



## **INSURANCE BOARD OF SRI LANKA**

Annual Report 2003

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**GENERAL  
INFORMATION**

**Office Address**

# 11-01 East Tower,  
World Trade Center,  
Echelon Square,  
Colombo 1, Sri Lanka.

**Legal Form**

A Statutory Board established in Sri Lanka in terms of the Regulation of Insurance Industry Act, No. 43 of 2000, which came into operation with effect from 1<sup>st</sup> March 2001 by Government Gazette Notification No. 1172/27 dated 23<sup>rd</sup> February 2001.

**The object and responsibility of the Board**

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

**Accounting year**

31<sup>st</sup> December

**Auditors**

The Auditor General

**Bankers**

Bank of Ceylon  
People's Bank  
Hong Kong & Shanghai Banking Corporation Limited.

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MEMBERS OF THE  
BOARD



Lt. Gen. J E D Perera  
*Member / Chairman*



Dr. Nihal Jinasena  
*Member*



Mr. P N Nagahawatte  
*Member*



Mr. Faiz Mohideen  
*Member*



Mr. H L A de Silva  
*Member*



Mr. W Unamboowa  
*Member*



Mr. Palith Silva Gunawardene  
*Member*



## 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”*



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**PART I**

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

**LICENCING AND MARKET STRUCTURE**

Registration was granted to 2 insurance companies under the Act to engage in long term insurance business.

As at the end of the year 2003, there were 13 insurance companies. of which 11 insurers are engaged in composite insurance, carrying on both long term insurance business and general insurance business whereas the other 2 insurers who were registered during the year, are engaged in long term insurance business only.

Janashakthi Insurance Company Ltd (JICL) which acquired 100% interest in National Insurance Corporation Ltd (NICL), notified the Board, its intention to amalgamate National Insurance Corporation Ltd with Janashakthi Insurance Company Ltd with effect from 1<sup>st</sup> January 2003.

As the IBSL has to submit its observations on the proposed amalgamation of NICL and JICL to the District Court in terms section 102 of the Act based on the opinion on the affairs of NICL and JICL, the services of an actuary attached to the Insurance Regulatory and Development Authority of India was obtained.

Sri Lanka Insurance Corporation Ltd which was wholly owned by the government, was privatized and was acquired by a consortium of investors comprising of Milford Holdings (Pvt) Limited and Greenfield Pacific EM Holdings Limited of Gibraltar in April, 2003. With the privatization of SLICL, presently all the Insurance Companies operating in Sri Lanka are owned by the private sector and the government does not have any stake in any of the insurance companies.

8 new insurance brokers were registered under the Act and the registrations of 37 insurance brokers were renewed during the year.

**INSURANCE AGENTS**

In terms of section 78(4) of the Act, Rules relating to the qualifications required for the appointment of insurance agents were published in the Government Gazette.

Arrangements were made with the Sri Lanka Insurance Institute (SLII) to conduct the pre-recruitment test for the insurance agents.

SLII has developed the syllabus for conducting the pre-recruitment test for long term insurance business in English, Sinhala and Tamil and commenced conducting the pre-recruitment test in English Medium and Sinhala Medium in November for persons who are to be appointed by the insurers and insurance brokers as insurance agents for the procurement of long term insurance business. The Pre-recruitment test will be conducted in Tamil Medium with effect from January 2004.

## **COMPANY STATUS AND CHANGES IN EQUITY**

In terms of the provisions of the Act, 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 powers vested with the Board, the Board has taken a decision to increase the issued share capital for general insurance business to rupees one hundred million from the present level of rupees fifty million and the issued share capital of long term insurance business to rupees one hundred million from the present minimum share capital requirement of rupees twenty-five million.

Out of the 13 insurance companies 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 Colombo Stock Exchange.

The Controller of Exchange has allowed foreign equity participation in insurance companies up to 100% in terms of the Gazette Notification No 1232/14 of 19th April 2002.

## **LEVY OF CESS FROM INSURANCE COMPANIES**

In terms of section 7(2), order was made by the Hon. Minister of Finance for the levy of cess at the rate of 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business. This was published by Gazette Notification No. 1244/5 on 9<sup>th</sup> July 2002. The insurers commenced remitting the Cess with effect from April this year on a quarterly basis. Total cess remitted by the insurers for the year 2003 amounted to Rs 40,572,988

## **POLICY HOLDERS PROTECTION FUND**

The cess collected from the insurance companies was deposited into the Policy Holders Protection Fund that was established under section 103(1) of the Act. The amounts lying to the credit of the Policy Holders Protection Fund is invested in Treasury Bills.

Rules are being drafted under section 103(2) of the Act for the utilization of the Fund.

## **INSURANCE TARIFF**

Fire insurance and Employees Liability Insurance (Workmen's Compensation) are tariff based. In the year 2003 the Board appointed a Committee consisting of representatives from the Insurance Association of Sri Lanka, Sri Lanka Insurance Brokers' Association and a mechanical engineer with wide experience in fire insurance to revise the existing tariff on fire insurance. The Fire Association of Ceylon that was established in 1897 was responsible for setting up the existing tariff in 1923. The Board felt that a revision was necessary since the tariff is not realistic and does not fulfil the current trends.

The Committee completed the revision of the fire tariff and handed over the report to the Board in May 2003.

### **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, riot, 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 to the fund the entire premia collected in respect of risks covered by them against strike, riot, civil commotion and terrorism. The Ministry of Finance withdrew powers vested with the Board to regulate the Fund in August 2001, with effect from 28<sup>th</sup> August 2003.

#### **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 the Sri Lanka Export Credit Insurance Corporation Act No.15 of 1978 and the Social Security Board established under the Social Security Board Act No.17 of 1996.

The provisions of the Act 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.

### **SPECIAL STUDIES UNDERTAKEN DURING THE YEAR**

#### **National policy on Reinsurance**

A study was undertaken by the Insurance Board of Sri Lanka to draft a National Policy on Reinsurance. For this purpose statistical data was collected from the insurance companies in order to assess the risk profiles, reinsurance arrangements and retention levels of each insurance company. A draft on the National Policy on Reinsurance for Sri Lanka was prepared based on the statistical data collected from the insurers and was submitted to the Board for its consideration.

### **National Health Insurance Policy for Sri Lanka**

A Committee was appointed by the Insurance Board of Sri Lanka in order to prepare a National Health Insurance Policy for Sri Lanka. For this purpose details on Health Insurance Schemes that are in operation in the developing countries and developed countries were collected. Statistics on various health insurance schemes that are provided by the local insurers were also collected. A draft on the National Health Insurance Policy for Sri Lanka was prepared taking into account the various Health Schemes that are in operation in different countries and submitted to the Board for its consideration.

### **OTHER RELATED MATTERS**

#### **Insurance Association of Sri Lanka**

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

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 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 a code of conduct formulated by the Association.

SLIBA maintains a very cordial relationship with the Board.

#### **Sri Lanka Insurance Institute**

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 through contributions made 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 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 employed in the insurance industry.

The Board entrusted the Institute with the responsibility of conducting the pre-recruitment test for the candidates who are to be appointed as insurance agents by the insurers and insurance brokers. With the concurrence of the Board the Institute has developed the Syllabus for conducting the pre-recruitment test for persons who are to be appointed as long term insurance agents by the insurers and the insurance brokers. This book has also been translated into Sinhala and Tamil. The Institute has commenced conducting the pre-recruitment test with effect from November this year.

### **South Asian Insurance Regulators' Forum**

The South Asian Insurance Regulators' Forum was established in the year 2001. India, Nepal, Bhutan, Maldives and Pakistan are members of the Forum

Mr. Nambi Rangachary, Chairman, Insurance Regulatory and Development Authority of India (IRDA) succeeded Dr. Dayanath Jayasuriya as the Chairman of the Forum. Mr. C.S. Rao succeeded Mr. Rangachary as the Chairman of IRDA in June 2003 on his retirement and took over the chairmanship of the Forum from Mr. Rangachary.

Mr. Sonam Wangchuk from the Royal Monetary Authority of Bhutan, Mr. Narayan Prashad Silwal from the Beema Samiti (Insurance Board) of Nepal, Mr. Ibrahim Naeem of the Monetary Authority of Maldives, Mr. Khalid A. Mirza of the Securities and Exchange Commission of Pakistan and Mrs. Lasinee Serasinhe of the Insurance Board of Sri Lanka continued as Vice-Chairmen during the year 2003.

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.

Mr. C.S. Rao informed the IBSL that the meeting of the Forum is to be held in Nepal during the second week of January 2004.

### **Custody and Inspection of Documents**

In terms of section 58 of the Act "Every return furnished under the Regulation of Insurance Industry Act or certified copy thereof shall be kept at the office of the Board and shall open for inspection by any person with the approval of the Board at such hours as it may specify, except such information which in the opinion of the Board is confidential. A person may obtain a copy of any return or any part thereof, other than confidential information on payment of rupees five per page."



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**PART 2**

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PERFORMANCE OF  
THE INSURANCE  
INDUSTRY  
DURING THE YEAR 2003





**PERFORMANCE OF  
THE INSURANCE  
INDUSTRY  
DURING THE  
YEAR 2003**

**PREMIUM INCOME**

The total combined gross premium written during the year in respect of long term insurance business and general insurance business was Rs. 24,147 million which shows a growth rate of 19.06% when compared previous year's growth rate of 20.29% with a premium income of Rs. 20,281 million. General insurance business with a premium income of Rs. 13,534 million accounted for 56.05% (2002: 57.19% with a premium income of Rs. 11,599 million) while long term insurance business accounted for 43.95% with a premium income of Rs 10,613 million (2002: 42.81% with a premium income of Rs. 8,682 million). It is observed that the contribution from insurance business to the Gross Domestic Product (GDP) during the year was 1.37 per cent which shows a gradual increase in the penetration rate as a percentage of GDP from 1.18% in 2000 to 1.37% in 2003.

**Table I**

**Premium Income**  
(in million rupees)

	1997	1998	1999	2000	2001	2002	2003
Long Term Insurance	4,166	4,876	5,453	6,252	7,494	8,682	10,613
General Insurance	6,594	7,111	7,762	8,615	9,366	11,599	13,534
Total Premium Income	10,760	11,987	13,215	14,867	16,860	20,281	24,147
Total premium as a % of GDP	1.22	1.20	1.21	1.18	1.20	1.28	1.37
Growth rate as a %	-	11.40	10.23	12.52	13.39	20.29	19.06

**PERFORMANCE OF LONG TERM INSURANCE BUSINESS**

**Premium Income and Market Share Company-wise**

Long term insurance business with a gross written premium of Rs. 10,613 million during the year shows a growth rate of 22.23% which is an improvement in this class of business when compared with the growth rate of 15.85% with a premium income Rs. 8,682 million during the previous year. During this year too Sri Lanka Insurance Corporation Ltd continued as the market leader accounting for 30.52% (2002:32.12%) of the market share with a premium income of Rs. 3,238 million (2002:Rs. 2,360 million) for long term insurance business, however it is observed that SLICL is gradually losing its market share to its competitors. Whereas Ceylinco Insurance Company Ltd has been gradually increasing its market share year by year and almost come closer to the market leader with a market share of 28.67% with a premium income of Rs. 3,043 million. Eagle Insurance Company Ltd with a premium income of Rs. 2,170 million accounted for 20.45% of the market share which is more or less at the same level as in the previous years. Union Assurance Ltd with a premium income of Rs. 1,096 million accounted for 10.33% of the market share and all the other nine insurance companies accounted for the balance market share of 10.03% with a premium income of Rs. 1,063 million. (Table I and Chart I).

**Table I.**

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

(Rs.'000)

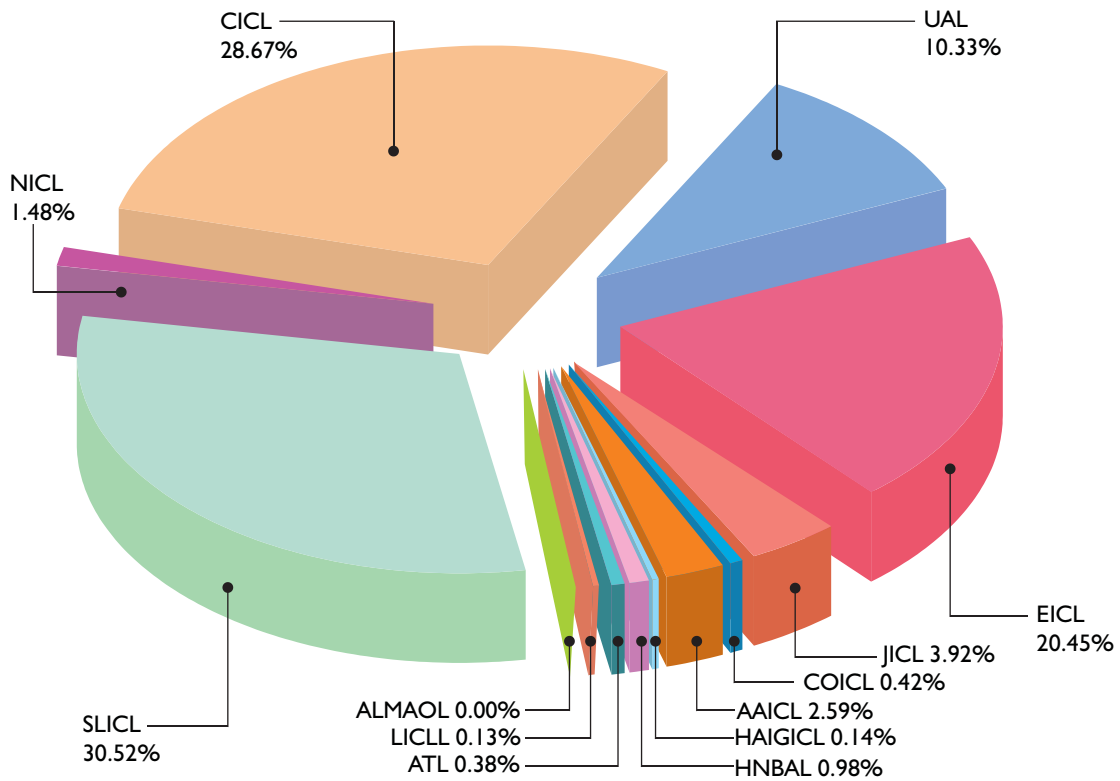
Company	1998		1999		2000		2001		2002		2003	
	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%
SLICL	1,906,119	39.09	2,064,863	37.86	2,260,288	36.15	2,526,814	33.70	2,788,636	32.12	3,238,959	30.52
NICL	168,314	3.45	163,061	2.99	179,444	2.87	184,308	2.50	178,475	2.06	157,543	1.48
CICL	1,155,928	23.71	1,312,434	24.06	1,428,052	22.84	2,091,907	27.90	2,359,671	27.18	3,042,655	28.67
UAL	401,113	8.23	495,040	9.08	701,957	11.23	730,417	9.70	934,147	10.76	1,096,149	10.33
EICL	1,056,839	21.67	1,185,481	21.74	1,386,325	22.17	1,616,758	21.60	1,827,208	21.05	2,169,843	20.45
JICL	187,550	3.85	231,400	4.24	280,600	4.49	284,008	3.80	343,000	3.95	416,220	3.92
COICL	-	-	1,640	0.03	9,000	0.14	11,700	0.20	24,519	0.28	44,144	0.42
AAICL	-	-	-	-	6,942	0.11	45,902	0.60	163,280	1.88	274,470	2.59
HAIGICL	-	-	-	-	-	-	2,273	0.00	8,620	0.10	14,387	0.14
HNBAL	-	-	-	-	-	-	-	0.00	35,297	0.41	104,436	0.98
ATL	-	-	-	-	-	-	-	-	19,439	-	39,990	0.38
LICLL	-	-	-	-	-	-	-	-	-	-	13,319	0.13
ALMAOL	-	-	-	-	-	-	-	-	-	-	480	0.00
<b>TOTAL</b>	<b>4,875,863</b>	<b>100.0</b>	<b>5,453,919</b>	<b>100.0</b>	<b>6,252,608</b>	<b>100.0</b>	<b>7,494,087</b>	<b>100.0</b>	<b>8,682,292</b>	<b>100.0</b>	<b>10,612,595</b>	<b>100.0</b>
% Increase (Growth Rate)	17.00		11.85		14.64		19.84		15.85		22.23	

**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
ATL	: Amana Takaful Ltd
LICLL	: Life Insurance Corporation (Lanka) Ltd
ALMAOL	: All Lanka Mutual Assurance Organisation Ltd

Chart I.

Long Term Insurance Market - 2003



- 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
- ATL : Amana Takaful Ltd
- LICLL : Life Insurance Corporation (Lanka) Ltd
- ALMAOL : All Lanka Mutual Assurance Organisation Ltd

## PERFORMANCE OF GENERAL INSURANCE BUSINESS

### Gross Written Premium and Company-wise Market Share

Total Gross Written Premium of Rs. 13,534 million in respect of general insurance business shows a growth rate of 16.68% which indicates a decline in the growth rate when compared with the growth rate of 23.84% with a gross written premium of Rs. 11,599 million for the previous year. Sri Lanka Insurance Corporation Ltd with the gross written premium of Rs. 4,866 million continued to retain the market leadership with the market share of 35.95 (2002 : Rs.4,923 million with the market of 42.44%) but lost around 7% of its market share to its competitors when compared with the previous year's performance. Ceylinco Insurance Company Ltd increased its market share during the year to 27.50% with a premium income of Rs. 3,721 million when compared with the previous year's market share of 22.48% with a premium income of Rs. 2,607 million. Janashakthi Insurance Company Ltd improved its market share to 10.40% with a premium income of Rs. 1,407 million during the year from the previous year's market share of 8.17% with the premium income of Rs. 948 million. In respect of general insurance business too, Eagle Insurance Company Ltd continued to maintain a stable market share of around 8% with a premium income of Rs. 1,073 million as in the previous year. UAL accounted for 9.37% of the market share with a premium income of Rs. 1,265 million when compared with the previous year's market share of 10.51% with the premium income of Rs. 1,219 million. The other six insurance companies accounted for 8.87% of the market share with the premium income of Rs. 1,202 million. (Table 2 and Chart 2).

**Table 2.**

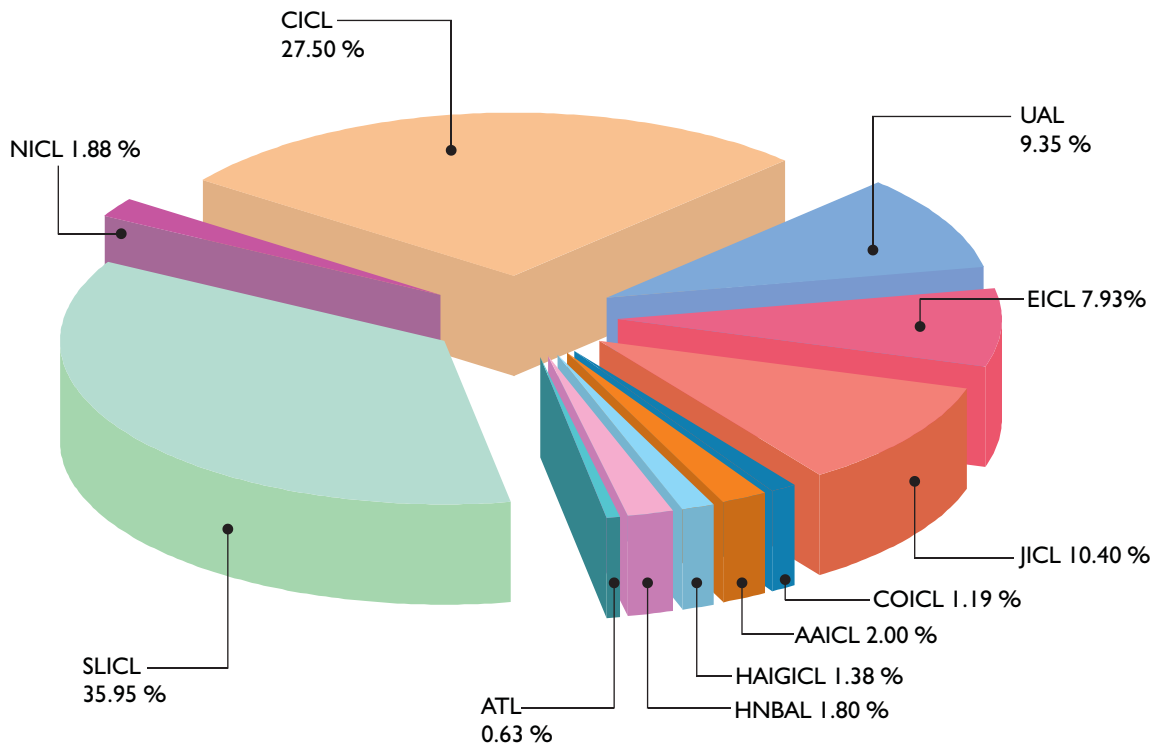
### General Insurance Business Premium Income and Market Share Company-wise

(Rs.'000)

Company	1998		1999		2000		2001		2002		2003	
	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%
SLICL	3,525,700	49.58	3,548,250	45.71	3,835,602	44.52	3,961,163	42.29	4,922,866	42.44	4,866,149	35.95
NICL	411,876	5.79	507,523	6.54	580,863	6.74	549,809	5.87	357,684	3.08	254,689	1.88
CICL	1,333,048	18.75	1,555,594	20.04	1,693,047	19.65	1,895,185	20.23	2,607,339	22.48	3,721,206	27.50
UAL	888,998	12.50	967,153	12.46	1,018,085	11.82	1,132,730	12.09	1,218,997	10.51	1,264,961	9.35
EICL	598,512	8.42	666,823	8.59	686,112	7.96	730,511	7.80	909,883	7.84	1,072,666	7.93
JICL	350,213	4.93	472,189	6.08	536,450	6.23	718,235	7.67	947,971	8.17	1,407,309	10.40
COICL	2,325	0.03	39,711	0.51	59,119	0.69	60,650	0.65	85,482	0.74	161,128	1.19
AAICL	-	-	4,606	0.06	165,443	1.92	244,738	2.61	285,607	2.46	271,097	2.00
HAIGICL	-	-	-	-	39,821	0.46	61,602	0.66	109,554	0.94	186,571	1.38
HNBAL	-	-	-	-	-	-	11,785	0.13	122,233	1.05	243,390	1.80
ATL	-	-	-	-	-	-	-	-	31,783	0.27	84,842	0.63
<b>TOTAL</b>	<b>7,110,672</b>	<b>100.0</b>	<b>7,761,849</b>	<b>100.0</b>	<b>8,614,542</b>	<b>100.0</b>	<b>9,366,408</b>	<b>100.0</b>	<b>11,599,399</b>	<b>100.0</b>	<b>13,534,008</b>	<b>100.0</b>
% Increase (Growth Rate)	7.84		9.16		10.99		8.72		23.84		16.68	

Chart 2.

General Insurance Market Share - 2003



- 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
- HAIGICL : Hayleys AIG Insurance Company Ltd
- HNBAL : HNB Assurance Ltd
- ATL : Amana Takaful Ltd

**DISTRIBUTION OF GROSS WRITTEN PREMIUM**

Motor insurance with a premium income of Rs. 6,224 million (2002:Rs. 4,498 million) accounted for 45.99% of the total premium income of Rs. 13,534 million (2002:Rs. 11,599 million) during the year when compared with the previous year's contribution of 38.78%. Further it is observed that there has been a significant growth rate of 38.36% when compared with the growth rate of 19.18% during the previous year. This increase in premium income from motor insurance during the year may be as a result of the increased premium rates charged by the insurance companies after the de-tariffing of motor insurance in the year 2002. Miscellaneous insurance with a premium income of Rs. 3,628 million and Marine insurance with the premium income of Rs. 921 million accounted for 26.88% and 6.82% of the total general insurance premium income respectively and also both the classes show a marginal decline in the growth rate when compared with the previous year. Fire insurance with the premium income of Rs. 2,725 million shows a 10.05% growth rate during the year when compared with previous growth rate of 5.82% with the premium income of Rs. 2,476 million and accounted for 20.19% of total general insurance premium income. (Table 3 and Chart 3)

**Table 3.**

**Distribution of Gross Written Premium - General Insurance Business**

Year	Fire Rs.'000	Marine Rs.'000	Motor Rs.'000	Misc. Rs.'000	Total Rs.'000
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
2003	2,724,800	956,900	6,224,332	3,627,976	13,534,008

% Change

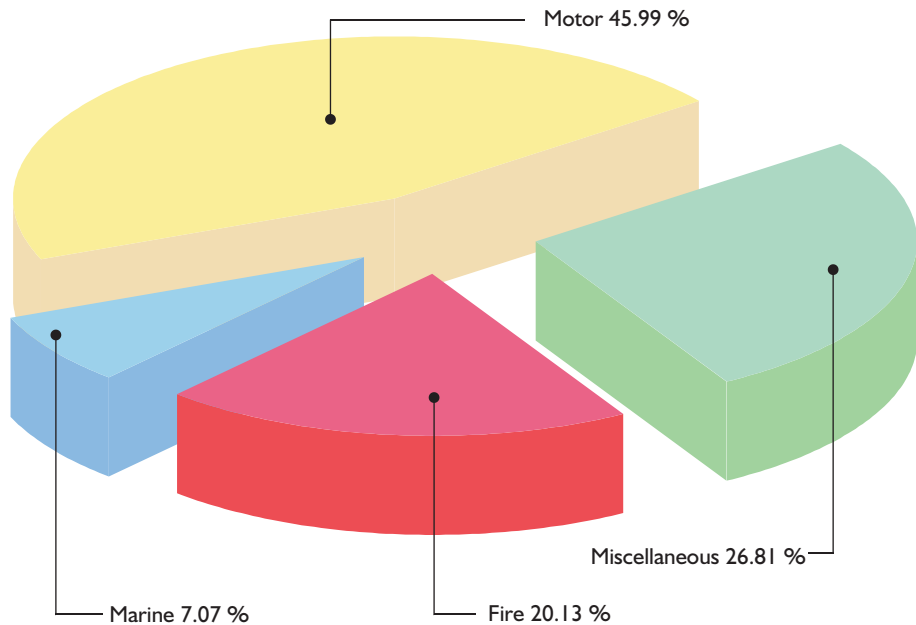
1988	15.56	-6.24	17.45	-4.82	7.84
1999	3.54	3.99	15.37	7.46	9.16
2000	5.12	19.18	11.62	10.70	10.47
2001	16.40	3.87	6.97	11.32	9.23
2002	5.82	16.47	19.18	50.75	23.84
2003	10.05	1.49	38.36	-1.47	16.68

% Share

Year	Fire	Marine	Motor	Misc.	Total
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	40.3	26.08	100.00
2002	21.35	8.13	38.78	31.74	100.00
2003	20.19	7.07	45.99	26.81	100.06

**Chart 3.**

**General Insurance Classwise Distribution - 2003**



**REINSURANCE AND RETENTION OF GROSS WRITTEN PREMIUM**

Total reinsurance premium ceded by Insurance companies during the year amounted to Rs. 4,829 million (2002: Rs. 4,190 million) which accounts for 35.74% of the total gross written premium of general insurance business. It is observed that the insurers have increased the retention to 95.63% during year when compared with the retention of 92.20% for the previous year in respect of motor insurance and there is a decline in the retention level during the year in respect of Miscellaneous insurance where the retention has come down to 51.47% when compared with the previous year's retention of 67.89%. There have been no significant changes in the retention levels in respect of fire insurance and marine insurance. (Table 5)

**Gross Written Premium**

(in Rs. '000)

	1998	1999	2000	2001	2002	2003
Fire	1,846,904	1,912,212	2,034,780	2,339,829	2,475,897	2,724,800
Marine	679,534	706,656	848,250	809,547	942,868	956,900
Motor	2,739,819	3,160,937	3,533,619	3,774,471	4,498,495	6,224,332
Miscellaneous	1,844,415	1,982,044	2,197,969	2,442,561	3,682,139	3,627,976
Total Gross Written Premium	7,110,672	7,761,849	8,614,618	9,366,408	11,599,399	13,534,008

**Reinsurance Premium**

(in Rs. '000)

Fire	1,393,506	1,408,244	1,524,421	1,686,421	2,076,360	2,246,092
Marine	330,306	359,656	485,003	445,694	580,348	554,160
Motor	681,997	758,972	219,663	198,587	350,853	272,217
Miscellaneous	544,585	472,375	642,429	808,975	1,182,228	1,756,857
Total Reinsurance Premium	2,950,394	2,999,247	2,871,516	3,139,677	4,189,789	4,829,326

**Net Premium Written (Retention)**

(in Rs. '000)

Fire	453,398	503,968	490,210	653,408	99,537	478,708
Marine	349,228	346,999	336,881	363,853	362,520	402,740
Motor	2,057,822	2,401,965	3,311,912	3,575,884	4,147,642	5,952,115
Miscellaneous	1,299,829	1,509,669	1,553,503	1,633,586	2,499,911	1,871,119
Total Net Written Premium	4,160,277	4,762,601	5,692,506	6,226,731	7,409,610	8,704,682

**Retention as a % of the Gross Written Premium**

Fire	24.55	26.36	24.09	27.93	16.14	17.57
Marine	51.39	49.10	39.71	44.95	38.45	42.09
Motor	75.11	75.99	93.73	94.74	92.20	95.63
Miscellaneous	70.47	76.17	70.68	66.88	67.89	51.57
Overall Retention	58.51	61.36	6.08	66.48	63.88	64.32



### **PERFORMANCE OF INSURANCE BROKERS**

Forty five insurance brokers operated during the year contributing 15.11% (2002: 13.87%) with a premium income of Rs. 3,649 million (2002: Rs. 2,815 million) to the total premium income of Rs. 24,147 million (2002: Rs. 20,282 million) for the industry. Out of total premium income of Rs. 10,613 (2002: Rs. 8,682 million) million in respect of long insurance business, insurance brokers accounted only for 0.72%(0.56%) with a premium income of Rs. 76 million (Rs. 50 million). Whereas in respect of general insurance business, they accounted for 26.40% (2002: 23.80%) with a premium income of Rs. 3,573 million(2002: Rs. 2,765 million). This shows that the insurance brokers have increased their contribution but it is observed that they are concentrating in general insurance business than in long term insurance business. Further it is noted that 10 insurance brokers with the total premium income of Rs. 2,814 million accounted for 77.12% million whereas the other 35 insurance brokers with the premium income of Rs. 835 million accounted only for 22.88% of the total premium earned by them.



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**PART 3**

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DIVISIONAL REPORTS



**CORPORATE  
AFFAIRS DIVISION**

**WHAT WE DO**

- Inquire into and resolve complaints of policyholders
- Examine Annual Reports and Quarterly Financial Statements
- Ensure compliance with good Corporate Governance Principles
- Coordinate the work of Consultants

**WHAT WE DID**

**Handling of complaints**

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

	<b>NATURE OF COMPLAINT</b>	<b>TOTAL NO. OF COMPLAINTS RECEIVED</b>	<b>PENDING AS AT 31/12/03</b>
1.	Fire Insurance	7	1
2.	Motor Insurance	5	1
3.	Marine	1	-
4.	Miscellaneous	4	-
5.	Life Insurance	13	5
6.	Agents/non-receipt of Agency Commission	4	1
7.	Other	3	1
	<b>TOTAL</b>	<b>37</b>	<b>9</b>

**New procedure to handle complaints**

During the latter part of the year under review it was decided to appoint an Ombudsman to deal mainly with complaints on claims settlement and any other issues as appropriate. On the request of the IBSL the Insurance Association of Sri Lanka nominated four Members from the Insurance Industry. The committee also consisted of the staff members of the IBSL and the committee enlisted the services of an expert to draw up the necessary document and to advise the committee.

### **Fire Tariff**

The Fire tariff has not been revised for more than fifty years. After the establishment of the Board it received views from the Industry and Business Associations such as Chamber of Commerce highlighting the need to review the existing Fire Tariff and its enforcement. Insurance Association of Sri Lanka and Sri Lanka Insurance Brokers Association nominated seven members from the industry to serve on the committee on the request made by the Board. The Committee was chaired by the IBSL. An expert from the Insurance Industry too served the Committee as a consultant. The Committee has drawn its final draft after revising the tariff and all the members of the Committee have consented to the revised rates. Presently the Board is in the process of receiving observations of the Insurance Industry participants on the revised tariff.

### **Visits of Consultants**

ADB Consultants carried out a study of the present regulatory system and the insurance Industry of Sri Lanka and submitted their Report on the Insurance Industry and the Manuals on off-site and on-site inspection and Management Information System that were prepared by them in January 2003.

On the request made by the Government of Sri Lanka from the International Monetary Fund (IMF) to make available an expert on insurance to assess the status of insurance supervision and to make recommendations thereon to strengthen insurance supervision, Mr Knut Hohlfeld, a former German Insurance Regulator and the first Secretary General of the International Association of Insurance Supervisors (IAIS) was appointed by the IMF to perform a study of the present workings of the IBSL and its effectiveness among other work during a period of approximately two weeks ended 5<sup>th</sup> December 2003.

On the recommendations made by Mr Holfeld in his report, the Board decided to institute a separate Insurance Supervision Department.

Mr Hohlfeld also submitted comments on the following draft proposals to the Board:

National Policy on Re-insurance in Sri Lanka  
National Health Insurance Policy for Sri Lanka

Assistance of Mr K Subrahmanyam an Indian Actuary who is attached to the Insurance Regulatory and Development Authority of India was obtained during 2003.

Mr W S M Kulathilake was appointed as a Consultant to the IBSL with effect from 10<sup>th</sup> February 2003.

**SUPERVISION  
DIVISION****CORE AREAS**

- 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 inspections 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**

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. Insurance Broking Companies are required to submit their Quarterly Returns within a month following the end of the quarter and the Audited Accounts within six months following 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 where the Companies concerned exceeded the time frame a final date was given and all documents were subsequently received.

For the purpose of renewing the licenses of Broking Companies, the Division reviewed the financial performance of these companies based on their last Audited Accounts and Quarterly Returns. The Division also reviewed the financial performance of nine new Insurance brokers based on the projected financial statements of the companies concerned. The Division recommended the licensing of these existing and new brokers, to the Legal Division, subject to certain conditions being fulfilled by these companies based on the financial statements submitted.

The Supervision Division reviewed the Quarterly Returns submitted for the four quarters ended 31<sup>st</sup> December 2003 for Insurance Companies and Insurance Broking Companies. Returns from the Insurance Companies were found to be in order, whereas there were discrepancies observed in twenty returns from the Insurance Broking Companies. These included incomplete sections, prescribed format not been 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 done to the satisfaction of the Board.

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 as at 31<sup>st</sup> December 2002. 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 satisfied.

The Division carried out inspections of all eleven Insurance Companies based on the Audit Programme developed internally. 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 so that necessary corrective action could be taken. The Accounts were also reviewed and it was observed that there were substantial amounts due to Insurance Companies from Insurance Brokers and Agents. The Division also requested an age analysis of outstanding premium payments from Brokers and Agents due to Insurance Companies. The Insurance Companies and Insurance Brokers and Agents were requested to expedite the settlement of these premium collections by the Division. The Division also visited twelve 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 remaining outstanding for more than two months without a bank guarantee being furnished to the insurer which was contrary to the regulations stipulated in the Insurance Act. The companies were requested to take corrective action.

The Division also reviewed and compared the Audited Accounts, Annual Statutory Returns and Actuarial Report of eleven Insurance Companies for the year ended 31<sup>st</sup> December 2002 with the assistance of an Insurance Consultant from India. A few discrepancies were observed and where necessary reconciliation statements were requested by the Division from the relevant companies.



In view of the conditions laid down for the purpose of renewing the insurance broking license for the year 2003 the Division requested eleven Insurance Broking Companies to infuse necessary funds to maintain the required capital that had eroded due to continued losses. The funds were to be infused to invest the relevant funds in four equal installments where separate schedule dates were given to these broking companies. Four companies were suspended during the year due to the non-compliance of the stated requirements and one company was liquidated, whereas the other companies infused the necessary funds to the satisfaction of the Division, which was confirmed by the Auditors and/or Company Secretaries.

The Division with the assistance of the Indian Actuary enhanced the Quarterly Return Format of the Insurance Companies and Insurance Broking Companies, which are submitted to the Board for review. The amended formats were sent to the Insurance Association of Sri Lanka (IASL) and the Sri Lanka Insurance Brokers Association (SLIBA) for their comments prior to finalization.

The Internal Audit Programme (IAP), which is made use of by the Division in the inspection of Insurance Companies and Insurance Broking Companies, was strengthened to take into consideration reinsurance supervision. The IAP would be made use of by the Division in the supervision of the companies in future.

The Division also liaised with the Consultants from the Asian Development bank (ADB) in developing a comprehensive Supervision Manual for the supervision of Insurance Companies. The manual has been developed and would be used in the supervision of Insurance Companies.

The Institute of Chartered Accountants of Sri Lanka (ICASL) with the financial assistance from the Insurance Board of Sri Lanka (IBSL) is presently in the process of developing a uniform Accounting Standard for General and Long Term Insurance business in Sri Lanka. The Division liaised with the ICASL in the initial stages of development of the Standard.

**LEGAL &  
ENFORCEMENT  
DIVISION**

**CORE FUNCTIONS**

- I. Draft amendments to the Regulation of Insurance Industry Act (RII Act) No.43/2000 and subordinate legislation made thereunder.
  - register as insurers persons carrying on insurance business in Sri Lanka ;
  - register persons as insurance brokers ;
  - advise the Government on the development and regulation of the insurance industry ;
  - implement the policies and programmes of the Government with respect to the insurance industry ;
2. Rules and Regulations required to be made in terms of the Regulation of Insurance Industry Act No. 43 of 2000.

**KEY ACTIVITIES**

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

**Regulatory Measures**

**Licensing**

**NEW REGISTRATION OF ONE INSURANCE COMPANY**

The IBSL registered and issued a licence to All Lanka Mutual Assurance Organization Ltd. as an insurer to carry on long-term insurance business.

**RENEWAL OF REGISTRATION OF INSURANCE BROKERS**

Evaluated and processed the renewal applications and renewed the registration of insurance brokers for the year 2004 after verifying their compliance with the relevant provisions of the RII Act No. 43 of 2000.

**NEW REGISTRATIONS GRANTED TO INSURANCE BROKERS**

Processed the applications of five insurance brokers to determine compliance with qualifying criteria and granted licences to them.

**SUSPENSION OF INSURANCE BROKERS**

Directed two insurance brokers to refrain from engaging in any insurance broking business, in terms of S.84(1)(b) of the RII Act No.43/2000, due to their failure to carry out instructions issued by the IBSL.

### **Tariff Revisions**

#### REVISION OF FIRE TARIFF

Completed the review and revision of the existing fire tariff based on the consensus reached by the members of the Committee appointed in that respect by the Director General. The document was finalized and circulated among the stakeholders of the insurance industry. Upon obtaining the observations of the industry, the tariff rates were revised in consultation with the Insurance Association of Sri Lanka (IASL). It will be forwarded to the Insurance Board for approval which should precede implementation.

### **Legislative Measures**

#### AMENDMENTS TO THE REGULATION OF INSURANCE INDUSTRY ACT NO.43/2000

Drafting of the Amendments to the RII Act No.43/2000 were finalized and they have been sent to the Ministry of Finance for approval.

#### RULES AND REGULATIONS TO BE MADE IN TERMS OF THE RII ACT NO.43/2000

The division is in the process of finalizing the Rules and Regulations to be made in terms of the RII Act.

#### NEW SOLVENCY MARGIN RULES (GENERAL)

The new Solvency Margin Rules (General) have been finalized and will be gazetted shortly.

#### NEW AMENDMENTS TO INSURANCE AGENTS QUALIFICATION RULES

The amendments to the Insurance Agents Qualification Rules currently in force have been finalized and they will be gazetted shortly.

### **External assistance**

The Board appointed a new Reinsurance Consultant to facilitate reinsurance matters.

**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**

There were comparatively less activities during the year 2003 as far as the Investigations Division was concerned. The Division received only a single complaint from a Policy Holder during the year under review regarding the annulment of certain insurance policies due to the alleged mis-appropriation of premiums paid by the said Policy Holder to an Agent. The said matter was inquired into by the Division and as at the end of the year 2003 the investigation into the said matter was on-going.

**PUBLIC RELATIONS  
AND MARKET  
DEVELOPMENT  
DIVISION****WHAT WE DO**

- Handle International Relations
- Handle Publications
- Conduct training programmes for the Board staff

**WHAT WE DID****INTERNATIONAL RELATIONS**

- **Insurance Supervision Department, Bank Negara - Malaysia**  
The division coordinated an Orientation programme with the Insurance Supervision Department of Bank Negara, Malaysia for three officials of the IBSL. The emphasis of the programme were on Insurance Supervision, Insurance Regulation and on-line transmission of reporting systems.

**SEMINARS AND TRAINING PROGRAMMES**

- **Teacher training on Insurance**  
The SEC in association with the NIE organized six comprehensive training programmes, three programmes each in Sinhala and Tamil mediums to educate regional master teachers and teachers on the subject of Capital Markets and current developments. A session on Insurance and Regulation of the insurance industry was included in those programmes to provide updated information on the industry.

The division also conducted the following seminars:

- Session on the "Regulation of the insurance industry in Sri Lanka" for the new recruits to the Sri Lanka Foreign Service - 2003
- Seminar on insurance for the teachers of the Kalaniya Educational Division.

#### **Training Programmes for the IBSL Staff**

Several training programmes were conducted in-house for the staff on technical issues. Among the subjects covered were:

- Life Insurance
- Title Insurance
- Re-Insurance

#### **PUBLICATIONS**

- Annual Report of the Insurance Board of Sri Lanka - 2002
- Booklet on Insurance

The division published a booklet on the "Insurance Industry" authored by Mr. Nimal Perera, president, Insurance Association of Sri Lanka and the Chief Executive Officer of HNB Assurance Ltd. The publication includes chapters on the Introduction to insurance, Development of the insurance industry, Life insurance, General insurance, Re-Insurance, Islamic insurance and Regulation of the Insurance Industry in Sri Lanka. A chapter was also included on the current market statistics pertaining to the Insurance Industry in the country.

The publication, which is based on the G C E Advanced Level curriculum, will be distributed to all schools and University libraries in the country.

**FINANCE &  
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**

The post of the Director General was the only permanent appointment made to the Insurance Board of Sri Lanka from its inception. With the resignation of the Director General an Officer In Charge executed the affairs of the Board from 4<sup>th</sup> February 2003 throughout the year under review.

The staff of the Securities and Exchange Commission of Sri Lanka (SEC) well trained in regulatory aspects continued to discharge the mandate of the Board. Relevant local and foreign training appropriate for General and Long Term Insurance business was provided to the staff of the SEC.

**FUNDING**

The operational expenses of the Board were mainly covered from the allocations made from the Consolidated Fund.

As per the Section 103 of the Regulation of Insurance Industry Act No 43 of 2000 “the Board shall establish a fund to be known as the 'Policy Holders Protection Fund' to which shall be credited money realized from the Cess levied and charged....”

In terms of the Gazette Notification No 1244/5 dated 9<sup>th</sup> July 2002 a levy of CESS was introduced for Long Term Insurance business and General Insurance business at the rate of 0.2% and 0.4% respectively on net premium income that came in to effect from 9<sup>th</sup> January 2003. The Cess collected was credited to the “Policy Holders Protection Fund” and the balance in the said Fund as at 31<sup>st</sup> December 2003 amounted to approximately Rs 33 mn.

**CALENDAR OF JANUARY**

**EVENTS**

A workshop on Insurance by ADB Consultants for the industry participants and Board staff

**MARCH**

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

Presentations were conducted for the Board staff on:

Life Insurance

Title Insurance

**MAY**

A session on "Regulation of the Insurance Industry" for the new recruits to the Sri Lanka Foreign Service - 2003.

**JUNE**

A seminar on "Insurance" was conducted for the teachers of the Kalaniya Educational Division.

An introductory session on insurance was conducted for Master Teachers and Resource

Teachers at the National Institute of Education (NIE), Maharagama

**AUGUST**

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

**OCTOBER**

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

**NOVEMBER**

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





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**GLOSSARY**

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**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 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, 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 still in force.



**FINANCIAL STATEMENTS**



AUDITORS  
REPORT

LP/F/IBSL/2004/01

March 2004

The Chairman,  
Insurance Board of Sri Lanka.

**Report of the Auditor General on the accounts of the Insurance Board of Sri Lanka for the year ended 31 December 2003 in Terms of Section 14(2)(c) of the Finance Act No. 38 of 1971.**

The audit of accounts of the Insurance Board of Sri Lanka for the year ended 31 December 2003 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 8(3) of the Regulation of Insurance Industry Act No.43 of 2000. My observations which I consider should be published with the annual report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be submitted to the Chairman in due course.

1:2 **Objectives**

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

1:3 **Scope of Audit**

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive test of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

## **2. Accounts**

### **2:1 Audit Opinion**

I am of opinion so far as appears from my examination and to the best of my information and according to the explanations given to me, Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes 1.1 to 1.14 to the Financial Statements and give a true and fair view of the financial position of the Board as at 31 December 2003, and the financial result and cash flow for the year then ended.

### **2:2 Financial Results**

According to the accounts presented, the operation of the Board for the year ended 31 December 2003 had resulted in a surplus of Rs. 961,378 as against the deficit of Rs. 526,893 for the preceding year.

### **2:3 Comments on Accounts**

#### **2:3:1 Related Party Disclosures**

Although related party interest had been disclosed in notes of the accounts, it was observed that position held in the relevant companies by the members of the Board had not been disclosed.

## **3. Financial and Operating review**

### **3:1 Activities of the Board**

- (a) The Board had not prescribed amounts to be charged as annual fee for every insurer as required by Section 16 of the Regulation of Insurance Industry Act, No.43 of 2000.
- (b) The Board had not determined a solvency margin for general insurance which should be maintained by every insurer as required by Section 26 of the Regulation of Insurance Industry Act No.43 of 2000.
- (c) Amendment to agents' qualifications was being held up in legal division level upto the end of the year under review.
- (d) The Board had been conducted following activities during the year under review.
  - (i) 20 Complaints had been resolved out of 25 complaints received during the year and 04 complaints brought forwarded from previous year and 09 complaints were pending as at 31.12.2003.
  - (ii) 47 and 159 reports received and reviewed in respect of Insurance Companies and Insurance Brokering Companies respectively.
  - (iii) 11 Insurance Companies and 13 Insurance Brokering Companies had been visited and supervised by the Board.
  - (iv) 15 Seminars and presentations had been conducted.
  - (v) The Board published 01 Publication on Insurance Industry.



### **3:2 Cost of Personnel**

Action had not been taken to recruit permanent staff to the Board since March 2001 and a sum of Rs. 3,405,629 had been paid during the year as allowances to Securities and Exchange Commission staff for covering up the duties of the IBSL and a sum of Rs. 2,782,840 had been paid as professional charges for 06 Consultants during the year under review. Furthermore, cadre requirement for the Board had not been determined with the concurrence of the Department of Management Services of the Treasury.

### **3.3 Budgetary Control**

It was observed that the annual budget of the Board had not been used as a tool of management control. Major variances were observed between the actual and the budget.

## **4. Systems and Control**

Special attention is needed in respect of the following areas of control.

- a) Accounting
- b) Budgeting
- c) Internal control

**(S.C.MAYADUNNE)  
AUDITOR GENERAL**

**RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL IN HIS REPORT ISSUED IN TERMS OF SECTION 14(2) (c) OF THE FINANCE ACT NO 38 OF 1971 ON THE ACCOUNTS OF THE BOARD FOR THE YEAR 2003.**

**AUDITORS COMMENTS**

**IBSL RESPONSE**

**2.3 Comments on Accounts**

**2:3:1 Related Party Disclosures**

Although related party interest had been disclosed in notes of the accounts, it was observed that the position held in the relevant companies by the Members of the Board had not been disclosed

As per the note under related party disclosures in the accounts for the year ended 31<sup>st</sup> December 2003 it was explicitly stated “other than two current accounts, repo and call deposit investments at Bank of Ceylon there were no transactions recorded with the said institutions during the year.”

For your information the following table depicts the positions held by the Members of the Board during the year under review.

Name	Directorships held during the year	Position of the Co
Lt. Gen Denis Perera	Directories Lanka (Pvt) Ltd.	Chairman
	'E' Point Securities & Exchange Commission of Sri Lanka	-do- -do-
Dr. Nihal Jinasena	Jinasena Engineering Holdings (Pvt) Ltd.	Chairman
	Jinasena New Technology Holdings (Pvt) Ltd.	-do-
	Jinasena Industrial Appliances (Pvt) Ltd.	-do-
	Jinasena Management Services (Pvt) Ltd.	-do-
	Jinasena Exports (Pvt) Ltd.	-do-
	Almeco (Pvt) Ltd	-do-
	Trakstar (Pvt) Ltd	-do-
	Loadstar (Pvt) Ltd.	-do-
	Hessing Garments Ltd.	-do-
	Sea & Land Foods (Pvt) Ltd.	-do-
	Royal Lotus Hotel (Pvt) Ltd.	-do-
	Jinasena Ltd.	Managing Director
	Jinasena Castings Ltd.	-do-

Name	Directorships held during the year	Position of the Co
Dr. Nihal Jinasena	Jinasena Electric Motors Ltd.	Managing Director
	Jiansena Pumps (Pvt) Ltd.	-do-
	Jinasena Industrial Parks (Pvt) Ltd.	-do-
	Jinasena Engineering & Technology (Pvt) Ltd.	-do-
	Deer Park Hotel (Pvt) Ltd.	-do-
	Jinasena Seals Ltd.	Director
	Jinasena Agricultural Machinery (Pvt) Ltd.	-do-
	Jinasena Appliances (Pvt) Ltd.	-do-
	Coral Sands Hotel Ltd.	-do-
	Oceanic Travels Ltd.	-do-
P M Nagahawatta	Credit information Bureau of Sri Lanka Securities & Exchange Commission of Sri Lanka	Chairman
		Member
Faiz Mohideen	Bank of Ceylon	Director
H L A De Silva	Hector Kobbakaduwa Agrarian Research & Training Institute Elkaduwa Plantation Ltd	Chairman
		Director
W Unamboowe	Securities & Exchange Commission of Sri Lanka	Member
Palitha Silva Gunawardene	Public Enterprises Reform Commission of Sri Lanka	Member
	Sri Lanka Accounting & Auditing Standards Monitoring Board	Member
	Construction Guarantee Fund	Trustee
	Securities & Exchange Commission of Sri Lanka	Director General

**AUDITORS COMMENT**

**IBSL RESPONSE**

**3. Financial and Operating review**

**3:1 Activities of the Board**

(a) The Board had not prescribed amounts to be charged as annual fee for every insurer as required by Section 16 of the Regulation of Insurance Industry Act No 43 of 2000.

In view of the various legitimate concerns expressed by the insurers, the Board has during the course of the year under review had several meetings with the Insurance Association of Sri Lanka in an attempt to come up with a mutually acceptable method of computing the amount to be charged as the annual fee in terms of section 16 of the Regulation of Insurance Industry Act, No. 43 of 2000. An acceptable formula has now been reached and will be forwarded to the IBSL Board for approval.

(b) The Board had not determined a solvency margin for general insurance, which should be maintained by every insurer as required by Section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

The rules containing the formula for calculating the solvency margin for general insurance, which should be maintained by every insurer, has been worked out by the Board taking into consideration, amongst other things, the views of the Industry. The rules were thereafter referred to the Legal Draftsman's Department and upon their approval being obtained was referred to the Government Printers to be gazetted.

(c) Amendment to agents' qualifications was being held up in legal division level up to the end of the year under review.

The Board has also formulated the rules containing the amendment to agent's qualification. Such rules have since been referred to the Legal Draftsman's Department and pursuant to the Department approving and translating the same, it has now been sent to the Government Printers to be gazetted.

(d) The Board had been conducted following activities during the year under review:

We agree with your comment. However out of the 9 complaints pending one complaint was completed although the documents pertaining to the complaint has to be transferred by the insurer to the insured. Seven complaints were received in the latter part of the year 2003 (months of November, December). The opinion of the Attorney General is pending pertaining to one complaint.

i. 20 complaints had been resolved out of 25 complaints received during the year and 04 complaints brought forwarded from previous year and 09 complaints were pending as at 31.12.2003.

We agree with your comments.

ii. 47 and 159 reports received and reviewed in respect of Insurance Companies and Insurance Brokering Companies respectively.

-do-

iii. 11 Insurance Companies and 13 Insurance Brokering Companies had been visited and supervised by the Board

-do-

iv. 15 seminars and presentation had been conducted.

-do-

v. The Board published 01 publication on Insurance Industry.

## AUDITORS COMMENT

### 3:2 Cost of Personnel

Action had not been taken to recruit permanent staff to the Board since March 2001 and a sum of Rs 3,405,629/- had been paid during the year as allowances to Securities and Exchange Commission staff for covering up the duties of the IBSL and a sum of Rs 2,782,840 had been paid as professional charges for 06 Consultants during the year under review. Furthermore, cadre requirement for the Board had not been determined with the concurrence of the Department of Management Services of the Treasury.

### 3.3 Budgetary Control

It was observed that the annual budget of the Board had not been used as a tool of management control. Major variances were observed between the actual and the budget

## 4. Systems and control

Special attention is needed in respect of the following areas of control.

- a) Accounting
- b) Budgeting
- c) Internal Checking

## IBSL RESPONSE

The Board has taken action to establish a separate supervisory organization for the Insurance Supervision. Attached herewith our letter No: IBSL/COR/04/01/02 dated 9<sup>th</sup> January 2004 and the reply to same by letter No PED/360/1 dated 19<sup>th</sup> February 2004 issued by the Director General Public Enterprises approving a separate unit for Insurance Supervision from 1<sup>st</sup> March 2004. However action to implement has been held up due to the Circular issued by the Secretary to the President dated 12<sup>th</sup> February 2004 regarding recruitment.

The annual budget prepared by the Board is at all times used as a management control tool. The monthly accounts submitted to the Members of the Board depicts the budget and the year to date expenditure. The Board examines any major variances and the causes thereof. Attached herewith a copy of the monthly accounts and reasons for major variance as at 31<sup>st</sup> December 2003 for your reference.

Your comments are noted.



**BALANCE SHEET  
AS AT  
31ST DECEMBER 2003**


	Notes	2003 Rs.	2002 Rs.
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	72,933	84,712
Receivables		27,467	61,600
With Holding Tax Receivables		644	644
Advance & Prepayments		8,500	-
Policy Holders Protection Fund Invested in Treasury bills	11	32,904,791	-
Cash & Cash Equivalents	3	85,146	51,584
<b>Total Assets</b>		<b>33,099,481</b>	<b>198,540</b>
<b>Net Assets &amp; Liabilities</b>			
<b>Capital and Reserve</b>			
Accumulated Fund		(233,737)	(1,195,115)
		<b>(233,737)</b>	<b>(1,195,115)</b>
Policy Holders Protection Fund	11	32,904,791	-
<b>Non Current Liabilities</b>			
Retirement Benefit Obligation	12	-	20,000
<b>Current Liabilities</b>			
Receipt in Advance		61,365	60,200
Accrued Expenses	4	336,785	456,907
Amounts due to Related Parties	5	20,906	844,148
Withholding Tax Payables		9,371	12,400
		428,427	1,393,655
<b>Total Net Assets &amp; Liabilities</b>		<b>33,099,481</b>	<b>198,540</b>

The Notes appearing on pages 6 to 13 form an integral part of the Financial Statements.

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

FOR AND ON BEHALF OF THE INSURANCE BOARD OF SRI LANKA

  
\_\_\_\_\_  
L S A Seresinhe  
OFFICER - IN - CHARGE

  
\_\_\_\_\_  
Lt. Gen. J E D Perera  
CHAIRMAN

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31ST DECEMBER 2003	Notes	2003 Rs.	2002 Rs.
<b>Accumulated Fund</b>			
Balance at the beginning of the period		(1,195,115)	(668,222)
Net Surplus/(Deficit) for the period		961,378	(526,893)
Balance at the end of the period		<u>(233,737)</u>	<u>(1,195,115)</u>

The Notes appearing on pages 6 to 13 form an integral part of the Financial Statements.



INCOME & EXPENDITURE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2003	<b>INCOME</b>	<b>Notes</b>	<b>2003 Rs.</b>	<b>2002 Rs.</b>
	Government Grants	6	8,274,000	11,205,000
	Transfer from Policy Holders Protection Fund	11	568,607	-
	Registration Fees		298,454	827,658
	Licence Fees		14,000	38,662
	Sundry Income		7,613	12,194
	Interest on Call & Repo		6,006	-
			<b>9,168,680</b>	<b>12,083,514</b>
	Less:			
	<b>EXPENDITURE</b>			
	Staff Costs	7	(4,235,325)	(5,829,127)
	Professional Charges	8	(2,782,840)	(4,154,706)
	Administration & Establishment Expenses	9	(1,112,974)	(2,343,995)
	Finance & Others	10	(76,163)	(282,579)
	<b>Total Expenditure</b>		<b>(8,207,302)</b>	<b>(12,610,407)</b>
	<b>Net Surplus/ (Deficit) before Taxation</b>		<b>961,378</b>	<b>(526,893)</b>
	Taxation	12	-	-
	<b>Net Surplus/ (Deficit) for the period</b>		<b>961,378</b>	<b>(526,893)</b>

The Notes appearing on pages 6 to 13 form an integral part of the Financial Statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2003	Notes	2003 Rs.	2002 Rs.
<b>Cash flow from operating activities</b>			
Net surplus /(Deficit) for the period		961,378	(526,893)
Adjustment for Interest Expenses		29,765	246,384
Increase/(Decrease) of provision for Gratuity	12	(20,000)	20,000
Net surplus before Working Capital changes		971,143	(260,509)
Change of Working Capital			
(Increase)/Decrease in Inventories		11,779	(65,994)
(Increase)/Decrease of Receivables		34,133	(62,244)
(Increase)/Decrease of Advance & Prepayments		(8,500)	-
Increase/(Decrease) of Receipt in Advance		1,165	31,225
Increase/(Decrease) of Creditors & Accruals		(123,151)	244,826
		(84,574)	147,813
Cash Flow from Operating Activities		<b>886,569</b>	<b>(112,696)</b>
Interest paid		(29,765)	(246,384)
Net Cash Flow from Operating Activities		<b>856,804</b>	<b>(359,080)</b>
<b>Cash Flow from Financing Activities</b>			
Short Term Loans obtained from Related Parties		4,948,665	8,943,805
Repayments of Short Term Loans to Related Parties		(4,125,423)	(8,597,088)
Net Cash Flows from Financing Activities		<b>823,242</b>	346,717
Net Increase/(Decrease) in Cash and Cash Equivalents		<b>33,562</b>	<b>(12,363)</b>
Cash and Cash Equivalents at beginning of period	3	51,584	63,947
Cash and Cash Equivalents at end of period	3	<b>85,146</b>	<b>51,584</b>

The Notes appearing on pages 6 to 13 form an integral part of the Financial Statements.

**NOTES TO THE  
FINANCIAL  
STATEMENTS****I. Significant Accounting Policies****General Accounting Policies****I.1 Basis of Preparation**

The Financial Statements of the Board are prepared under the historical cost convention in conformity with Generally Accepted Accounting Principles and Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL). No adjustments have been made for inflationary factors affecting the Financial Statements.

**I.2 Conversion of Foreign Currencies**

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected.

**Assets & Bases of Valuation****I.3 Inventories**

Inventories are valued at lower of cost and net realisable value. The cost of inventories are arrived at by using the first-in, first-out (FIFO) basis.

**I.4 Receivables**

Receivables are stated at estimated realizable value.

**I.5 Cash and Cash Equivalents**

Cash and Cash Equivalents are defined as cash in hand, demand deposits and short term liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash and call deposits at banks only.

**I.6 Property, Plant & Equipment**

Presently the IBSL utilizes the fixed assets of the Securities & Exchange Commission of Sri Lanka free of charge.

### **Liabilities & Provisions**

#### **I.7 Retirement Benefits**

When applicable provision made in the accounts for Retiring Gratuities Payable under the payment of Gratuity Act No 12 of 1983.

##### **I.7.1 Defined Contribution Plans**

The Board and the only employee the Director General contributed to Employees Provident Fund & Employees Trust Fund until he resigned with effect from 03/02/03

#### **I.8 Events Occurring After the Balance Sheet Date**

Material events occurring after the Balance Sheet Date are considered and appropriate adjustments or disclosure are made in the Financial Statements, where necessary.

#### **I.9 Accounts Payable**

Liabilities for Accounts Payable, are carried at the amount of Cash and Cash Equivalents expected to be paid.

### **Income & Expenditure**

#### **I.10 Revenue Recognition**

Revenue principally is recognized on accrual basis in terms of Sri Lanka Accounting Standards 29.

#### **I.11 Government Grants**

Grants received from the General Treasury of the Government of Sri Lanka are recognised as income.

#### **I.12 Expenditure Recognition**

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

#### **I.13 Borrowing Cost**

Borrowing Costs are recognized as an expense in the year in which it is incurred.

### **Cash Flow Statement**

#### **I.14 Cash Flow Statement**

The Cash Flow Statement has been prepared using the indirect method

	<b>2003</b>	<b>2002</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>2 INVENTORIES</b>		
Printing, Stationery & Computer Accessories	38,158	49,161
Publications	34,775	35,551
	<b>72,933</b>	<b>84,712</b>

**3 CASH & CASH EQUIVALENTS**

**Cash at Banks**

People's Bank - Mudalige Mawatha	24,504	9,568
Bank of Ceylon - Corporate Branch A/c 1729	36,081	38,688
HongKong & Shanghai Bank	24,561	1,009
	<b>85,146</b>	<b>49,265</b>
Add: Bank of Ceylon - Corporate Branch A/c 1747	-	2,319
	<b>85,146</b>	<b>51,584</b>

The Balance lying to the credit of Bank of Ceylon C/A number 1747 is accounted under the Policy Holders Protection Fund in the year 2003.

**4 ACCRUED EXPENSES**

Staff Training - Overseas	3,035	907
Telephone Expenses	8,750	75,000
Internet Charges	-	25,000
Meeting Expenses	-	6,000
Audit Fees - External	25,000	50,000
Annual Report Printing	300,000	300,000
	<b>336,785</b>	<b>456,907</b>

**5 AMOUNTS DUE TO RELATED PARTIES**

**5.1 Loans from Related Parties**

Securities & Exchange Commission of Sri Lanka	-	707,866
Securities & Exchange Commission of Sri Lanka - Cess Fund	-	-
	<b>-</b>	<b>707,866</b>

**5.2 Other Dues to Related Parties**

Securities & Exchange Commission of Sri Lanka	20,906	136,282
Securities & Exchange Commission of Sri Lanka - Cess Fund	-	-
	<b>20,906</b>	<b>136,282</b>

**6 GOVERNMENT GRANTS**

The Grants received from the General Treasury of the Government of Sri Lanka was the main source of income

	<b>2003</b>	<b>2002</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>7 STAFF COSTS</b>		
Staff Allowances	3,405,629	3,430,657
EPF 12%	5,273	105,600
ETF 3%	1,318	26,400
Staff Training - Overseas	835,605	2,232,970
Staff Training - Local	7,500	13,500
Staff Welfare	-	-
Retirement Benefits- Gratuity	(20,000)	20,000
	<b>4,235,325</b>	<b>5,829,127</b>

**8 PROFESSIONAL CHARGES**

Local Consultants	689,455	2,161,468
Foreign Consultants	2,093,385	1,993,238
	<b>2,782,840</b>	<b>4,154,706</b>

**9 ADMINISTRATION COSTS**

Advertising	-	65,499
Telephone - General	94,197	298,694
Internet Charges	25,655	128,364
Telephone - Directors Residence	55,409	68,009
Printing & Stationery	209,503	696,176
Publications	-	3,847
Seminar Charges	18,649	342,265
Entertainment	641	62,471
Travelling - Local	1,444	1,250
International Membership of IAIS	488,472	481,339
Board Members' Meeting Fees	47,000	42,000
Meeting Expenses	53,853	16,271
Library Books	14,455	27,714
Postage and Stamps	10,717	33,258
Courier Charges	39,090	45,954
Audit Fees - External	53,113	25,000
Cost of Publications	776	5,884
	<b>1,112,974</b>	<b>2,343,995</b>

**10 FINANCE & OTHERS**

Interest on Loans	29,765	246,384
Bank Charges	8,141	36,195
Debit Tax	38,257	-
	<b>76,163</b>	<b>282,579</b>

<b>II POLICY HOLDERS PROTECTION FUND</b>	<b>2003</b>
	<b>Rs.</b>
Cess Received during the year	32,753,706
Interest on Treasury Bill Investment	732,692
Interest on Repo & Call Account	80,388
	<b>33,566,786</b>
Less: Transfers to Operational Expenses	568,607
Debit Tax	93,388
	<b>661,995</b>
Balance as at 31/12/2003	<b>32,904,791</b>

Policy Holders Protection Fund commenced in year 2003.

**POLICY HOLDERS PROTECTION FUND INVESTMENTS AND OTHERS**

**ASSETS**

Investment in Treasury Bills	31,312,988
Investment in Call	820,000
Interest Receivable on Treasury Bills	732,692
Balance at Bank	39,111
	<b>32,904,791</b>

**12 Retirement Benefit Obligations**

Provision for Retirement Gratuity	<b>2003</b>	<b>2002</b>
Beginning of the year	20,000	-
Provision for the year	(20,000)	20,000
End of the year	Nil	20,000

The post of Director General was the only permanent appointment to the Board. Since the Director General resigned with effect from 03/02/2003, no provision was made for Retirement Benefit Obligation for the year 2003.

**13 Taxation**

The Board has requested the Ministry of Finance to consider exemption of its profits and income from Income Tax under Section 8 of the Inland Revenue Act No. 38 of 2000, and expects that the request will be considered favourably. Accordingly, no tax on income has been provided in these Financial Statements.

#### **14 Capital Commitments**

There were no capital commitments as at 31st December 2003.

#### **15 Contingent Liabilities**

There were no contingent liabilities as at 31st December 2003.

#### **16 Events occurred after the Balance Sheet Date**

The Board decided to create a separate division for Insurance Supervision. No other material events have occurred after the Balance Sheet date necessitating any adjustments or disclosure in the Financial Statements.

#### **17 Comparative Figures**

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

#### **18 Related Party Disclosures**

The following members of the IBSL were also members of the Securities and Exchange Commission of Sri Lanka (SEC) except Mr. Palitha Silva Gunawardene who is the Director General of the SEC.

	<b><u>SEC</u></b>
Lt. Gen. J E D Perera	Member/Chairman
Dr. Nihal Jinasena	Member
Mr. P M Nagahawatte	Member
Mr. F Mohideen	Member
Mr. W Unamboowe	Member
Mr. Palitha Silva Gunawardene	Director General

The post of Chairman of the IBSL was vacant from 01/01/02 to 16/03/03 until Lt.Gen. J E D Perera assumed duties on 17/03/03.

Mr. W Unamboowe and Mr. Palitha Silva Gunawardene were appointed as members of the Board on 31/03/03 and 01/07/03 respectively.

The Director General, the only member of the staff appointed to the IBSL tendered his resignation with effect from 03/02/2003. Since his resignation an Officer in Charge executes the affairs of the Board. An honorarium was paid to the staff of the SEC for the additional duties amounting to Rs. 3,405,629 during the period 01/01/03 to 31/12/03. The SEC granted loans amounting to Rs. 1,359,148 at Treasury bill rate of interest and temporary transfers amounting to Rs. 3,589,517 due to delay in receiving funds from the Treasury free of charge.

Rent and other related expenses were not levied to the IBSL office that is housed in the SEC's premises.



The following table depicts the Directorships held by the Members of the Board as at 31/12/03. Other than the two current accounts, repo and call deposit investments at Bank of Ceylon there were no transactions recorded with the said institutions during the year.

<b>Names of Members</b>	<b>Name of Company</b>
Lt.Gen Denis Perera	Directories Lanka (Pvt) Ltd. 'E' Point Securities & Exchange Commission of Sri Lanka
Dr. Nihal Jinasena	Jinasena Engineering Holdings (Pvt) Ltd. Jinasena New Technology Holdings (Pvt) Ltd. Jinasena Industrial Appliances (Pvt) Ltd. Jinasena Management Services (Pvt) Ltd. Jinasena Exports (Pvt) Ltd. Almecco (Pvt) Ltd. Trakstar (Pvt) Ltd. Loadstar (Pvt) Ltd. Hessing Garments Ltd. Sea & Land Foods (Pvt) Ltd. Royal Lotus Hotel (Pvt) Ltd. Jinasena Ltd. Jinasena Castings Ltd. Jinasena Electric Motors Ltd. Jinasena Pumps (Pvt) Ltd. Jinasena Industrial Parks (Pvt) Ltd. Jinasena Engineering & Technology (Pvt) Ltd. Deer Park Hotel (Pvt) Ltd. Jinasena Seals Ltd. Jinasena Agricultural Machinery (Pvt) Ltd. Jinasena Appliances (Pvt) Ltd. Coral Sands Hotel Ltd. Oceanic Travels Ltd.
P M Nagahawatta	Credit information Bureau of Sri Lanka Securities & Exchange Commission of Sri Lanka
Faiz Mohideen	Bank of Ceylon
H L A De Silva	Hector Kobbakaduwa Agrarian Research & Training Institute Elkaduwa Plantation Ltd.
W Unamboowe	Securities & Exchange Commission of Sri Lanka
Palitha Silva Gunawardene	Public Enterprises Reform Commission of Sri Lanka Sri Lanka Accounting & Auditing Standards Monitoring Board Construction Guarantee Fund





