

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”



INSURANCE BOARD OF SRI LANKA

2ND ANNUAL REPORT 2002

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MEMBERS OF THE BOARD

Dr. Nihal Jinasena
Board Member



Mr. Faiz Mohideen
Board Member



Mr. P M Nagahawatte
Board Member



Dr. Dayanath C Jayasuriya
Board Member



Mr. H L A de Silva
Board Member
(from May 2002)



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 of Sri Lanka (hereinafter referred to as the RII Act). The Insurance Board of Sri Lanka (hereinafter referred to as the Board) was established under the RII Act.

The following Rules were enacted and published in the gazette in terms of the powers vested with the Board under the RII Act:

- (i) Rules on the Qualification of Insurance Agents and Register of Insurance Agents under section 78 of the RII Act by Gazette Notification No. I 255/3 of 23rd September 2002.
- (ii) Rules on Solvency Margin (Long Term Insurance) under section 26 of the RII Act by Gazette Notification No. I 255/12 of 24th September 2002.

The Board made determinations with regard to a number of matters (Annexure).

LICENSING AND MARKET STRUCTURE

At the end of the year 2002, there were eleven composite insurance companies carrying on both long term insurance business and general insurance business. Amana Takaful Ltd is the only composite insurance company that was licensed during the year 2002.

Two new insurance brokers were registered under the RII Act in 2002 thus bringing the total number of insurance brokers, to thirty six. The registrations of thirty four insurance brokers were renewed during the year 2002. In terms of the RII Act, all insurance brokers are required to be members of an association of insurance brokers, approved by the Board. The Sri Lanka Insurance Brokers' Association (SLIBA) is the only association approved by the Board for this purpose.

INSURANCE AGENTS

In terms of the RII Act, Rules relating to the qualifications required for the appointment of insurance agents were published in the Government Gazette and arrangements have already been made with the Sri Lanka Insurance Institute to conduct the pre-recruitment test for candidates who are to be appointed by insurers and insurance brokers as insurance agents. Additionally, the format of the Register of insurance agents to be maintained by the insurers and insurance brokers has been Gazetted. The Board has commenced the compilation of a Register of Agents.

**ADMINISTRATION
OF THE
REGULATION
OF INSURANCE
INDUSTRY ACT
(Contd)**

COMPANY STATUS AND CHANGES IN EQUITY

In terms of the provisions of the RII Act, it is required that a company should be incorporated as a public company under the Companies Act No. 17 of 1982, in order to register as an insurance company under the RII Act. Action is being taken to enact regulations to increase the issued share capital of insurance companies from the present level of Rs. 25 million for long term insurance business and Rs. 50 million for general insurance business.

Out of the eleven Insurance Companies only four companies i.e. Ceylinco Insurance Company Ltd, Eagle Insurance Company Ltd, Union Assurance Ltd, and Asian Alliance Insurance Company Ltd, are listed on the Board of the Colombo Stock Exchange.

The Controller of Exchange has allowed foreign equity participation in Insurance Companies upto 100% in terms of the Gazette Notification No. 1232/14 of 19th April 2002.

SOLVENCY MARGIN

Rules have been Gazetted relating to the minimum solvency margin that should be maintained for long term insurance business by the insurers. In terms of the Rules, the insurers are required to maintain a minimum solvency margin where the difference between the assets and liabilities is not less than *five per centum* of the value of liabilities of long term insurance policies based on the actuarial valuation. Rules for the minimum solvency margin for general insurance business have been drafted and submitted to the insurers for their comments.

LEVY OF CESS FROM INSURANCE COMPANIES

In terms of section 7(2) of the RII Act, an order was made by the Hon. Minister of Finance for the levy of the cess at the rate of 0.2% of the total nett premium of long term insurance business and 0.4% of the total nett premium of general insurance business. This was published in Gazette Notification No. 1244/5 on 9th July 2002. The insurers are required to remit the cess on a quarterly basis with effect from 9th January 2003.

POLICY HOLDERS' PROTECTION FUND

The cess collected from the insurance companies will be deposited into the Policy Holders' Protection Fund that is to be established under the RII Act.

Rules are being drafted under the RII Act for the utilization of the monies lying to the credit of the Fund.

**ADMINISTRATION
OF THE
REGULATION
OF INSURANCE
INDUSTRY ACT
(Contd)**

INSURANCE TARIFF

Fire Insurance and Workmen's Compensation are tariff based. Last year, the Board by press notification invited the public, the insurance industry and other interested parties to submit their views in order to revise the fire tariff. There were concerns that the premium rates charged on fire insurance appeared to be high. Additionally, the fire tariff had not been revised for more than 40 years.

Based on the representations made to the Board, the Board appointed a Committee in October 2002 consisting of members from the insurance industry with a wide experience in the field of fire insurance in order to revise the fire tariff. As the committee felt that the revision of the fire tariff should be based on reliable statistics relating to fire insurance for a period of three years, action was taken by the Board to collect statistics on fire insurance for the years 1999, 2000 and 2001 from the insurers.

With a view to revising the tariff on Employees' Liability Insurance, the views of the public, the insurance industry and other interested parties were invited by press notification to send their comments.

**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 collected in respect of risks covered by them against strike, riot, civil commotion and terrorism. The Board in terms of the directive issued by the Secretary to the Ministry of Finance in August 2001 regulates the activities of the Fund.

As at 31st December 2001 the accumulated amount in the SRCC&T Fund was approximately Rs. 10.5 billion.

OTHER RELATED MATTERS

Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka was established in 1989. Every insurance company registered under the RII Act is eligible for membership of the Association.

**ADMINISTRATION
OF THE
REGULATION
OF INSURANCE
INDUSTRY ACT
(Contd)**

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.

Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association is the only association of insurance brokers that has been approved by the Board and all insurance brokers are members of this Association. In terms of Section 79 of the RII Act, it is mandatory that all the registered insurance brokers and all applicants 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.

SLIBA maintains a very cordial relationship with the Board.

Sri Lanka Insurance Institute (SLII)

The Sri Lanka Insurance Institute was established in 1982. It is a non-profit making organization 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 collected from contributions paid by the insurance companies and the annual subscriptions from the members. The Institute conducts lectures for those who are preparing for the examinations of the Chartered Insurance Institute of London, Insurance Institute of Australia and the 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 for persons who are employed in the insurance industry.

The Board has approved the syllabus and course content for the pre-recruitment test for the candidates who are to be appointed as insurance agents by insurers and insurance brokers.

South Asian Insurance Regulators' Forum (SAIRF)

The South Asian Insurance Regulators' Forum was established in the year 2001. The members of this forum are Sri Lanka, India, Nepal, Bhutan and Maldives. Pakistan became a member in the year 2002.

**ADMINISTRATION
OF THE
REGULATION
OF INSURANCE
INDUSTRY ACT
(Contd)**

Dr. Dayanath Jayasuriya, Director General of the Insurance Board of Sri Lanka served as the Chairman of the Forum until his term expired on 20th December 2002. Mr. Nambi Rangachary, Chairman, Insurance Regulatory and Development Authority of India succeeded him. Mr. Sonam Wangchuk, Managing Director, Royal Monetary Authority of Bhutan, Mr. Narayan Prashad Silwal, Chairman, Beema Samiti (Insurance Board) of Nepal, Mr. Ibrahim Naeem, Assistant General Manager of the Monetary Authority of Maldives and Mr. Khalid A. Mirza, Chairman, Securities and Exchange Commission of Pakistan continued as Vice-Chairmen during the year 2002.

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

A Seminar was organized jointly by the Forum and the Board on the "Concepts, Principles and Operations relating to Islamic Insurance and Banking" on 26th and 27th September 2002. The objective of this Consultation was to create a better awareness of Islamic Banking and Insurance Principles to the participating nations. The Consultation was evidence of the rapidly gaining popularity of Islamic Insurance, incorporating a framework for its development as well as the prospect of absorbing its principles into the conventional banking and insurance system. Resource persons from Malaysia and Singapore who are actively involved in Islamic Insurance and Banking, addressed the Seminar. Delegates from Nepal, Bhutan, Maldives, Pakistan, Bangladesh and Sri Lanka participated.

The Insurance Regulatory and Development Authority of India organized two training seminars based on "Recent Developments in the South Asian Insurance Regulatory Framework and Disseminating and Creating Awareness of New Regulatory Mechanisms within South Asian countries" for South Asian Insurance Regulators at the National Insurance Academy in Pune and "Insurance and Risk Management" for insurance supervisors in Hyderabad.

The Forum published a monograph titled "Legal and Regulatory Framework Relating to Insurance in South Asian Countries". The publication is a comparative study covering India, Nepal, Bhutan and Sri Lanka with an overview of specific legislation relating to the insurance sector.

PART II

PERFORMANCE OF THE INSURANCE INDUSTRY

**PERFORMANCE OF
THE INSURANCE
INDUSTRY
DURING THE
YEAR 2002**

PREMIUM INCOME

The combined premium income for the year from long term insurance business and general insurance business was Rs.20,281 million (2001: Rs.16,680 million) which shows 20.3% increase when compared with that of the previous year. The major contribution of Rs.11,599 million or 57.2% (2001: 55.6%) of the premium income was generated from general insurance business and the balance premium income of Rs.8,682 million or 42.8% (2001: 44.4%) came from long term insurance business which shows a higher growth in premium in general insurance business than the long term insurance business (Table I).

Table I

Premium Income
(in million rupees)

	1997	1998	1999	2000	2001	2002
Long Term Insurance	4,166	4,876	5,453	6,252	7,494	8,682
General Insurance	6,594	7,111	7,762	8,615	9,366	11,599
Total Premium Income	10,760	11,987	13,215	14,867	16,860	20,281
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	20.3

PERFORMANCE OF LONG TERM INSURANCE BUSINESS

Premium Income and Market Share

A total premium income of Rs.8,682 million (2001: Rs.7,494 million) for the year shows a lower growth rate of 15.9% in respect of long term insurance business when compared with the growth rate of 19.9% for the previous year. Sri Lanka Insurance Corporation Ltd with a premium income of 2,789 million (2001: Rs.2,527 million) accounted for 32.12% (2001: 33.72%) of the market share and is still continuing as the leader though it is gradually losing its market share. Ceylinco Insurance Company Ltd with a premium income of Rs.2,360 million (2001: 2,092 million) accounted for 27.18% (27.90%) of the market share and takes the lead among the private insurance companies, closely followed by Eagle Insurance Company Ltd with a market share of 21.05% (2001: 21.57%) based on the premium income of Rs.1,827 million (2001: Rs.1,617 million). The other eight insurers account for 19.65% of the market share with a premium income of Rs.1,706 million (Table 2 and Chart I).

Table 2

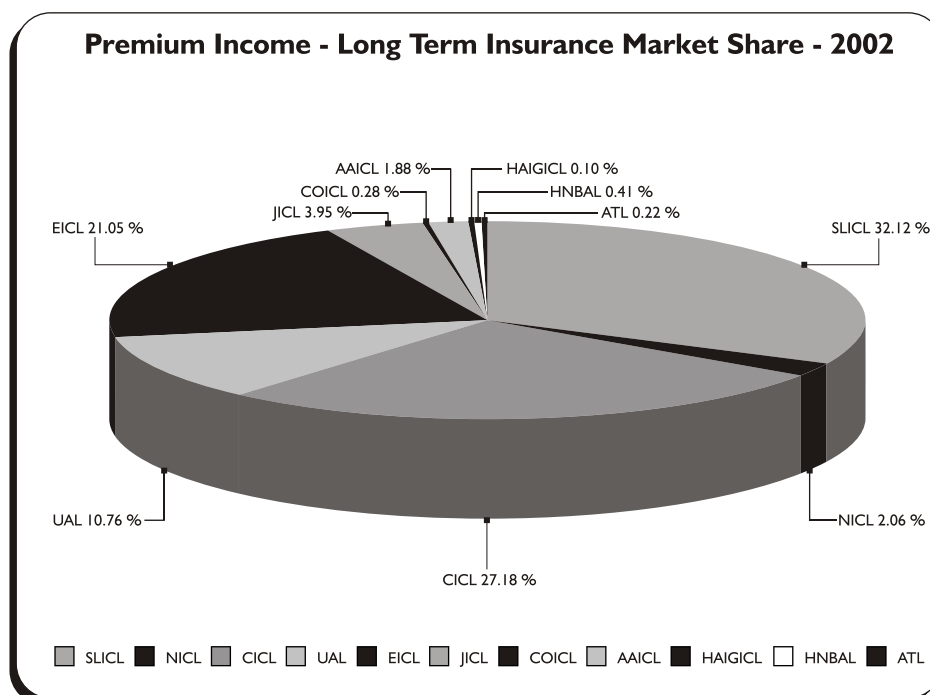
PREMIUM INCOME - LONG TERM INSURANCE
(RS.'000)

Company	1997		1998		1999		2000		2001		2002	
	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%
SLICL	1,623,724	39.0	1,906,119	39.1	2,064,863	37.9	2,260,288	36.1	2,526,814	33.7	2,788,636	32.12
NICL	148,853	3.6	168,314	3.5	163,061	3.0	179,444	2.9	184,308	2.5	178,475	2.06
CICL	990,491	23.8	1,155,928	23.7	1,312,434	24.1	1,428,052	22.8	2,091,907	27.9	2,359,671	27.18
UAL	323,460	7.8	401,113	8.2	495,040	9.1	701,957	11.2	730,417	9.7	934,147	10.76
EICL	916,675	22.0	1,056,839	21.7	1,185,481	21.7	1,386,325	22.2	1,616,758	21.6	1,827,208	21.05
JICL	163,290	3.9	187,550	3.8	231,400	4.2	280,600	4.5	284,008	3.8	343,000	3.95
COICL	-	-	-	-	1,640	0.0	9,000	0.1	11,700	0.2	24,519	0.28
AAICL	-	-	-	-	-	-	6,942	0.1	45,902	0.6	163,280	1.88
HAIGICL	-	-	-	-	-	-	-	-	2,273	0.0	8,620	0.10
HNBAL	-	-	-	-	-	-	-	-	-	0.0	35,297	0.41
ATL	-	-	-	-	-	-	-	-	-	0.0	19,439	0.22
TOTAL	4,166,493	100	4,875,863	100	5,453,919	100	6,252,608	100	7,494,087	100	8,682,292	100
% Increase	18.8		17.0		11.9		14.6		19.9		15.9	

Abbreviations

SLICL : Sri Lanka Insurance Corporation Ltd
 CICL : Ceylinco Insurance Company Ltd
 EICL : Eagle Insurance Company Ltd
 COICL : Co-operative Insurance Company Ltd
 HAIGICL : Hayleys AIG Insurance Company Ltd
 ATL : Amana Takaful Ltd

NICL : National Insurance Corporation Ltd
 UAL : Union Assurance Ltd
 JICL : Janashakthi Insurance Company Ltd
 AAICL : Asian Alliance Insurance Company Ltd
 HNBAL : HNB Assurance Ltd



PERFORMANCE OF GENERAL INSURANCE BUSINESS

Gross Written Premium

Out of the total Gross Written Premium of Rs. 11,599 million (2001: Rs. 9,366 million) for the year, motor insurance with a premium income of Rs. 4,498 million (2001: Rs. 3,774 million) accounted for 38.78% (2001: 38.88%) while miscellaneous insurance with the premium income of Rs. 3,682 million (2001: Rs. 2,442) accounted for 31.74% (2001: 30.88%) of the gross written premium followed by fire insurance with a premium income of Rs. 2,476 million (2001: 2,340 million) and marine insurance with a premium income of Rs. 943 million (2001: 810 million) accounted for 21.35% (2001: 24.98%) and 8.13% (8.64%) respectively. It is observed that there was a substantial increase of premium income amounting to 50.59% in respect of miscellaneous insurance when compared with the previous year's increase of 11.13%. Motor insurance and marine insurance also recorded an increase of 19.18% and 16.47% respectively, when compared with the previous year (Table 3 and Chart 2).

Table 3

Distribution of 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	1,912,212	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
2002	2,475,897	942,868	4,498,495	3,682,139	11,599,399

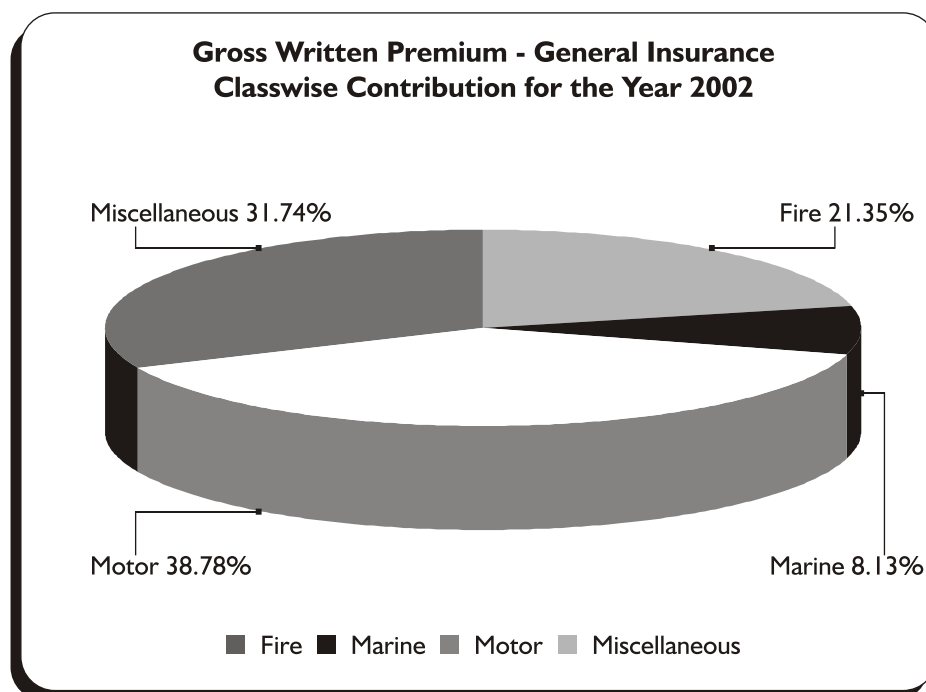
% CHANGE

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	10.7	10.47
2001	16.40	-3.87	6.97	11.32	9.23
2002	5.82	16.47	19.18	50.75	23.84

% SHARE

1998	25.97	9.56	38.53	25.94	100
1999	24.64	9.1	40.72	25.54	100
2000	23.44	9.82	41.15	25.59	100
2001	24.98	8.64	40.30	26.08	100
2002	21.35	8.13	38.78	31.74	100

Chart 2



Market Share of Gross Written Premium

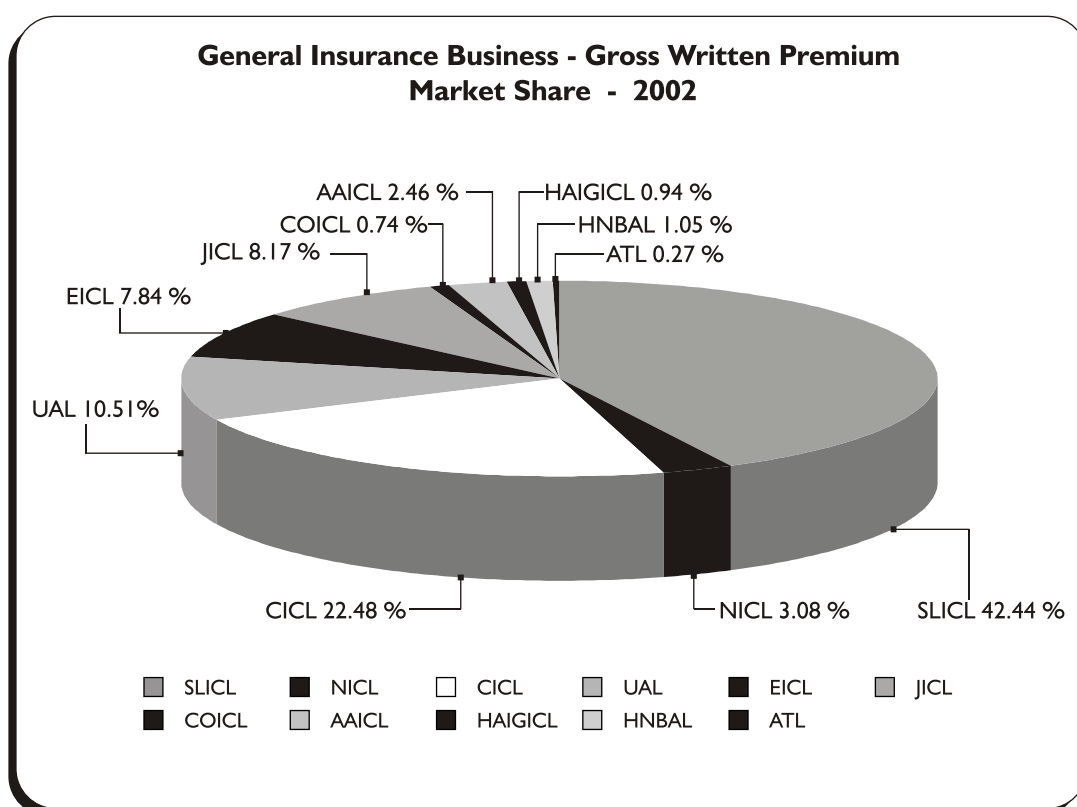
A total Gross Written Premium of Rs.11,599 million in respect of general insurance shows a substantial increase of 23.8% for the year when compared with the previous year's increase of 8.7%. Sri Lanka Insurance Corporation Ltd with a gross written premium of Rs.4,923 million continued as the leader to maintain more or less the same market share of 42.4% (2001: 42.3%). Ceylinco Insurance Company Ltd accounted for 22.5% (Rs.2,607 million) of the market share followed by Union Assurance Ltd with 10.5% (Rs.1,219 million), Janashakthi Insurance Company Ltd with 8.2% (Rs.948 million) and Eagle Insurance Company Ltd with 7.8% (Rs.910 million). The other six insurance companies accounted for the balance market share of 8.6% (Rs.992 million), (Table 4 and Chart 3).

Table 4

GENERAL INSURANCE BUSINESS
Gross Written Premium - Market Share - 2002
(RS.'000)

Company	1997		1998		1999		2000		2001		2002	
	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%
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	4,922,866	42.4
NICL	301,158	4.6	411,876	5.8	507,523	6.5	580,863	6.7	549,809	5.9	357,684	3.1
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	2,607,339	22.5
UAL	853,378	12.9	888,998	12.5	967,153	12.5	1,018,085	11.8	1,132,730	12.1	1,218,997	10.5
EICL	489,030	7.4	598,512	8.4	666,823	8.6	686,112	8.0	730,511	7.8	909,883	7.8
JICL	255,326	3.9	350,213	4.9	472,189	6.1	536,450	6.2	718,235	7.7	947,971	8.2
COICL	-	-	2,325	-	39,711	0.5	59,195	0.7	60,650	0.6	85,482	0.7
AAICL	-	-	-	-	4,606	0.1	165,443	1.9	244,738	2.6	285,607	2.5
HAIGICL	-	-	-	-	-	-	39,821	0.5	61,602	0.7	109,554	0.9
HNBAL	-	-	-	-	-	-	-	-	11,785	0.1	122,233	1.1
ATL	-	-	-	-	-	-	-	-	-	-	31,783	0.3
TOTAL	6,593,596	100	7,110,672	100	7,761,849	100	8,614,618	100	9,366,408	100	11,599,399	100
% Increase	-		7.8		9.2		11.0		8.7		23.8	

Chart 3



Reinsurance and Retention of Gross Written Premium

Retention of gross written premium of general insurance business for the year after the reinsurance cession was 63.88% when compared with previous year's retention of 66.48%. A very high retention of 92.20% of the gross written premium was observed in respect of Motor Insurance followed by Miscellaneous with retention of 67.89% and Marine Insurance with retention of 38.45%. Fire Insurance accounted for the lowest retention level of 16.14% (Table 5).

Table 5

Gross Written Premium (In thousand rupees)

	1997	1998	1999	2000	2001	2002
Fire	1,598,216	1,846,904	1,912,212	2,034,780	2,339,829	2,475,897
Marine	724,761	679,534	706,656	848,250	809,547	942,868
Motor	2,332,835	2,739,819	3,160,937	3,533,619	3,774,471	4,498,495
Miscellaneous	1,937,784	1,844,415	1,982,044	2,197,969	2,442,561	3,682,139
Total Gross Written Premium	6,593,596	7,110,672	7,761,849	8,614,618	9,366,408	11,599,399

Reinsurance Premium

Fire	1,244,685	1,393,506	1,408,244	1,524,421	1,686,421	2,076,360
Marine	372,819	330,306	359,656	485,003	445,694	580,348
Motor	516,106	681,997	758,972	219,663	198,587	350,853
Miscellaneous	558,944	544,585	472,375	642,429	808,975	1,182,228
Total Reinsurance Premium	2,692,554	2,950,394	2,999,247	2,871,516	3,139,677	4,189,789

Nett Premium Written (Retention)

Fire	353,531	453,398	503,968	490,210	653,408	399,537
Marine	351,942	349,228	346,999	336,881	363,853	362,520
Motor	1,816,729	2,057,822	2,401,965	3,311,912	3,575,884	4,147,642
Miscellaneous	1,378,840	1,299,829	1,509,669	1,553,503	1,633,586	2,499,911
Total Net Written Premium	3,901,042	4,160,277	4,762,601	5,692,506	6,226,731	7,409,610

Retention as a % of the Gross Written Premium

YEAR	FIRE	MARINE	MOTOR	MISC.	OVERALL
1997	22.12	51.44	77.88	71.16	40.84
1998	10.9	51.39	75.11	70.47	58.51
1999	10.58	49.1	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
2002	16.14	38.45	92.20	67.89	63.88

Special Studies Undertaken During the Year

Fire Insurance

A Committee was appointed by the Insurance Board of Sri Lanka in order to revise the existing tariff on fire insurance. Statistics on fire insurance were collected from the insurers for the years 2000 and 2001 for this purpose. It is observed from the statistics shown in Table 6, that the overall claim ratio for fire insurance appears to be very low and this will be taken into consideration in revising the fire tariff.

Table 6

Statistics on Fire Insurance

Year	Type of Policies	Total No. of Policies	Total Sum Insured in Rs. '000	Total Premium In Rs. '000	Total No. of Claims	Total Amount Paid as Claims	Claim Ratio
2000	Small Risks	65,429	40,822	305,278	662	113,864	37.30
	Medium Risks	32,025	180,566	245,463	444	44,312	18.05
	Large Risks	4,751	487,156	620,246	537	179,699	28.97
	Tea Factories	290	10,745	17,905	32	8,300	46.36
	Total	102,495	719,289	1,188,892	1,675	346,175	29.12
2001	Small Risks	76,717	51,249	369,684	880	118,033	31.93
	Medium Risks	31,900	129,986	282,139	631	68,243	24.19
	Large Risks	11,239	1,123,987	798,909	643	128,753	16.12
	Tea Factories	329	8,641	18,535	30	2,103	11.35
	Total	120,185	1,313,863	1,469,267	2,184	317,132	21.58

Health Insurance

A Committee was appointed by the Board in order to formulate a National Health Insurance Policy for Sri Lanka. For this purpose statistics on health insurance were collected from the insurers. It is observed from Table 7 that the insurers are making losses on health insurance policies issued under general insurance, whereas they are making substantial profits on health insurance under long term insurance where the cover for health insurance is issued as a rider to the main life insurance policy.

Table 7

Statistics on Health Insurance

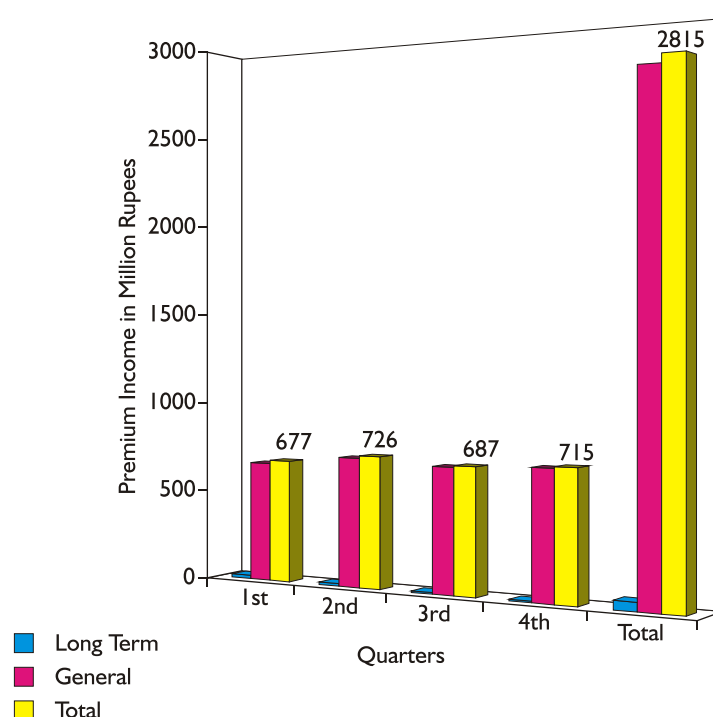
YEAR	General Insurance		Long Term Insurance	
	Premium Rs.'000	Claim Paid Rs.'000	Premium Rs.'000	Claim Paid Rs.'000
1999	536,610	427,591	264,586	33,839
2000	581,237	570,345	369,926	49,486
2001	623,637	706,836	348,096	35,674

Performance of Insurance Brokers

During the year 36 Insurance Brokers were in operation. Insurance brokers with a total premium income of Rs.2,815 million for the year, accounted for 13.87% of the overall total premium income of Rs.20,282 million for the industry in respect of long term and general insurance. It is observed that all the insurance brokers continued to concentrate on general insurance business as in the previous years. The insurance brokers accounted for 23.8% (Rs.2,765 million) of the total general insurance premium of Rs. 11,599 million. Whereas in respect of long term insurance the insurance brokers accounted only for 0.56% (Rs.50 million) of total premium income of Rs.8,682 million. Chart 4 shows the premium income of insurance brokers for the four quarters and the total for the year in respect of long term insurance and general insurance.

Chart 4

Long Term and General Insurance Premium Income of Insurance Brokers for the Four Quarters and the Total for the Year 2002



PART III

DIVISIONAL REPORTS

CORPORATE AFFAIRS DIVISION

CORE FUNCTIONS

Inquire into and resolve complaints of policy-holders, brokers and agents.

Examine annual and quarterly Financial Statements of quoted insurance companies.

Ensure compliance with good Corporate Governance Principles.

Coordinate the work of Consultants.

KEY ACTIVITIES

Handling of complaints

During the year under review the Division received twenty complaints. The following schedule depicts the details:

	NATURE OF COMPLAINT	TOTAL NO. OF COMPLAINTS RECEIVED	PENDING AS AT 31/12/02
1	Fire Insurance	2	1
2	Motor Insurance	1	-
3	Agents/non - receipt of Agency Commission	4	-
4	Non -receipt of Claims	9	2
5	Other	4	1
	TOTAL	20	4

Out of the complaints received during the year, several complaints were in relation to non-payment of Agency Commissions by the insurers to the agents. In most instances, it was revealed that the agency contract between the insurer and the agent had been terminated and this had resulted in the non-payment of the Commission. Further, it was also brought to the notice of the Board that certain Insurance Companies were engaged in recruiting in a manner not conducive to the industry. This matter was referred to the Insurance Association of Sri Lanka in order to adopt a suitable Code of Conduct to avoid such conflicts. The Board also received a few complaints regarding delayed claim settlements by the insurers. It was noted that submission of inadequate documents by the claimants had resulted in these delayed payments. Further, the Board also noted that certain conditions in policy documents had not been adequately explained to the insured at the time of selling the products.

On many instances the Board, advocated self-regulation within the insurance industry. Self-regulation is followed in many markets within the region where various associations play a major role in setting standards.

Other Matters

The Board noted that the number of delayed/unsettled claims had increased in comparison to last year. The Board will review the procedures applicable in other countries in order to formulate a “Claims Handling Procedure” suitable to the Sri Lankan Insurance Industry.

A Committee was appointed by the Board to study the existing Fire Tariff Structure and to recommend necessary amendments in order to revise the same. The Division assisted the Committee in obtaining relevant information from insurance companies.

The Division assisted in formulating new Quarterly Formats for Insurance Brokering Companies and Insurance Companies. The new formats will reflect the information that will be necessary to analyse the performance of the Broking Firms and the Insurance Companies.

A questionnaire received from the International Association of Insurance Supervisors (IAIS) entitled “Survey on Levies, Service Charges or Fees and Fines” was completed and transmitted to the IAIS.

The Division studied the workings of the SRCC & T Fund. It was noted that several Insurance Companies had failed to duly remit the premium on account of the special covers required by the constitution. This was brought to the notice of the management of the SRCC & T Fund, in order to streamline the remittance of premium and eliminate lapses.

INVESTIGATIONS DIVISION

CORE FUNCTIONS

Deal with complaints regarding suspected irregular activities in the Insurance Industry.

Conduct investigations into the possible violations of laws and regulations governing the Insurance Industry.

KEY ACTIVITIES

The Division conducted a total of six investigations based on complaints received by the Board and all the investigations were concluded during the year under review.

The complaints received were mainly relating to violations of laws and regulations pertaining to Insurance Agents. Subsequent to the investigations by the Board, necessary measures were taken to remedy the situation. The other complaints were related to the business affairs of an Insurance Broker and certain institutions that had allegedly acted as Insurance Brokers without Board approval.

Details of the matters investigated are set out below:

NATURE OF INVESTIGATION	NO. OF INVESTIGATIONS	ACTION TAKEN/ CURRENT STATUS
Act as an Insurance Agent for more than one Insurance Company	02	Subsequent to our investigations, necessary action was taken to compel the individuals who were acting as Agents for more than one Insurance Company, to remain only in one Company in accordance with the laws pertaining to the Insurance Industry.
Alleged Fraudulent Insurance Claims	01	The investigation was terminated due to the absence of evidence to substantiate the allegations made by the complainant.
Other Complaints	03	Subsequent to the inquiries made into the complaints, the files were closed since no further action by the Board was required.

LEGAL AND ENFORCEMENT DIVISION

CORE FUNCTIONS

Provide advisory services to the Board on legal matters.
Formulate draft Rules, Regulations and Determinations required to be made in terms of the RII Act.
Draft amendments to the RII Act.
Process and recommend applications for registration of persons as insurers and registration/renewal of 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.

KEY ACTIVITIES

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

Regulatory Measures

Licensing

REGISTRATION OF A NEW INSURANCE COMPANY

The Board registered and issued a licence to Amana Takaful Ltd. as an insurer to carry on long - term and general insurance business. This is the first Takaful insurance company in Sri Lanka.

RENEWAL OF REGISTRATION OF INSURANCE BROKERS

Evaluated and processed the renewal applications and renewed the registration of insurance brokers for the year 2003 after verifying their compliance with the relevant provisions of the RII Act.

NEW REGISTRATIONS GRANTED TO INSURANCE BROKERS

Evaluated the applications of two new insurance brokers and granted licences to them.

Tariff Revisions

REVISION OF FIRE TARIFF

The Division is in the process of reviewing the existing rates relating to the Fire Tariff. A Committee has been appointed by the Director General in this regard and the ratings, warranties and general conditions are being reconsidered to suit the current insurance and economic scenario.

Legislative Measures

NEW SOLVENCY MARGIN RULES (LONG TERM)

Finalized the new Solvency Margin Rules for Long Term Insurance under S. 105 read with S. 26 of the RII Act. These Rules have been Gazetted and are now in force.

NEW SOLVENCY MARGIN RULES (GENERAL)

The Division is in the process of finalizing the new Solvency Margin Rules (General). Presently the comments of the Insurance Association of Sri Lanka (IASL) pertaining to these rules are being sought.

NEW INSURANCE AGENTS QUALIFICATION RULES

Finalized the new Insurance Agent Qualification rules under S.105 read with S.78 of the RII Act. These Rules were Gazetted and are now in force.

DETERMINATIONS MADE BY THE BOARD.

Determinations to be made by the Board in terms of the RII Act were formulated by the Division and finalized in consultation with the industry and were notified by way of a circular (Annexure).

Matters connected with the Controller of Exchange

HEALTH AND TRAVEL INSURANCE POLICIES

The Board granted an exception under S.101 of the RII Act in consultation with the Controller of Exchange and granted approval to any person in Sri Lanka to place direct or indirect health and travel insurance with an insurer not registered under the RII Act. A Directive was issued in the form of a circular.

FOREIGN CURRENCY ACCOUNTS

Advised SLIBA, IASL and the Ceylon Chamber of Commerce that approval of the Board will not be required in terms of S.101 of the RII Act if the premium of insurance policies is remitted out of a foreign currency account maintained by the insured.

External assistance

The Board sought the assistance of a senior lawyer from the Attorney General's Department, a senior officer from the Legal Draftsman's Department, one local actuary and several foreign consultants from the Asian Development Bank for various special assignments.

SUPERVISION DIVISION

CORE FUNCTIONS

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.

Conduct off-site monitoring of Insurance Companies and Insurance Broking Companies based on the Quarterly Returns, Annual Returns and Audited Accounts.

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.

KEY ACTIVITIES

Audit Inspections

The Division carried out inspections of all eleven Insurance Companies based on an Audit Programme. During the year under review, the operational aspects of the Insurance Companies were checked. Special emphasis was accorded to the long term and general files which covered policies in force, claims paid on matured policies or when a claim becomes due. A few weaknesses were noted and the relevant companies were informed of them so that necessary corrective action could be taken. The Division also requested an age analysis of outstanding premium payments from Brokers and Agents due to Insurance Companies. It was observed that one Insurance Company had an amount of Rs. 294 million due from Brokers out of which an amount of Rs. 162 million was outstanding for more than one year, whereas another company had an amount outstanding from Brokers and Agents amounting to Rs. 76 million out of which Rs. 20 million related to premium outstanding for more than 90 days. The companies were required to take necessary action to regularize the remittance of premium due from brokers and agents in accordance with the regulations stipulated in the RII Act.

The Division also visited four Insurance Broking Companies based on an internally developed Audit Programme, where emphasis was given to the claim procedure adopted by the company in settlement of claims between the insurer and insured. The audit inspections were completed and a few discrepancies were observed which included delays in processing claims, premium amounts not deposited with insurers within two weeks of receipt of such premium and premium amounts outstanding for more than two months without a bank guarantee being furnished to the insurer which was contrary to the regulations stipulated in the RII Act. The companies were requested to take corrective action.

Development of an Insurance Standard

The Institute of Chartered Accountants of Sri Lanka (ICASL) with the financial assistance from the Board is presently in the process of developing an uniform Accounting Standard for General and Long Term Insurance business in Sri Lanka. The Division liaised with the ICASL during the initial stages of development of the Standard, which will be introduced by the latter part of the year 2003. This would be introduced as a Standard Accounting Practice and the formal Standard would be introduced in the latter part of the year 2005.

Assessment of Insurance Companies

The Division developed an assessment system for the Insurance Companies with the assistance of consultants from Bank Negara Malaysia titled “Earnings, Management, Assets, and Solvency” (termed EMAS). For this purpose data encompassing the past three years was gathered based on the Audited Accounts and Annual Statutory Returns submitted by the Insurance Companies. The model will be used by the Division to assess the performance of Insurance Companies, thereby concentrating on those companies, which gives negative performance results based on the EMAS model.

Licensing of Insurance Brokers

The Division received and reviewed the Audited Accounts and Quarterly Returns of thirty-four of the thirty-six Insurance Broking Companies for the purpose of renewing the Insurance Broking licence for the year 2003, subject to certain conditions being met for a few of the companies. The Division also recommended the granting of new Insurance Broker licences for two Insurance Broking Companies based on the projected Revenue Accounts, Balance Sheet and Business Plan.

Financial Analysis of Insurance Companies and Insurance Broking Companies

The RII 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. Insurance Broking Companies are required to submit their Quarterly Returns within a month following the end of the quarter. The Audited Accounts have to be submitted within six months after the end of the financial year. The Division ensured that these Returns and Accounts were submitted to the Board within the stipulated period of time and in instances where companies had not submitted the returns, reminders were sent and subsequently all were received.

The Division reviewed the Quarterly Returns submitted for the four quarters ended 31st December 2002 for Insurance Companies and Insurance Broking Companies. Returns from the Insurance Companies were found to be satisfactory. There were discrepancies observed in twenty-five returns received from the Insurance Broking Companies. These included incomplete sections, prescribed format not being used, classification errors, discrepancies in the Insurance Broking Account, and premium outstanding without bank guarantees. The companies were informed of these weaknesses and the replies sent were considered to be satisfactory. In some instances, the Division requested the re-submission of the quarterly returns from the Insurance Broking Companies, which was not completed to the satisfaction of the Board.

The Division verified whether the Insurance Companies had complied with the investment requirements as set out in the RII Act.

The Division also reviewed and compared the Audited Accounts and Annual Statutory Returns of Insurance Companies for the year ended 31st December 2001 with the assistance of two consultant actuaries from India. A few discrepancies were observed and the Division requested necessary reconciliation statements from the relevant companies.

**PUBLIC
RELATIONS AND
MARKET
DEVELOPMENT
DIVISION**

CORE FUNCTIONS

Coordinate International Relations.
Finalize Publications.
Conduct training programmes.

KEY ACTIVITIES

SEMINARS AND TRAINING PROGRAMMES

Regional Training Programme on the Capital Market of Sri Lanka

The Board together with the Securities and Exchange Commission and the Ministry of Foreign Affairs organized a three-week Regional Training Programme on the Capital Market of Sri Lanka for the participants of South and East Asian countries from 20th February to 13th March 2002. Participants from Maldives, Myanmar, Bhutan, Nepal, Laos, Cambodia, Iran and Sri Lanka attended the programme. The programme covered insurance regulation and practices.

Consultation on the Insurance Industry

A Consultation on the Insurance Industry was held in July 2002 to discuss diverse issues pertaining to the Insurance Industry. Participants included Insurers, Insurance Brokers and Board Members. Following are some of the issues highlighted for further consideration:

- Appoint a committee to study the feasibility of tariff revisions on Fire and Workmen's Compensation
- Request the Institute of Chartered Accountants of Sri Lanka to formulate Insurance Accounting and Auditing Standards
- Appoint a committee to analyze the feasibility of developing a National Reinsurance Policy
- Consult the industry to formulate Capital Adequacy Rules, Solvency Margin Rules and related rules.
- Develop guidelines on Advertising, Disclosures and Policy Wording

Consultation on "Concepts, Principles and Operations relating to Islamic Insurance and Banking"

The Board and the South Asian Insurance Regulators' Forum (SAIRF) jointly hosted a Consultation on "Concepts, Principles and Operations Relating to Islamic Insurance and Banking."

Training Programmes for the Secretariat Staff

The Board conducted in-house training programmes for the benefit of the Secretariat staff on technical issues. Representatives from insurance companies, ADB consultants and experts from diverse insurance fields made presentations.

INTERNATIONAL RELATIONS

International Association of Insurance Supervisors (IAIS) Training Programme in Singapore

Two officials from the Secretariat were nominated to attend an IAIS training programme in Singapore. The training programme was based on Insurance Supervision and was funded by the Singaporean Government.

Orientation Programme with the Thai Insurance Regulator

On a request made by the Board, the Thai Department of Insurance (Insurance Regulator) arranged an orientation programme for the officials of the Secretariat and market participants. The programme covered the regulation of the Thai Insurance Industry with special emphasis on dispute resolution. The programme included meetings with the Insurance Association and the Asian Reinsurance Corporation.

Orientation Programme with the Malaysian Insurance Regulator

On a request made by the Board, the Insurance Supervision Department of Bank Negara Malaysia arranged a one-week attachment programme. The programme covered Insurance Supervision, Insurance Regulation and on-line transmission of reporting systems.

PUBLICATIONS

Booklet on Insurance

The Board made arrangements to prepare a booklet on Insurance for Advanced Level students, undergraduates and teachers. An editorial board was nominated by the Insurance Association to structure and edit the publication. The Board received the draft booklet and recommended additions to the manuscript. The booklet will be translated into English and Tamil.

Comparative Review of Insurance Laws

The Board prepared a questionnaire for publication entitled “Legal and Regulatory Framework Relating to Insurance in South Asian Countries” and this was published under the aegis of the South Asian Insurance Regulators' Forum (SAIRF). The publication is a comparative study covering India, Nepal, Bhutan and Sri Lanka with an overview of specific legislation relating to the insurance sector.

OTHER MATTERS

Quarterly Meetings with Insurance Companies

Quarterly Meetings were held with the CEO's of Insurance Companies and officials of the Sri Lanka Insurance Brokers' Association (SLIBA) to discuss various matters pertaining to the Insurance Industry.

Consultation with Actuaries

A consultation was held in April 2002 with the Actuaries of respective Insurance Companies to discuss Solvency Margin Rules.

UNIT ON POLICY DEVELOPMENT

CORE FUNCTIONS

Study legislative changes and engage in research required to facilitate the development of the insurance industry.

Undertake comparative surveys and analysis 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 other Divisions with regard to regional and international trends and developments in insurance regulation.

KEY ACTIVITIES

National Health Insurance Policy

At the National Insurance Conference held in August, issues pertaining to the future of Health Insurance in Sri Lanka were discussed. As a follow up to this Conference, the Board established a Committee under the chairmanship of the Director General to examine the feasibility of formulating a National Health Insurance Policy for Sri Lanka. The Unit prepared a research paper on health insurance systems in different countries in order to identify a suitable model for Sri Lanka. The basic framework for a new national health insurance scheme was developed. The Unit is in the process of preparing an issues paper based on the recommendations made by the Committee.

Committee to Review and Revise the Fire Tariff

The Board set up a Committee to review and revise the Fire Tariff. Data and statistics from insurance companies with regard to fire claims for the years 1999-2001 have been tabulated to assist the work of the Committee.

Insurance and Securities Reforms Task Force

This Task Force was established by the Central Bank under the Chairmanship of the Director General and it focused on reforms that were identified at a Consultation with stakeholders in the insurance industry in July 2002. The stakeholders identified the major changes to be addressed within the commercial sector, and proceeded to identify the prospective time-frame for full/final implementation of the reforms as well as contacting the relevant agencies that need to take action on these issues.

The proposals were considered in relation to the following underlying objectives: injecting liquidity into the market; attracting investors and securing greater investor protection; more effective regulations; maximizing returns from investments; greater disclosure; achieving administrative efficiency; and better governance within listed companies and insurance companies.

The Task Force completed its major task of addressing the relevant issues and concrete action has been taken to resolve most of the issues and identify the course of action to be pursued to resolve the rest of the issues. The findings were submitted to the Financial Sector Reforms Committee Meeting held in December 2002 at the Central Bank.

Research on Comparative Issues

A questionnaire was prepared and administered on the legal and regulatory framework pertaining to insurance in South Asian countries. This information was presented in a format that enabled comparisons to be made of the legal framework in different countries in the South Asian Region.

**UNIT ON
INFORMATION
TECHNOLOGY
AND
PUBLICATIONS**

CORE FUNCTIONS

Develop, maintain and upgrade in-house software systems.
Maintain and upgrade the web sites of both the Board and the South Asian Insurance Regulators' Forum (SAIRF).
Format and finalize all in-house publications.
Maintain and update the library system.
Conduct IT related training programmes for Secretariat staff.
Coordinate advertisements and press releases.

KEY ACTIVITIES

Maintenance of the Software System

The Unit coordinated the upgrading of the computer infrastructure and ensured that all systems were protected against common computer viruses. Additionally the Unit developed and maintained the following databases during the year under review:

- Insurance Companies
- Insurance Brokers
- Insurance Agents
- Employee Information System (Finance & Administration)
- Board correspondence

Maintenance of websites

The Unit updated the Board and the SAIRF websites with routine changes and upgrades. Additionally, several changes were done in order to make the websites more informative and user friendly.

Publications

The Unit coordinated the preparation of the Board's Annual Report for 2001 as well as other reports required by IAIS and the Ministry of Finance.

FINANCE AND ADMINISTRATION DIVISION

CORE FUNCTIONS

Financial control and budgeting including preparation of monthly, quarterly, and annual accounts.
Human Resource Management.
Supervise general maintenance and upkeep of the Secretariat.
Procurement of supplies.

KEY ACTIVITIES

Staffing

From the inception no permanent appointments were made to the Board with the exception of the Director General.

The staff of the SEC, well trained in regulatory aspects of the securities market, coordinated the work of the Board. Both local as well as foreign training programmes pertaining to General and Long Term Insurance was provided to the staff.

A team of consultants funded by the Asian Development Bank (ADB) drafted guidelines and the necessary legislation to establish a "Financial Services Authority" for Sri Lanka. Until such time as the "Single Regulator" is established in Sri Lanka, the staff of the SEC will continue to coordinate the work of the Board.

Funding

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

With a view to minimizing the reliance on the Consolidated Fund, the Board decided to introduce a levy on insurance business as provided for in the legislation. The Board will collect the cess on a quarterly basis from 2003.

CALENDAR OF EVENTS

January

A quarterly meeting was held with CEO's of Insurance Companies and officials of the Sri Lanka Insurance Brokers' Association (SLIBA).

February

A Regional Training Programme was held on the "Capital Market and the Insurance Industry of Sri Lanka" for the participants of South and East Asian Countries (from 20 February - 13 March 2002).

March

A presentation was made to the Secretariat staff on "Takaful and Re Takaful Insurance"

April

An introductory session on Insurance was conducted for female Master Teachers and Resource Teachers at the National Institute of Education (NIE), Maharagama.

A quarterly meeting was held with CEO's of Insurance Companies and officials of the Sri Lanka Insurance Brokers' Association (SLIBA).

A discussion was held with the Actuaries of Insurance Companies in relation to the Solvency Margin Rules.

June

A presentation was made for the Secretariat staff on "The Australian Insurance Industry".

July

A consultation on the "Insurance Industry" was held for the participants of Insurance Companies, Insurance Broking Companies, Board Commissioners and Law Firms.

A quarterly meeting was held with CEO's of Insurance Companies and officials of the Sri Lanka Insurance Brokers' Association (SLIBA).

September

A consultation on the "Concepts, Principles and Operations relating to Islamic Insurance & Banking" was held for the participants from Bangladesh, Bhutan, India, Nepal and Pakistan. The programme was conducted under the aegis of the South Asian Insurance Regulators' Forum (SAIRF).

October

An orientation programme was conducted by Bank Negara, Malaysia for four staff members of the Secretariat on "Insurance Regulation and Supervision"

November

A presentation was made for the Secretariat Staff on "Insurance Supervision".

A quarterly meeting was held with CEO's of Insurance Companies and officials of the Sri Lanka Insurance Brokers' Association. (SLIBA)

ANNEXURE

Annexure

Determinations

The following Determinations were made in terms of the powers vested with the Board:

- (i) Investment of balance assets of the long term insurance and technical reserves of general insurance in terms of section 25(1) of the RII Act.
- (ii) Holding of shares in insurance broking companies by a director or employee of an insurer under section 33 of the RII Act.
- (iii) Settlement of premium on policies of general insurance by the insured and the insurance brokers in terms of section 35(b) of the RII Act.
- (iv) The value of the paid up value in terms of section 40(3)(b) of the RII Act.
- (v) The time period within which a copy of the audited accounts are to be submitted to the Board after the close of the financial year in terms of section 47(2) of the RII Act.
- (vi) The time period within which the abstracts of Actuarial Reports are to be submitted to the Board after close of the financial year in terms of section 48(1) of the RII Act.
- (vii) The value of Professional Indemnity Insurance to be submitted to register a company as an insurance broker in terms of section 81(h) of the RII Act.
- (viii) The Maximum Professional Indemnity insurance that should be submitted by an insurance broker for the renewal of registration in terms of sections 83(a) and 85(3)(b) of the RII Act.
- (ix) The amount of fees to be paid by the insurance broker for the renewal of registration of each class of insurance business in terms of section 83(c) of the RII Act.
- (x) The maximum rate of commission payable to insurance brokers and insurance agents by insurers in respect of long term insurance business and general insurance business in terms of section 88 of the RII Act.
- (xi) The Maximum value of the sum assured on a long term insurance policy where the Board can make an order for the settlement of the claim by an insured in terms of section 98 of the RII Act.

GLOSSARY

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 RII Act.

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.

Nett Claims Ratio or Nett Loss Ratio

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

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

Nett 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 long 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, nett 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.