Debentures	160,250	355,475	802,747	1,188,751	1,193,866
Others	1,816,534	1,257,440	1,548,359	775,527	987,092
Investment in Properties	-	-	-	-	-
Cash and Deposits	643,136	664,696	381,348	448,289	552,540
Other Assets	2,110,151	2,044,372	2,098,236	3,284,448	3,935,111
Total	15,407,099	18,442,274	22,978,091	26,545,991	32,156,838

PERFORMANCE OF GENERAL INSURANCE BUSINESS**GROSS WRITTEN PREMIUM**

The Gross Written Premium of Rs.9,366 million (2000 : Rs. 8,575 million) shows a growth rate of 9.23% when compared with the growth rate of 10.47% for the previous year. On analyzing the performance of general insurance business, it was observed that the growth rate is in the region of 10% for the last five years and if the premium income is adjusted for inflation it may result in a negative growth situation. (Table 9)

Table 9

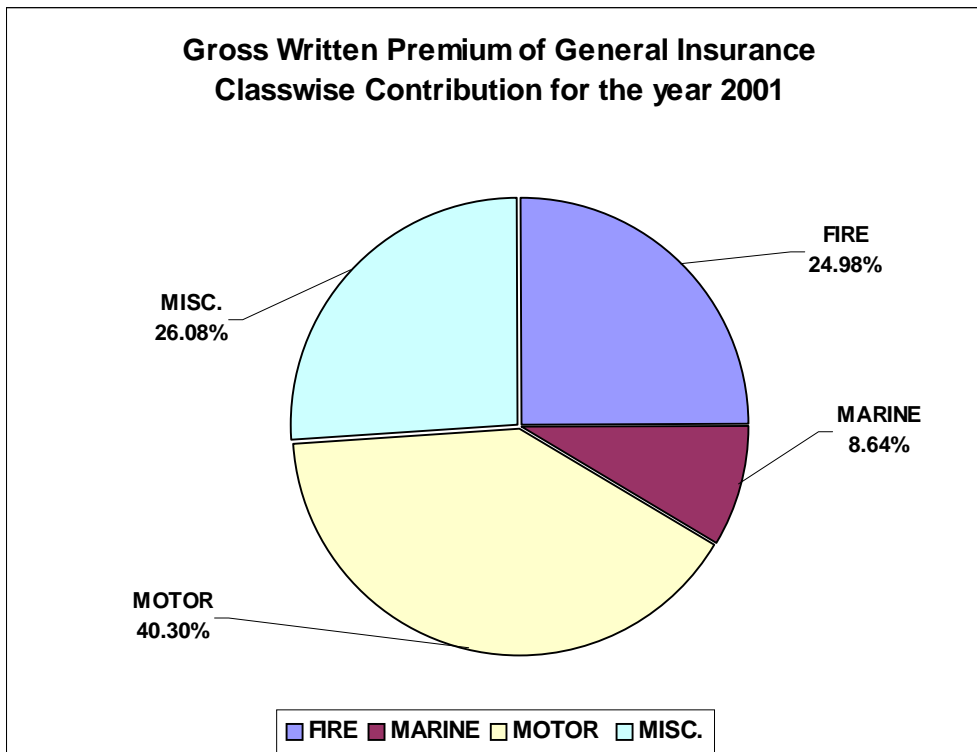
Gross Written Premium

YEAR	FIRE RS. '000	MARINE RS. '000	MOTOR RS. '000	MISC. RS. '000	TOTAL RS. '000
1997	1,598,216	724,761	2,332,835	1,937,784	6,593,596
1998	1,846,904	679,534	2,739,819	1,844,415	7,110,672
1999	1,912,21	706,656	3,160,937	1,982,044	7,761,849
2000	2,010,136	842,178	3,528,391	2,194,092	8,574,797
2001	2,339,829	809,547	3,774,471	2,442,561	9,366,408
% CHANGE					
1998	15.56	(6.24)	17.45	(4.81)	7.84
1999	3.54	3.99	15.37	7.46	9.16
2000	5.12	19.18	11.62	10.70	10.47
2001	16.40	(3.87)	6.97	11.32	9.23
% SHARE					
1998	25.97	9.56	38.53	25.94	100.00
1999	24.64	9.10	40.72	25.54	100.00
2000	23.44	9.82	41.15	25.59	100.00
2001	24.98	8.64	40.30	26.08	100.00

DISTRIBUTION OF GROSS WRITTEN PREMIUM

An analysis of the portfolio mix of insurance companies showed that the majority of the insurers concentrated on motor insurance and motor insurance accounted for 40.30% (Rs.3,774 million) of the total gross written premium income followed by miscellaneous insurance with 26.08% (Rs.2,443 million), fire insurance with 24.98% (Rs.2,340 million) and marine insurance with 8.64% (Rs.810 million) as shown in Table 9 and Chart 2.

Chart 2



MARKET SHARE OF GROSS WRITTEN PREMIUM COMPANY-WISE

The Sri Lanka Insurance Corporation Ltd had the largest market share of 42.3% (Rs.3,961 million) in general insurance business followed by Ceylinco Insurance Company Ltd with 20.2% (Rs.1,895 million), Union Assurance Ltd with 12.1% (Rs.1,133 million), Eagle Insurance Company Ltd with 7.8% (Rs.731 million), Janashakthi Insurance Company Ltd with 7.7% (Rs.718 million) and the balance market share of 9.1% (Rs.929 million) was held by the other five insurance companies. Although the Sri Lanka Insurance Corporation Ltd still maintains its leadership in the general insurance business, it is observed that it is gradually losing its market share to its competitors. (Table 10 and Chart 3)

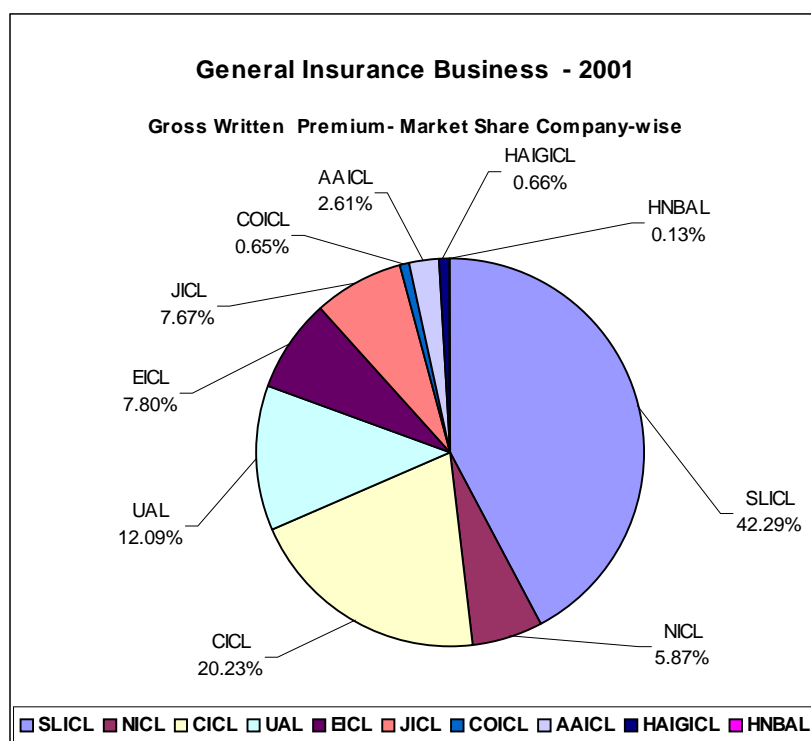
Table 10

GENERAL INSURANCE BUSINESS

Gross Written Premium - Market Share Company-wise

Company	1997 Premium Rs.'000	%	1998 Premium Rs.'000	%	1999 Premium Rs.'000	%	2000 Premium Rs.'000	%	2001 Premium Rs.'000	%
SLICL	3,492,456	53.0	3,525,700	49.6	3,548,250	45.7	3,835,602	44.5	3,961,163	42.3
NICL	301,158	4.6	411,876	5.8	507,523	6.5	580,863	6.7	549,809	5.9
CICL	1,202,248	18.2	1,333,048	18.7	1,555,594	20.0	1,693,047	19.7	1,895,185	20.2
UAL	853,378	12.9	888,998	12.5	967,153	12.5	1,018,085	11.8	1,132,730	12.1
EICL	489,030	7.4	598,512	8.4	666,823	8.6	686,112	8.0	730,511	7.8
JICL	255,326	3.9	350,213	4.9	472,189	6.1	536,450	6.2	718,235	7.7
COICL	-	-	2,325	-	39,711	0.5	59,195	0.7	60,650	0.6
AAICL	-	-	-	-	4,606	0.1	165,443	1.9	244,738	2.6
HAIGICL	-	-	-	-	-	-	39,821	0.5	61,602	0.7
HNBAL	-	-	-	-	-	-	-	-	11,785	0.1
TOTAL	6,593,596	100.0	7,110,672	100.0	7,761,849	100.0	8,614,61	100.0	9,366,408	100.0

Chart 3



REINSURANCE AND RETENTION OF GROSS WRITTEN PREMIUM

Retention of the written premium of general insurance business after the reinsurance cession for the year was 66.48%. This was at the same level of retention as for the previous year. The major contribution of 94.47% retention came from motor insurance followed by Miscellaneous insurance with 66.48% and marine insurance with 44.95%. The retention level of fire insurance was the lowest with 10.49%. (Table 11)

Table 11

Gross Written Premium

(in thousand rupees)	1997	1998	1999	2000	2001
Fire	1,598,216	1,846,904	1,912,212	2,034,780	2,339,829
Marine	724,761	679,534	706,656	848,250	809,547
Motor	2,332,835	2,739,819	3,160,937	3,533,619	3,774,471
Miscellaneous	1,937,784	1,844,415	1,982,044	2,197,969	2,442,561
Total Gross Written Premium	6,593,596	7,110,672	7,761,849	8,614,618	9,366,408

Reinsurance Premium

(in thousand rupees)	1997	1998	1999	2000	2001
Fire	1,244,685	1,393,506	1,408,244	1,524,421	1,686,421
Marine	372,819	330,306	359,656	485,003	445,694
Motor	516,106	681,997	758,972	219,663	198,587
Miscellaneous	558,944	544,585	472,375	642,429	808,975
Total Reinsurance Premium	2,692,554	2,950,394	2,999,247	2,871,516	3,139,677

Net Premium Written (Retention)

(in thousand rupees)	1997	1998	1999	2000	2001
Fire	353,531	453,398	503,968	490,210	653,408
Marine	351,942	349,228	346,999	336,881	363,853
Motor	1,816,729	2,057,822	2,401,965	3,311,912	3,575,884
Miscellaneous	1,378,840	1,299,829	1,509,669	1,553,503	1,633,586
Total Net Written Premium	3,901,042	4,160,277	4,762,601	5,692,506	6,226,731

Retention as a % of the Gross Written Premium

YEAR	FIRE	MARINE	MOTOR	MISC.	TOTAL
1997	22.12	51.44	77.88	71.16	40.84
1998	10.90	51.39	75.11	70.47	58.51
1999	10.58	49.10	75.99	76.17	61.36
2000	8.61	39.71	93.73	70.68	66.08
2001	10.49	44.95	94.74	66.88	66.48

CLAIMS EXPERIENCE

The overall claims ratio for the year was 60.8% when compared with the overall claims ratio of 55.9% for the previous year. Miscellaneous insurance showed a high claims ratio of 72.2% for the year when compared with the previous year's claims ratio of 53.4% whereas it was observed that motor insurance maintained a high claims ratio of above 67% for for the five year period. Fire insurance and Marine insurance showed claims ratios of 30.0% and 19.2% respectively.
(Table 12)

Table 12

Claim Ratio (%)

	1997	1998	1999	2000	2001
Fire	28.6	23.1	26.3	28.0	30.0
Marine	16.8	31.7	26.2	29.2	19.2
Motor	67.7	69.1	74.1	67.0	67.6
Miscellaneous	51.7	55.6	69.3	53.4	72.2
Overall Claim Ratio	52.5	55.4	63.1	55.9	60.8

UNDERWRITING AND OPERATING RESULTS

General insurance business showed an underwriting loss of Rs.4.3 million for the year when compared with the underwriting profit of Rs.332.5 million for the previous year.

The Sri Lanka Insurance Corporation Ltd, Ceylinco Insurance Company Ltd, Union Assurance Ltd and Asian Alliance Insurance Company Ltd showed very low underwriting profits whereas the other insurance companies showed underwriting losses. But the overall performance of general insurance business was very good with an operating profit of Rs.1,877 million when compared with the operating profit of Rs.898 million for the previous year. The high profitability was due to the substantial income generated from the investment of general insurance funds. (Table 13)

Table 13**Underwriting and Operating Results**

Item	1997 Rs.'000	1998 Rs.'000	1999 Rs.'000	2000 Rs.'000	2001 Rs.'000
1 Underwriting Profit / (Loss)	347,998	294,935	47,993	332,474	(4,343)
2 Investment Income	765,779	825,759	957,554	901,895	1,180,822
3 Capital gains	17,553	3,131	3,743	4,494	22,210
4 Other income	124,135	406,664	205,519	328,168	1,071,585
5 Capital Losses	-	2,844	-	255	-
6 Other Outgo	600,164	627,005	419,520	567,353	246,568
7 Operating Profit (1+2 + 3+4 - (5+-6))	655,301	900,641	790,009	898,325	1,877,248

ASSETS OF GENERAL INSURANCE BUSINESS

The total assets of general insurance business was Rs.18,459 million (2000 : Rs.15,467 million) at the end of the year and shows a 19.3% growth rate when compared with the growth rate 13.6% for the previous year. All the insurance companies maintained more than 20% of the investment of the Technical Reserve of the general insurance business in Government securities as required under the Act. The balance assets were held in listed securities, corporate bonds, commercial paper, units trusts, debentures and other investments as shown in Table 14.

Table 14**Assets of General Insurance Business**

Type of Investment	1997 Rs.'000	1998 Rs.'000	1999 Rs.'000	2000 Rs.'000	2001 Rs.'000
Fixed Assets	732,889	881,729	954,061	1,411,933	1,675,511
Loans	141,599	57,984	77,221	93,901	134,365
Government Securities	2,899,399	2,844,085	3,583,752	3,584,702	4,018,435
Listed Securities	1,917,147	1,718,424	1,673,283	1,385,343	1,830,914
Corporate Bonds	34,685	31,996	33,569	28,472	64,282
Commercial Paper	594,823	443,550	444,508	431,992	725,513
Debentures	360,000	803,885	931,349	955,059	1,112,811
Unit Trusts	257,209	220,368	210,049	177,686	232,235
Amount due from Reinsurers / Clients and Intermediaries	1,660,056	1,580,466	2,388,105	2,720,889	3,280,205
Cash and Deposits	1,722,994	2,176,804	2,156,710	2,332,635	2,367,936
Other Assets	940,253	763,894	1,157,703	2,344,009	3,016,904
Total	11,261,054	11,523,185	13,610,310	15,466,621	18,459,111

PERFORMANCE OF INSURANCE BROKERS

Thirty six Insurance Brokers were in operation during the year. All of them concentrated on general insurance business and their contribution of Rs.2,412 million (2000 : Rs.2,215 million) was on general insurance business which accounted for 25.75% (2000 :26.03%) of the total general insurance premium of Rs.9,366 million for the year (2000 : 8,615 million) . Their contribution towards long term insurance business was only around 1% of the total premium. It was also observed that six insurance brokers with a premium income of Rs.1,834 million accounted for 73.75% of total premium income of Rs.2,487 million of all the insurance brokers and twenty four insurance brokers had a premium income of over Rs.10 million during the year as shown in Table 15.

Table 15

Performance of Insurance Brokers

Serial No.	Name of Insurance Brokers	Premium Income for 2000			Premium Income for 2001		
		Long Term	General	Total	Long Term	General	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1	Delmege Insurance Brokers (PVT) Ltd	26	376,859	376,885	1,062	416,267	417,329
2	CF Insurance Brokers (PVT) Ltd	4,541	319,545	324,086	3,661	357,752	361,413
3	Commercial Insurance Brokers (PVT) Ltd	11,975	349,552	361,527	13,744	293,359	307,103
4	Vanik Insurance Brokers (PVT) Ltd	3,497	122,447	125,944	27,732	274,898	302,630
5	Industrial & Commercial Insurance Brokers (PVT) Ltd	2,018	307,835	309,853	3,336	291,460	294,796
6	Protection & Assurance Insurance Brokers (PVT) Ltd	722	174,601	175,323	4,370	146,771	151,141
7	Lanka Orix Insurance Brokers Ltd	1,085	79,541	80,626	1,555	88,870	90,425
8	Senaratne Associates Ltd. Insurance Brokers	1,522	85,587	87,109	1,181	81,839	83,020
9	Volanka Insurance Brokers (PVT) Ltd	2,637	55,335	57,972	3,172	56,242	59,414
10	MLL Insurance Brokers (PVT) Ltd	21	44,337	44,358	68	49,721	49,789
11	Zenith Insurance Brokers (PVT) Ltd	779	46,119	46,898	770	48,831	49,601
12	Essajee Carmanjee and Company	-	33,935	33,935	-	40,400	40,400
13	Inter Brokers (PVT) Ltd	1,116	33,849	34,965	1,329	37,513	38,842
14	Kandurata Insurance Brokers (PVT) Ltd	677	11,834	12,511	723	32,528	33,251
15	ADZ Insurance Brokers (PVT) Ltd	854	15,097	15,951	-	31,294	31,294
16	Jay Insurance Consultants (PVT) Ltd Insurance Brokers	337	14,477	14,814	375	19,610	19,985
17	Equity Insurance Brokers (PVT) Ltd	-	20,682	20,682	289	13,364	13,653
18	Unique Insurance Brokers (PVT) Ltd	465	11,129	11,594	447	12,351	12,798
19	Insurex Insurance Brokers (PVT) Ltd	128	1,875	2,003	116	11,685	11,801
20	Protection & Utmost Insurance Brokers (PVT) Ltd	388	12,033	12,421	752	10,652	11,404
21	Visionwide Insurance Brokers (PVT) Ltd	763	18,097	18,860	402	10,642	11,044
22	Mackwood Insurance Brokers (PVT) Ltd	*	*	*	16	10,949	10,965
23	L.M. & A Insurance Brokers and Consultants (PVT) Ltd	1,500	7,308	8,808	842	9,658	10,500
24	United Insurance Brokers (PVT) Ltd	583	27,934	28,517	559	9,889	10,448
	Other Insurance Brokers	11,355	72,314	83,669	8,570	55,747	64,317
	Total	46,989	2,242,322	2,289,311	75,071	2,412,292	2,487,363
	Total Premium Income for the Industry	6,252,608	8,614,618	14,867,226	7,494,087	9,366,408	16,860,495
	Insurance Brokers' contribution as a % of the total premium	0.75	26.03	15.40	1.00	25.75	14.75

Abbreviations

SLICL	:	Sri Lanka Insurance Corporation Ltd
NICL	:	National Insurance Corporation Ltd
CICL	:	Ceylinco Insurance Company Ltd
UAL	:	Union Assurance Ltd
EICL	:	Eagle Insurance Company Ltd
JICL	:	Janashakthi Insurance Company Ltd
COICL	:	Co-operative Insurance Company Ltd
AAICL	:	Asian Alliance Insurance Company Ltd
HAIGCL	:	Hayleys AIG Insurance Company Ltd
HNBAL	:	HNB Assurance Ltd

PART III

DIVISIONAL REPORTS

**CORPORATE
AFFAIRS DIVISION**

WHAT WE DO

- Inquire into and resolve complaints of policy-holders, brokers and agents.
- Examine annual and quarterly Financial Statements.
- Ensure compliance with good Corporate Governance Principles.
- Coordinate the work of Consultants.

WHAT WE DID

Complaints Handling

During the reporting period the Division received thirteen complaints. The following schedule depicts the complaints received by class of business:

Class of Insurance Business or Nature of Complaint	Number	Resolved By 31/12/2001	Pending
Fire Insurance	03	02	01
Motor Insurance	02	02	-
Broker Complaint	04	04	-
Burglary Insurance	01	-	01
Others	03	03	-
Total	13	11	02

The Division advised the parties involved in two complaints to resort to arbitration as provided in the policy documents. Two complaints were settled by the insurers. Another two complaints were disregarded as the request for further information was ignored. Five complaints were deemed to be outside the jurisdiction of the IBSL.

Promotion of Corporate Governance

A two-day workshop on Corporate Governance for the Insurance Sector was conducted by the Board in collaboration with the Securities and Exchange Commission and the Central Bank. The Commonwealth Secretariat sponsored this workshop.

Coordination of the work of Consultants

During the year under review the Board enlisted the services of two foreign Consultants from India and Singapore. The consultancies were sponsored through a World Bank grant.

The Consultants made recommendations with regard to reporting requirements; standards for actuarial assessment; valuation rules; statistical returns; assessment of financial strength; and risk profile of insurance companies.

The reports submitted by the Consultants formed the basis for preparing final drafts of the rules pertaining to solvency margins and reporting requirements.

Examination of Annual Reports

Out of the ten registered insurance companies 4 are listed on the Colombo Stock Exchange (CSE). As these companies are bound by CSE listing rules there is more disclosure released to the industry participants by them compared to the other six companies. With a view to promoting adequate disclosure and to maintain greater transparency the Board examined the feasibility of requesting all insurance companies to seek a listing on the Stock Exchange within a given time frame.

**MONITORING
AND
INVESTIGATIONS
DIVISION**

WHAT WE DO

- Deal with complaints regarding suspected irregular activities in the Insurance Industry.
- Conduct investigations into the possible violation of laws and regulations governing the Insurance Industry.

WHAT WE DID

The Division conducted a total of four investigations based on complaints received by the Board during the period under review. Out of these four complaints, one investigation was completed during the year.

The complaints referred to above related to violations of laws and regulations by Insurance Agents; untoward financial and operational activities of certain Insurance Brokers; and alleged fraudulent claims on Insurance Policies.

The investigation which was completed during the period under review was terminated due to insufficient evidence to establish the allegations made in the complaint against an Insurance Broker. However, the Supervision Division of the Board was requested to carry out an audit on the operational/financial status of the Insurance Broker in question since certain matters elicited during the course of the investigation gave rise to doubt as to whether the said Broking Firm is a going concern.

In addition to the investigations, the Division conducted a study on the present procedures and practices in relation to the annulment of Insurance Policies as well as extension of credit facilities.

The Division also gathered information and material regarding irregular activities prevalent in the Insurance Industry as a precursor to facilitating future investigations.

**LEGAL
AND
ENFORCEMENT
DIVISION**

WHAT WE DO

- Provide advisory services to the Board on legal matters.
- Formulate draft Rules and Regulations required to be made in terms of the Regulation of Insurance Industry Act.
- Draft amendments to the Regulation of Insurance Industry Act and subordinate legislation made thereunder.
- Process and recommend applications for registration of persons as insurers and insurance brokers to carry out insurance business in Sri Lanka.
- Liaise with the Attorney General's Department, Legal Draftsman's Department and Exchange Control Department of the Central Bank on relevant matters.

WHAT WE DID

During the period under review the Legal and Enforcement Division, amongst other things, handled the following matters:

➤ **New Registration of an Insurance Company**

The Board registered and issued a licence to HNB Assurance Ltd. as an insurer to carry on long-term and general insurance business.

➤ **Renewal of the Registration of Insurance Brokers**

Processed the renewal applications and renewed the registration of insurance brokers for the year 2002 after verifying their compliance with the relevant provisions of the Regulation of Insurance Industry Act No. 43 of 2000.

➤ **Tariff Revisions**

The tariff regime, which existed in respect of motor insurance business, was deregulated with effect from 1 January 2002. Therefore, subsequent to this date the minimum and maximum tariff rates will not apply in respect of

motor insurance. The issue of deregulating the minimum tariff rates applicable to fire and Workmen's Compensation is under consideration.

Terrorism Insurance cover in relation to private omnibuses – The Board having considered the representations made in respect of Terrorism Cover for commercial vehicles, the levels of current premia and the amount lying to the credit of the Strike, Riot, Civil Commotion & Terrorism Fund, decided to reduce the Terrorism Cover premium to 0.4% for all commercial vehicles with effect from 1 January 2002.

➤ **Matters connected with the Controller of Exchange**

At the request of the Board, the Controller of Exchange issued operating instructions to the authorized dealers to release foreign exchange for the payment of the following remittances on production of relevant documentary evidence:

- Transfer of technical service fees/actuarial fees/survey fees etc.
- Exemptions to BOI enterprises with regard to overseas policies
- Claims on marine policies
- Remittances of reinsurance

➤ **Maintenance of premia received in foreign currency in Savings or Interest Bearing Accounts**

The Controller of Exchange granted permission under the current exchange control procedures to insurers to maintain interest bearing foreign currency accounts in any Commercial Bank.

➤ **Rules /Determinations to be made by the Board**

Rules/regulations/determinations to be made by the Board in relation to the following matters were extensively reviewed by the Board in consultation with the industry:

- Competency Rules for Agents
- Investment Guidelines
- Formulation of Capital Adequacy Rules, Solvency Margins and Related Concerns

- Situations permitting annulment of Policies
- The Cess to be charged by Insurers

➤ **Clarification of Status of Pre-Existing Contracts on the Privatisation of National Insurance Corporation**

The parties involved in the privatisation transaction and the Public Enterprise Reforms Commission were advised by the Board on this issue.

➤ **Approval for the Association of Insurance Brokers**

The Board granted approval in October 2001 to the Sri Lanka Insurance Brokers' Association to function as an approved association of Insurance Brokers in terms of Section 79 of the Regulation of Insurance Industry Act.

➤ **Application Forms in respect of Registration of Insurers and Registration/Renewal of Insurance Brokers**

The Division devised the format and content of the necessary application forms.

➤ **External Assistance**

The Board enlisted the assistance of a lawyer from the Attorney-General's Department, a senior officer from the Legal Draftsman's Department, two local actuaries and two foreign consultants (under a World Bank grant) for various special assignments.

SUPERVISION DIVISION

WHAT WE DO

- Monitor the financial and operational performance of all Insurance Companies and Insurance Broking Companies.
- Ensure that Insurance Companies and Insurance Broking Companies maintain financial stability.
- Ensure that Insurance Companies and Insurance Broking Companies employ competent staff to conduct business.
- Conduct on-site routine inspections of Insurance Companies and Insurance Broking Companies and examine their books and records.
- Ensure that Insurance Companies and Insurance Broking Companies duly comply with the relevant laws and regulations.
- Ensure that there is fairness and a level playing field in the Insurance market.

WHAT WE DID

The Regulation of Insurance Industry Act requires all Insurance Companies to submit their Quarterly Returns within a month following the end of the quarter. The Audited Accounts and Annual Statutory Returns are required to be submitted to the Board within six months following the end of the financial year. Similarly, the Insurance Broking Companies are required to submit their Quarterly Returns within a month following the end of the quarter. The Division ensured that these Returns and Accounts were submitted to the Board within the stipulated period of time and where the companies concerned exceeded the time frame a final date was given for submission. The Division reviewed and compared the Audited Accounts and Annual Statutory Returns of Insurance Companies as at 31 December 2000 and where there were discrepancies, reconciliation statements were requested by the Board from the relevant companies. For the purpose of renewing the licences of Broking Companies, the Division reviewed the financial performance of these companies based on their Audited Accounts.

The Supervision Division reviewed the Quarterly Returns submitted for the three quarters ended 30 September 2001 for Insurance Companies and Insurance

Broking Companies. Returns from the Insurance Companies were found to be in order. It was noted that a few Broking Companies had exceeded the maximum level permitted for one company to place business with a single Insurance Company in terms of the Insurance Regulations. However considering the representations made by several Broking Companies regarding the practical difficulties in complying with the requirement (which was introduced in the aftermath of liberalization), it was decided not to insist on compliance with this requirement.

The Supervision Division checked whether 20% of the Technical Reserves of General Insurance Business and 30% of the Long Term Insurance Fund of the Long Term Insurance Business were invested in Government Securities by the Insurance Companies as required under the Act. The Solvency Margins of the Insurance Companies were also verified. This was done by analyzing the data available in the Audited Accounts and it was noted that the Investment Limits and Solvency Margin requirements had been duly complied with.

The Division carried out inspections of Insurance Companies based on the Audit Programme developed internally. Special emphasis was given to the long term and general files which covered policies in force and claims paid on matured policies or as and when a claim became due. A few weaknesses were noted and the relevant companies were informed so that necessary corrective action could be taken. The Division also visited a selected number of broking companies; one company was visited to conduct an overall study of the internal system which was found to be satisfactory, whilst two other companies were visited as a result of complaints received by the Board.

**PUBLIC
RELATIONS
AND
MARKET
DEVELOPMENT
DIVISION**

WHAT WE DO

- Handle Public Complaints.
- Handle International Relations.
- Handle Publications.
- Conduct training programmes for the Board Staff.

WHAT WE DID

Public Complaints

The Board entertained complaints from the public on disputes arisen mainly with insurance companies. A majority of these complaints were disputes on claim settlement. The complaints were referred to an interim committee established by the Director General to review the action to be taken with regard to public complaints received by the Board.

During the period under review, the Board received 12 complaints regarding insurance issues, details of which are given below:

Nature of Complaint	Total Number of complaints	Resolved by 31.12.01	Pending	Outside the jurisdiction of the Board
01 Non-payment of Insurance Commission to Agents by Insurance Companies	01	-	-	01
02 Non-payment of Insurance Claims	09	09	-	
03 Non-Recovery of Insurance Investment	01	01	-	
04 Non-settlement of Maturity Benefits	01	-	01	

The Board was able to intervene in all but in one instance and resolved 10 out of the 12 disputes.

International Relations

➤ **International Association of Insurance Supervisors (IAIS)**

The Board participated in the annual conference held in Bonn, Germany. Having obtained full membership, the Board benefited by receiving invitations for training programmes on Insurance organized by the regulators in Singapore and Japan.

➤ **Insurance Regulation Department, Bank Negara Malaysia**

A 10-day attachment programme with the Insurance Department of Bank Negara was arranged for three officials of the Board with emphasis on on-sight inspection.

➤ **Office of the Commissioner of Insurance, Hong Kong**

A 7-day attachment programme was arranged for four officials of the Board with emphasis on the regulation of the insurance industry.

➤ **South Asian Insurance Regulators' Forum**

The IBSL hosted and organized the inaugural meeting of the South Asian Insurance Regulators' Forum on 19 and 20 December 2001.

Insurance Regulators from India, Nepal, Maldives, Bhutan and Sri Lanka participated in the deliberations to adopt the constitution for the South Asian Insurance Regulators' Forum. Dr. Dayanath Jayasuriya, Director General of the Insurance Board of Sri Lanka, was elected as the Chairman of the Forum for the first year.

Seminars and Training Programmes

➤ **Consultation on the Insurance Industry**

A consultation on the Insurance Industry was held on 7 March 2001 with a view to initiating a dialogue with insurers, insurance brokers, selected agents

and other concerned parties on the current status of the industry. Various matters pertaining to the industry were discussed.

A follow up meeting was held on 4 October 2001 with all CEO's of insurance companies and representative of the Insurance Brokers Association to review the progress made on the matters discussed at the above Consultation.

➤ **Training Programmes for the IBSL Staff**

The IBSL conducted in-house training programmes for the benefit of the staff on technical issues. Representatives from insurance companies and experts in different fields made presentations.

Insurance Advertisements

The Division monitored insurance advertisements for compliance with section 99(3) of the Regulation of Insurance Industry Act. On several occasions the Board requested companies to comply with the above section.

Publications

The following were published during the period under review:

- Report on the Consultation on the Insurance Industry held in March 2001.
- Document Reproduction Series Nos. 5 & 6 of 2001.

UNIT ON POLICY DEVELOPMENT

WHAT WE DO

- Study legislative changes and engage in research required to facilitate the development of the insurance industry.
- Undertake comparative surveys and analyses in order to ascertain shortcomings in existing laws and regulations.
- Compile surveys to clarify the existing situation with regard to various concepts and procedures.
- Provide information backstopping services to Divisions with regard to regional and international trends and developments in insurance regulation.

WHAT WE DID

During the year under review, the Unit, amongst other things, handled the following:

➤ **Consultation on the Insurance Industry**

The new Act came into force with effect from the 1 March, 2001. Having realized the need to obtain the views of the industry with regard to the new legislation, the Board held a consultation with the Insurance participants 7 March 2001. Representatives of insurance companies, brokers, agents and Government institutions participated in the discussions on current and emerging issues of concern. A comprehensive report was prepared by the Unit setting out the discussions, findings and conclusions. This report was used as the basis to make decisions with regard to the future of insurance regulation in Sri Lanka.

➤ **Information for the Board Web-site**

Information was gathered on the corporate profiles of insurance companies and brokers to be made available on the newly created Board web-site. (www.ibsl.gov.lk)

➤ **Research on Re-insurance Practices in Sri Lanka**

The Board is entrusted under the new Act to ensure the protection of policyholders under reinsurance arrangements made by insurance companies with overseas insurance companies, and to ensure that such arrangements are not detrimental to the national interest.

The Unit undertook research with regard to the various reinsurance policies and practices adopted by other countries, in order to facilitate the formulation of the Board's own national policy pertaining to overseas reinsurance arrangements.

➤ **Formulation of Rules pertaining to Insurance Agents**

A questionnaire was circulated to insurance companies and Insurance brokers relating to the appointment and training of insurance agents. Based on the submissions received, the Unit drafted and finalized the new draft Rules pertaining to the appointment, qualifications and continuous training of insurance agents.

The Regulation of Insurance Industry Act permits the appointment only of individuals as insurance agents. The Board received representations to introduce 'institutional agents' instead of individuals, in order to broaden the scope of insurance agents. Therefore, in order to consider the feasibility of introducing this amendment to the Act, the views of insurers, brokers, agents, policyholders and the public were called for. The Unit analysed the responses that were received.

➤ **Study of Insurance Legislation in other countries**

Summaries and comparisons were made of the Insurance legislation of the UK, Singapore and also the Takaful Act of Malaysia, in order to recommend improvements to the existing insurance legislation of Sri Lanka.

FINANCE AND ADMINISTRATION DIVISION

WHAT WE DO

- Financial control and budgeting including preparation of monthly, quarterly, and annual accounts.
- Deal with Personnel Matters.
- Supervise general maintenance and upkeep of the Secretariat.
- Handle purchases.
- Handle publication of reports and submission of the Annual Report to the Parliament.

WHAT WE DID

Staffing

In the first nine months of operations no permanent appointments were made with the exception that of the Director General.

The staff of the SEC, being well trained in regulatory aspects of the securities market, handled the work of the Board. Both local as well as foreign training was provided to the staff.

The SEC Secretariat was requested to draft legislation to establish a 'Single Regulator'.

Training

The staff attended a few local and foreign training courses pertaining to insurance. The areas of training included insurance regulation; on-site and off-site inspections; complaints resolution; solvency margin; and early warning systems.

Consultants specialized in the areas of General Insurance and Long Term Insurance were recruited to assist the Board. They too provided general training to the staff. The Board had the benefit of the services of two consultants under a World Bank grant. The services of two senior lawyers-one from the Attorney

General's Department and the other from the Legal Draftsman's Department were obtained on a part-time basis.

Funding

The operational expenses of the Board were covered from the funds received from the Consolidated Fund.

With a view to minimising the reliance on the Consolidated Fund, the Board decided to introduce a levy on insurance business as provided for in the legislation. The Board proposed to the Minister of Finance that a Cess of 0.2% and 0.4% be introduced on Long Term Insurance and General Insurance, respectively. However, the relevant order had not come in to effect as at 31 December 2001.

Administration

The Division designed and printed the documentation for the day-to-day operations of the Board and assisted in the development of software programmes.

CALENDAR OF EVENTS



A consultation on the Insurance Industry was held for one hundred participants.

Presentations were conducted for the Board staff on:

- The New Regulation of Insurance Industry Act
- Fire Insurance
- General Insurance
- Role of the Insurance Corporation: Its History and Operations



Presentations were conducted for the Board staff on:

- Role of the National Insurance Corporation in the Insurance Industry
- Co-operative Insurance Company and Insurance Institute of Sri Lanka
- Role of the Ceylinco Insurance Company in the Insurance Industry



A booklet on the "Consultation on the Insurance Industry" was released.

Presentations were conducted for the Board staff on:

- Role of Union Assurance in the Insurance Industry
- Role of Asian Alliance in the Insurance Industry



Presentations were conducted for the Board staff on:

- Role of the Hayleys AIG Insurance Company in the Insurance Industry
- Role of the Janashakthi Insurance Company in the Insurance Industry
- Role of Intermediaries in the Insurance Industry



Presentations were conducted for the Board staff on:

- Role of Loss Adjusters in the Insurance Industry
- Motor Insurance



Presentation were conducted for the Board staff on:

- Role of Eagle Insurance Co. Ltd. in the Insurance Industry
- Re-Insurance
- Life Insurance



Meeting with all CEO's of Insurance Companies and representatives of the Insurance Brokers' Association.

A presentation was held for the Board staff on:

- Marine Insurance and Recent Developments



Meeting with representatives of the Insurance Association and Consultant Actuaries with regard to the Draft Solvency Margin Regulations.



The first meeting of the South Asian Insurance Regulators' Forum was held in Colombo.

ANNEXURES

I. STATISTICAL PROFILE

MACRO ECONOMIC INDICATORS

	1997	1998	1999	2000	2001
Population (in thousands persons)	18,552	18,774	19,043	19,359	18,732
Labour force (in thousands)	6,266	6,661	6,673	6,827	6,730
Employment (in thousands)	5,608	6,049	6,082	6,310	6,207
Unemployment (in thousands)	658	611	510	524	518
Gross Domestic Product (GDP) at market prices (in billion rupees)	890	1,018	1,106	1,256	1,400
Gross National Product (GNP) at market prices (in billion rupees)	880	1,002	1,090	1,234	1,377
Total Assets of the Financial System (in billion rupees)	518	588	672	789	857
Exchange Rate per US\$ (in rupees)	58.99	64.59	70.39	75.78	89.36

INSURANCE KEY INDICATORS

No. of registered insurers	1997	1998	1999	2000	2001
Long term insurance	1	1	1	-	-
General insurance	1	1	1	-	-
Long term and General insurance	5	6	8	9	10
Total number of branches	262	270	285	293	303
Total Number employed by insurers	6,242	6,496	6,919	6,983	6,712

Premium Income (in thousand rupees)

	1997	1998	1999	2000	2001
Long Term Insurance	4,166,493	4,875,863	5,453,919	6,252,608	7,494,087
General Insurance	6,593,596	7,110,672	7,761,849	8,614,618	9,366,408
Total Premium Income	10,760,089	11,986,535	13,215,768	14,867,226	16,860,495
Total premium as a % of GDP	1.22	1.20	1.21	1.18	1.20
Per Capita Contribution on insurance (in Rs.)	580	638	694	768	900

Insurance Penetration

	1997	1998	1999	2000	2001
Total No. of Long Term Insurance Policies	751,950	829,548	863,933	931,609	986,061
Penetration as a % of the Population	4.1	4.4	4.5	4.8	5.3
Total No. of General Insurance Policies	1,030,608	1,140,062	1,210,698	1,260,217	1,373,843
Penetration as a % of the Population	5.6	6.1	6.4	6.5	7.3
Penetration of Long Term and General	9.7	10.5	10.9	11.3	12.6

Assets of Insurance Companies (in million rupees)

	1997	1998	2000	1999	2001
Long Term Insurance	15,407,099	18,442,274	26,545,991	22,978,091	32,990,019
General Insurance	11,261,054	11,979,386	15,490,295	13,510,291	18,459,112
Total Assets (in million rupees)	26,668,153	30,421,660	42,036,286	36,488,382	51,449,131
Total Assets as a % of GDP	3.03	2.99	3.34	3.29	3.67
Total Assets as a % of Assets of the Financial System	5.17	5.21	5.39	5.36	6.00

LONG TERM INSURANCE
New Business

	1997	1998	1999	2000	2001
Number of Policies	242,003	323,024	203,448	215,496	228,157
Sums Assured (in thousand rupees)	22,382,257	24,076,023	22,720,605	29,189,350	34,479,405
Total Premium (in thousand rupees)	1,485,676	1,562,048	1,605,536	2,186,224	2,744,974

Business in Force

Number of Policies	751,950	829,548	863,933	931,609	986,061
Sums Assured (in thousand rupees)	64,514,344	72,758,052	78,705,711	95,848,872	143,358,917
Annual Premium (in thousand rupees)	4,166,493	4,875,863	5,453,919	6,252,399	6,868,212

Net Policy Benefits (in thousand rupees)	1,472,870	1,776,895	2,284,349	2,741,856	3,172,276
Net Investment Income (in thousand rupees)	1,593,706	1,744,138	2,173,448	2,805,407	4,156,852

GENERAL INSURANCE

Premium (in thousand rupees)	1997	1998	1999	2000	2001
Gross Written Premium	6,593,596	7,110,672	7,761,849	8,614,618	9,366,408
Reinsurance Premium	2,692,554	2,950,395	2,999,248	2,922,112	3,139,677
Net Premium	3,901,042	4,160,277	4,762,601	5,692,506	6,226,731
Retention Ratio (%)	59.16	58.51	61.36	66.08	66.48
Earned Premium	3,614,641	4,178,688	4,616,057	5,147,389	6,172,842

**Gross Written Premium
(in thousand rupees)**

	1997	1998	1999	2000	2001
Fire	1,598,216	1,846,904	1,912,212	2,034,780	2,339,829
Marine	724,761	679,534	706,656	848,250	809,547
Motor	2,332,835	2,739,819	3,160,937	3,533,619	3,774,471
Miscellaneous	1,937,784	1,844,415	1,982,044	2,197,969	2,442,561
Total Gross Written Premium	6,593,596	7,110,672	7,761,849	8,614,618	9,366,408

**Reinsurance Premium
(in thousand rupees)**

Fire	1,244,685	1,393,506	1,408,244	1,524,421	1,686,421
Marine	372,819	330,306	359,656	485,003	445,694
Motor	516,106	681,997	758,972	219,663	198,587
Miscellaneous	558,944	544,585	472,375	642,429	808,975
Total Reinsurance Premium	2,692,554	2,950,394	2,999,247	2,871,516	3,139,677

**Net Written Premium
(in thousand rupees)**

Fire	353,531	453,398	503,968	490,210	653,408
Marine	351,942	349,228	346,999	336,881	363,853
Motor	1,816,729	2,057,822	2,401,965	3,311,912	3,575,884
Miscellaneous	1,378,840	1,299,829	1,509,669	1,553,503	1,633,586
Total Net Written Premium	3,901,042	4,160,277	4,762,601	5,692,506	6,226,731

**Claims
(in thousand rupees)**

Gross Claim	2,892,996	3,178,649	3,679,631	4,548,691	4,688,939
Net Claims	1,574,855	1,998,121	2,374,010	2,744,727	3,467,030

Claims Ratio (%)

	1997	1998	1999	2000	2001
Fire	28.6	23.1	26.3	28.0	30.0
Marine	16.8	31.7	26.2	29.2	19.2
Motor	67.7	69.1	74.1	67.0	67.6
Miscellaneous	51.7	55.6	69.3	53.4	72.2
Overall	52.5	55.4	63.1	55.9	60.8

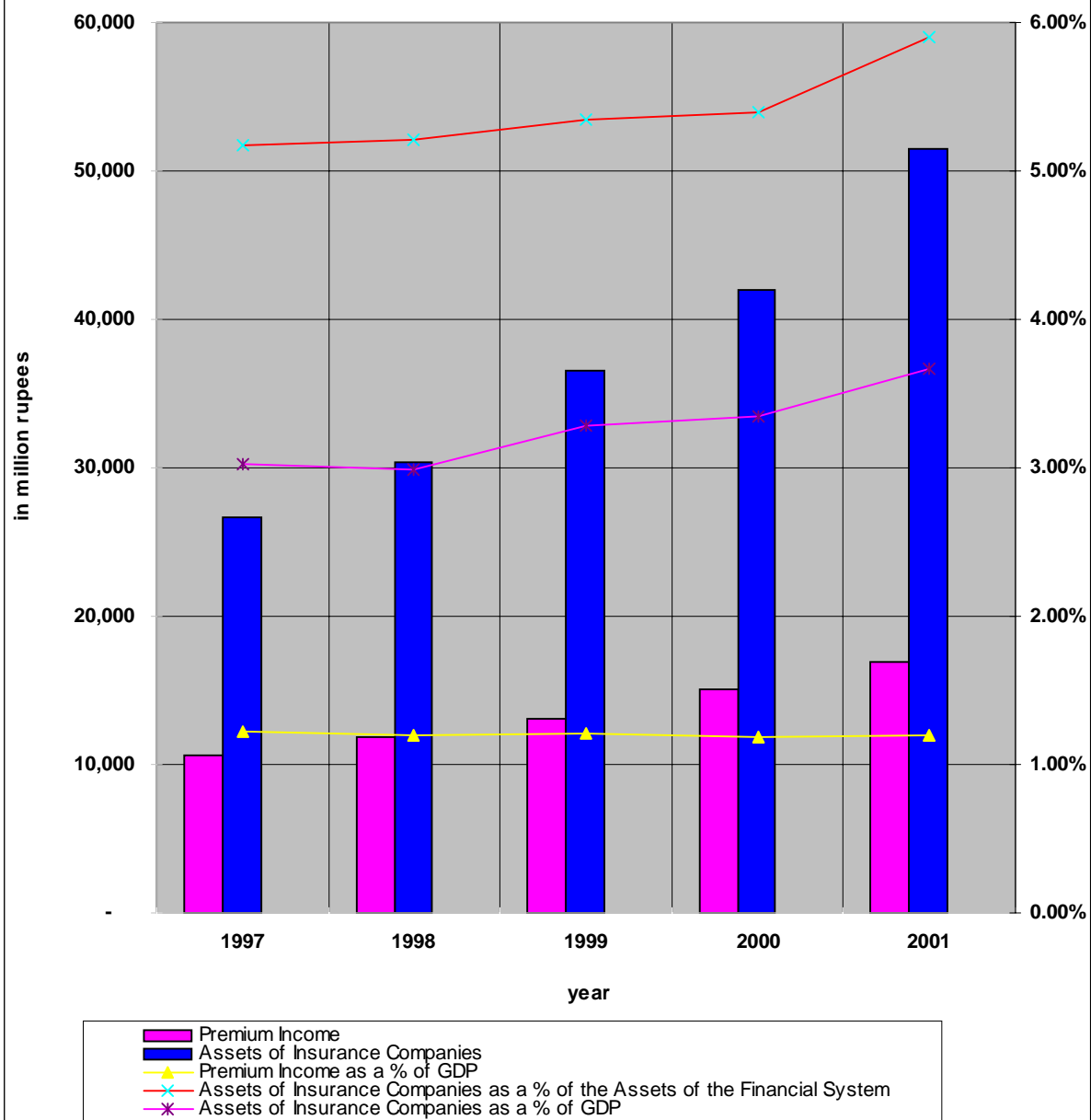
Underwriting Results (%)

Claim Ratio	52.5	55.4	63.1	55.9	60.8
Management Expense Ratio	35.3	32.5	31.2	30.1	30.0
Net Commissions Ratio	-2.4	-2.6	-1.0	0.5	0.5
Underwriting Margin	14.6	14.61	6.8	13.5	8.7
	100.0	100.0	100.0	100.0	100.0

**Operating Results
(in thousand rupees)**

Underwriting Profit/ (Loss)	347,998	294,935	47,993	332,474	(4,343)
Investment Income (Net)	307,303	605,706	742,016	565,851	1,881,591
Operating Profit/ (Loss)	655,301	900,641	790,009	898,325	1,877,248

Total Premium and Assets of Insurance Companies



II. GLOSSARY

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 insurances to cover the expected cost of losses that have occurred but have not yet been reported to the insurer.

Claims Outstanding Reserve

The amount provided, including claims incurred but not reported and claims handling expenses, to cover estimated ultimate cost, or if discounting technique are used, its equivalent of settling claims, arising out of events which have occurred by the end of the accounting period, less amounts already paid in respect of those claims.

Deferred Acquisition Cost

Acquisition expenses which are carried forward from one accounting period to the next.

Earned Premiums

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

General Insurance Business

Fire, marine, motor or miscellaneous insurance business carried on singly or in combination with one or more of them.

Gross Written Premium

Total premiums received or due from all sources, including premiums for reinsurance assumed in respect of general insurance business, during an accounting period.

Insurer

A company incorporated as a public company under the Companies Act No.17 of 1982 and registered as an insurer under the Regulation of Insurance Industry Act No. 43 of 2000.

Long Term Insurance Business

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

Maturity

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

Net Claims Ratio or Net Loss Ratio

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

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

Net Earned Premium (General Insurance Business)

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

Policy

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

Policy Holder

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 on the security of a life insurance policy.

Premium

The consideration payable by an insured for an insurance.

Operating Profit

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

Reinsurance

The transfer of insurer's liability incurred under any contract or policy of insurance, to a reinsurer.

Underwriting Profit

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

Unearned Premium

It represents 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.

