

Insurance Board of Sri Lanka

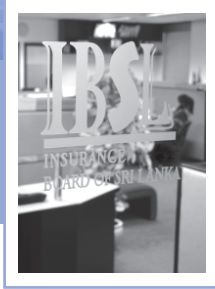


Annual Report 2005



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Mission & Vision

Mission

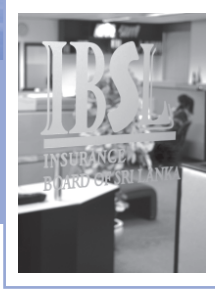
"To ensure that insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policy-holders and potential policy- holders"

Vision

"To progressively strengthen the supervisory/regulatory framework of the insurance industry and to be an effective risk based supervisor/regulator adopting the Core Principles of the International Association of Insurance Supervisors (IAIS) to the extent practicable for Sri Lanka"



Part 1



General Information

Office Address

Level 7-02, East Tower, World Trade Centre, Echelon Square,
Colombo 1
Telephone: 2396184-9, Fax: 2396190
E-mail: ibosl@sri.lanka.net Web site: www.ibsl.gov.lk

Legal Form

A statutory Board established in Sri Lanka in terms of the Regulation of Insurance Industry Act, No. 43 of 2000, which came into operation with effect from 01st March 2001 by Government Gazette Notification No. 1172/27 dated 23rd February 2001

Objectives & Responsibilities

The objective 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

31st December

Auditors

The Auditor General

Bankers

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



Members of The Board



6

4

2

1

3

5

1

Mr. Gamini Wickramasinghe
Chairman

2

Mr. C. P. E. Gunasingam
Member

4

Dr. (Mrs) Rane Jayamaha
Member

3

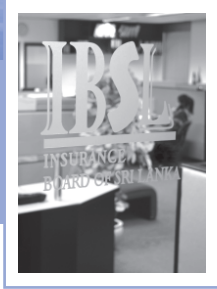
Mr. Greeting Gunawardhana
Member

5

Mr. Sumith Abeysinghe
Member

6

Mr. Channa de Silva
Member



Chairman's Statement



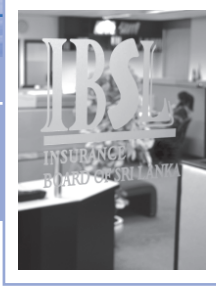
The insurance industry with an overall premium income of Rs.37 billion from both life and general insurance business during 2005 recorded a growth rate of 26% when compared with the previous year's growth rate of 22%. During the year, general insurance business had a significant growth rate of 32%, which surpassed all the previous years' growth rates since the liberalization of the insurance industry.

This may be attributable to the aftermath of the tsunami disaster which would have been an impetus for the public to become insurance conscious and to obtain insurance covers for their property, household and business enterprises so as to mitigate any losses due to such natural disasters.

The insurance companies responded enthusiastically in settling outstanding insurance claims, that arose as a result of the tsunami of 26th December 2004 during the first quarter of 2005 and the companies also accommodated certain claims on ex-gratia basis although the tsunami related risks were not covered under the policies.

During the year, the minimum paid up share capital for insurance companies registered after October 12, 2005 was increased to Rs. 100 million for each class of insurance business. Amendments to the RII Act are underway for this requirement to be applied to insurance companies registered prior to this date in order to increase their asset base and underwriting capacity, and improve their solvency position. Similarly, the minimum paid up share capital of insurance brokers registered after September 12, 2005 was increased to Rs.1 million. Amendments to the RII Act are underway for this requirement to be applied to insurance brokers registered prior to this date.

Although financial strength is critical for an insurer, the need for insurance companies to improve their image and accountability to the public must be given no less importance. The Board is focusing on the promotion of good corporate governance, operational efficiency and prudence in the management of insurance companies. Under the new Risk Based Supervision Methodology adopted by the Board during the year, significant emphasis



Chairman's Statement *Contd...*

was placed on the role of the Board of Directors and senior management of insurers in ensuring a strong culture of good corporate governance and sound risk management. Greater emphasis will also be placed on the self-regulatory mechanisms with the co-operation of the insurance industry in order to complement the broad-based regulatory framework established by the Board.

Information Technology (IT) forms an integral part of the insurance business since insurers deal with a large number of transactions that need to be securely stored and remain accessible for long periods. IT systems help to collect and manage large amounts of data over the years, but also expose insurers to high operational risk in case of a disaster, making effective contingency planning critical.

Insurance business is highly dependent upon the quality of historical statistical data to assist in product design, pricing and actuarial calculations etc. Therefore the insurance companies need state of the art IT systems in order to provide adequate customer service and be competitive with companies which have sophisticated IT systems.

As the insurance industry faces shortage of personnel with insurance qualifications, the Insurance Board of Sri Lanka has taken the initiative, with the cooperation of some of the universities, to introduce "Insurance" as a subject for degree programmes.

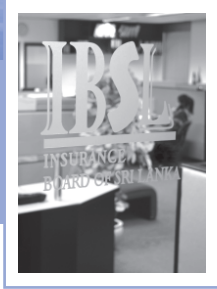
It is also the intention of the Board as well as the insurance industry to encourage graduates to pursue Actuarial Studies, since Sri Lanka is experiencing a severe shortage of qualified actuaries. Presently,

most insurance companies are obtaining the services of foreign actuaries and millions of rupees are remitted to them for these services.

The Board will be enlisting the services of an Actuary for long term insurance business and general insurance business with funding provided by the Asian Development Bank. The long-term nature of this assignment will enable the staff of the Board to be trained on actuarial as well as regulatory aspects. The professionally qualified staff recruited by the Board is being trained in insurance regulation and supervision work. The Board with their assistance will endeavour to ensure that the insurance business is carried on with integrity and in a professional manner with a view to safeguarding the interests of policyholders and potential policyholders as spelt out in the Regulation of Insurance Industry Act.

Also the Board will play a leading role along with the industry key stakeholders in developing the insurance industry and educating the sub-urban and rural sectors of the society so as to instill the benefits of insurance to them and thereby gradually increase the insurance penetration rate in Sri Lanka.

Gamini Wickramasinghe
Chairman
30 May 2006



Director General's Review

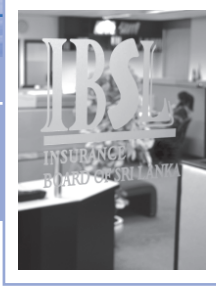


The aftermath of the tsunami was the dawn of year 2005. I am glad to mention that Insurance Companies in Sri Lanka were proactive in the post tsunami recovery process. Immediate action taken by insurers to settle claims is commendable. Several companies even made ex-gratia payments to the affected parties amply demonstrating the Corporate Social Responsibility they assume as insurers and the implicit role they play for the economic well being of the country. I take this opportunity to sincerely thank all these insurance companies for their supportive gesture.

In recognition of the necessity for more effective and efficient supervision in view of the growing numbers and increasingly more complex operations of insurance companies, the Board during the year 2005 devoted significant resources to the development of a Risk Based Supervision Framework. The Board's Risk Based Supervision Framework is designed to assess the risk profile of a company's operations and tailor the scope, nature and extent of the supervision activities based on the risk profile of each insurer using a CAMELS

Rating Framework. During the on-site inspection, the components of CAMELS (Capital, Assets, Reinsurance, Actuarial Liabilities, Management, Earning, Liquidity and the Subsidiaries) of the insurer are subjected to an assessment in order to determine the nature and extent of inherent risks in the operations, and the quality of related risk management. The on-site inspection process includes meetings with senior and middle management, members of the Board of Directors, the internal auditors, external auditors and actuaries of the insurers. The inspection also covers a review of relevant company documents. At the completion of the on-site inspection process, recommendations are made to address any deficiencies that were identified.

The Board is a member of the International Association of Insurance Supervisors (IAIS). The IAIS has formulated a globally accepted framework for regulation and supervision of the Insurance Industry. The Board has been subjected to a self-assessment of compliance with a selected set of IAIS Insurance Core Principles (ICPs). The ICPs can be used to



Director General's Review *Contd...*

establish or enhance a jurisdiction's supervisory framework and in doing so may identify weaknesses, some of which could affect policyholder protection and market stability. The Board, in August 2005, formulated an action matrix to be fully compliant with the selected ICPs by end of the year 2007. The Board has stipulated timeframes to achieve the "compliant" status for each of the selected ICPs.

In keeping with the time frames, the Board has proposed amendments to the Act to include the Fit and Proper criteria when appointing members to the senior management of insurance companies.

The year 2005 was a significant year as the Board formed itself as an independent entity having its own staff in May 2005. I assumed duties in April 2005. The regulator should have expert staff to be effective in discharging its mandate. We were able to recruit some of the staff members during the year 2005. The recruitment process is still ongoing.

The Board has proposed amendments to the Regulation of Insurance Industry Act, inter alia, to permit institutional agents, registration of loss adjusters. The proposed amendments have been forwarded to the Ministry of Finance for necessary action. Currently the Board is in the process of reviewing the RII Act in order to draft further amendments with the view to enhance the regulatory environment so as to protect the interests of the policyholders and to develop the insurance industry.

Additionally, the Secretariat has also compiled a binder titled "Consolidation of Sri Lankan Insurance Laws" presently applicable to the insurance industry, for the benefit of all industry participants.

The Board deregulated fire insurance with effect from January 1, 2005. With the abolition of the tariff,

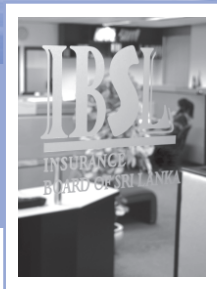
immediate action was taken to improve the reporting requirements and to enhance the prudential regulatory framework. The Board also conducted various training programmes, seminars, and made presentations and issued in-house publications for industry officials as well as for the general public during the year.

The Board will continue to progressively strengthen the regulatory framework for the insurance industry. In the process, the Board will consult the industry whenever any changes to the regulatory framework would be effected. Such a dialogue will be important to ensure the creation of an environment conducive to the growth of the insurance industry.

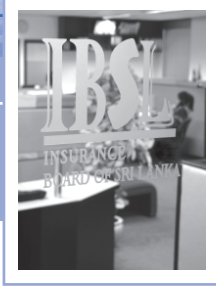
The Members of the Board tendered their resignations in December 2005 complying with a Government request. Whilst thanking the Board, which served during the period January to November 2005, I take pleasure in welcoming the new members to the Board.

I would like to place on record my sincere gratitude to the present Chairman, Mr Gamini Wickramasinghe and the Members of the Board for their guidance and support since their appointment in February 2006. I also take this opportunity to appreciate the hard work done by all consultants assigned to the Board during the year and congratulate all staff members of the Board (since May 2005) and the Securities and Exchange Commission (upto May 2005) for a job well done.

Lasinee Seresinhe
Director General
30 May 2006



Part 2



General Review

Administration of the Regulation of Insurance Industry Act

Legislation

The insurance industry is regulated and supervised in terms of the provisions of the Regulation of Insurance Industry Act, No.43 of 2000 (hereinafter referred to as the RII Act). The Insurance Board of Sri Lanka (hereinafter referred to as the Board) was established under this Act.

Licensing and Market Structure

Insurance Companies

No person can engage in insurance business in Sri Lanka unless such person is registered as an insurer under the RII Act.

15 insurance companies were in operation during the year, of which 13 insurers engaged in composite insurance, carrying on both long term insurance business and general insurance business while 1 company engaged in long term insurance business and the other company engaged in general insurance business.

Prudential Assurance Lanka Ltd. (now known as ABC Insurance Company Ltd.) was registered during the year as an insurer to engage in long term insurance business and general insurance business. This company is wholly owned by Sri Lankans.

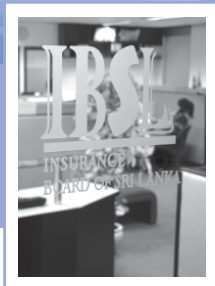
During the year Hayleys AIG Insurance Company Ltd. informed the Board that the company had entered into an agreement with Sri Lanka Insurance Corporation Ltd. (SLICL) to transfer its life insurance portfolio along with the long term insurance fund. For this purpose in terms of section 102 of the Act the company was required to submit the Board's observations to the District Court in order to obtain approval to transfer its life business. The Board in consultation with its Consultant Actuary made its observations on such transfer to be submitted to the District Court.

(Refer Appendix i for Insurance Companies Registered under the RII Act up to 30th May 2006)

Insurance Brokers

No person shall act or hold itself out as an insurance broker unless such person is a holder of a certificate of registration as a broker granted by the Board. During the year, 3 new insurance brokers were registered under the RII Act. Registrations of 52 insurance brokers were renewed.

(Refer Appendix ii for Insurance Broking Companies Registered under the RII Act for the year 2006)



General Review *Contd...*

Administration of the Regulation of Insurance Industry Act

Insurance Agents

Insurers and insurance brokers register individuals as insurance agents. It is recognized all over the world that insurance policies cannot be sold without the involvement of agents who render not only good advice in selection of appropriate insurance products to the individual's needs but also provide good service to policyholders in the matters relating to premium payments, claims and other services such as nomination and assignment of policies. The insurance agents in Sri Lanka procure approximately 80% of the life insurance business.

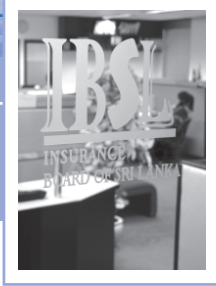
The Board has stipulated minimum academic and other entry qualifications that an individual should possess to register as an insurance agent. This also includes passing of a pre-recruitment test conducted by the Sri Lanka Insurance Institute (SLII) in terms of Rules made by the Board under section 78(5) of the RII Act.

The SLII conducts pre-recruitment tests for insurance agents in respect of long term insurance in Sinhala, Tamil and English languages. The data relating to pre-recruitment test in respect of long term insurance is as follows:

Pre-recruitment Test - Long Term Insurance

	English Medium	Sinhala Medium	Tamil Medium	Total
Number of Tests held during the year	32	160	112	304
Number of Candidates appeared for the test	67	9,833	2,143	12,043
Number passed	23	3,625	534	4,182
Pass Rate	34%	37%	25%	35%

(source: Sri Lanka Insurance Institute)



General Review *Contd...*

Administration of the Regulation of Insurance Industry Act

In view of the overall pass rate being 35%, which is considered to be low, the Board in association with Sri Lanka Insurance Institute (SLII), Insurance Association of Sri Lanka (IASL) and Sri Lanka Insurance Brokers Association (SLIBA) examined issues that have led to the situation in order to initiate necessary corrective action. The main reason that was identified, *inter alia*, was the unfamiliar and complex nature of the technical words used in the textbook. As a result the SLII initiated redrafting the textbook on a priority basis in view of the importance of having persons with the required qualifications to engage in insurance business. Further, the Board contemplates streamlining the examination procedure by establishing an Examination Board consisting of representatives from the SLII, IASL, SLIBA and two others from the academia.

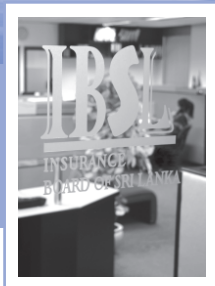
Levy of CESS from Insurance Companies

In terms of section 7(2) of the RII Act, order was made by the Hon. Minister of Finance to levy a cess at the rate of 0.2% of the annual net premium income of long term insurance business and 0.4% of the annual net premium income of general insurance business. This order was published in the Gazette Notification No.1244/5 on 9th July 2002 and the Board commenced collecting cess from the insurers with effect from January 2003 on a quarterly basis. Total amount of cess collected for the year 2005 was Rs. 72 million.

Policy Holders Protection Fund

The cess collected from the insurance companies is deposited into the Policy Holders Protection Fund established under section 103(1) of the RII Act.

Section 103 (2) of the RII Act details the manner in which the policyholder's protection fund could be utilized. For this purpose the Board has formulated rules, which were published in Gazette Notification No. 1412/30 on 29th September 2005. The amounts lying to the credit of the Policy Holders Protection Fund was invested in Treasury Bills. The accumulated amount in the Fund as at 31st December 2005 was Rs. 168 million.



General Review *Contd...*

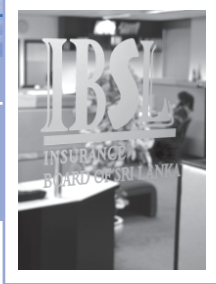
Administration of the Regulation of Insurance Industry Act

Insurance Tariff

Presently only Employers Liability Insurance (Workmen's Compensation Insurance) is tariff based.

The Insurance Association of Sri Lanka (IASL) made representations to the Board that the insurance companies are continuously making losses as the premium rates prescribed under the motor tariff does not commensurate with the claims. The Board after examining the issue abolished the tariff on motor insurance with effect from 1st January 2002. Thereafter, a substantial increase of premiums was witnessed in the market, making motor insurance business a profitable business line for the insurers. In addition some insurance companies were able to introduce products with value added services, which were favoured by the public.

Subsequently, in the year 2003 the IASL made representations to the Board that the premium rates charged for fire insurance were lower than the rates stipulated for fire tariff. Further the IASL was also of the view that the tariff rates were too high and should be reduced. In order to examine this matter the Board appointed a committee to study the existing tariff and to revise the tariff. The committee, in its report recommended a downward revision to the rates that were in force. The Board approved the revised tariff for implementation. However, the SLIBA and some insurers made representations to the Minister of Finance requesting him to intervene in the matter and prevent the implementation of the revised tariff. In this regard the Secretary to the Treasury initiated a meeting to discuss the matter with the Chamber of Commerce and the Board. As a result of this meeting the Secretary to the Treasury instructed the Board to obtain services of an insurance expert from India to study the revised tariff and make observations. Thereafter, the tariff was further amended in keeping par with the fire tariff practiced in the Indian insurance market. The amended fire tariff was tabled at a meeting held with the Chamber of Commerce and the Board. According to comments and observations made by the Chamber of Commerce on the further amended fire tariff the Secretary to the Treasury directed the Board not to introduce any tariff revisions but instead to formulate prudential guidelines for all insurers to comply with, by 1st January 2005. As a result the Board abolished the tariff on fire insurance with effect from 1st January 2005. The Board has since made several improvements to its on-site and off-site supervision methodology and is in the process of strengthening its regulatory environment further.



General Review *Contd...*

Administration of the Regulation of Insurance Industry Act

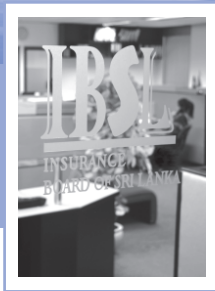
Strike, Riot, Civil Commotion and Terrorism Fund (SRCC&T Fund)

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 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 the entire premium that is collected in respect of risks covered by them against strike, riot, civil commotion and terrorism. The Secretary to the Treasury by his letter of 7th August 2001 vested the Board with powers to regulate SRCC&T Fund. Subsequently, the Ministry withdrew this responsibility with effect from 28th August 2003.

Exemptions from the RII Act

Provisions of the RII 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 RII 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.



General Review *Contd...*

Insurers & Brokers

Insurance Companies

In terms of the provisions of the RII Act, a company should be incorporated as a public company under the Companies Act No.17 of 1982, in order to submit an application to the Board to register as an insurer under the RII Act.

The Hon. Minister of Finance, under the powers vested in him under the RII Act made Regulations increasing the minimum paid up share capital to Rs.100 million in respect of each class of insurance business from the previous requirement of Rs.25 million for long term insurance business and Rs.50 million for general insurance business. This requirement is applicable to companies, which seek registration after 12th October 2005, being the date on which this Regulation came into effect. The first company that was subjected to the Rs.100 million paid up capital requirement was Ceylinco Takaful Limited which submitted the application for registration to engage in general insurance business during the year. However, 8 companies are already in compliance with this requirement.

Five insurance companies i.e. Ceylinco Insurance Company Ltd. Eagle Insurance Company Ltd. Union Assurance Ltd. Asian Alliance Insurance Company Ltd. and HNB Assurance Ltd. are listed on the Colombo Stock Exchange.

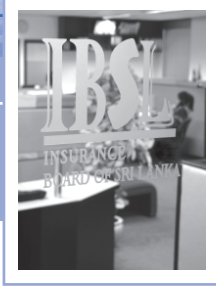
Foreign equity participation has been permitted up to 100% in insurance companies in terms of the Gazette Notification No1232/14 dated 19th April 2002 published by the Controller of Exchange.

Allianz Insurance Company Lanka Ltd. is a wholly owned subsidiary of Allianz Group of Germany, while majority shareholdings of Hayleys AIG and Life Insurance Corporation (Lanka) Ltd are held by American International Group and Life insurance Corporation of India respectively. 15% of the shares of Amana Takaful are held by Takaful Malaysia.

Insurance Broking Companies

The paid up share capital required to register companies as insurance brokers has been increased to rupees one million from rupees two hundred thousand in terms of Rules made by the Board under section 80(1)(a) of the RII Act.

This requirement is applicable to companies, which seek registration after 29th September 2005, being the date on which this Rule came into effect. Presently the law is being amended to give effect of this requirement in respect of companies, which were registered prior to this date.



General Review *Contd...*

Other Related Matters

Insurance Association of Sri Lanka (IASL)

The Insurance Association was established in 1989. Every insurance company registered under the RII Act is eligible for membership in the Association. Only 14 insurance companies are members of the Association out of the 15 registered insurance companies.

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 IASL maintains a close working relationship with the Board.

Sri Lanka Insurance Brokers' Association (SLIBA)

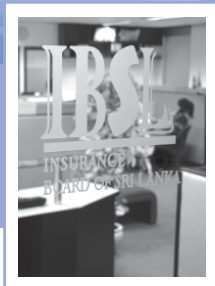
The Sri Lanka Insurance Brokers' Association is the only association of insurance brokers that has been approved by the Board and all insurance brokers are members of this Association. In terms of Section 79 of the RII Act, it is mandatory that all registered insurance brokers and all applicants who obtain registration to be members of this Association. The members of the Association are subject to a code of conduct formulated by the Association. The SLIBA maintains a close relationship with the Board.

The 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 through contributions made by the insurance companies and the annual subscriptions from the members.

The Institute is affiliated to the Chartered Insurance Institute, London and administers 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 also conducts lectures for those who are preparing for these examinations. Additionally, the Institute conducts short-term diploma courses in insurance for persons employed in the insurance industry.

The Institute also conducts pre-recruitment tests for persons who are to be appointed as insurance agents by insurers and insurance brokers.



General Review *Contd...*

Other Related Matters

Additionally, the Institute also has been appointed to certify the competency of individuals who propose to act as insurance agents. For this purpose the Institute has introduced systems and procedures to certify the level of competency of such persons. Once the competency of an individual is determined and where such individual qualifies to act as an insurance agent in terms of the rules made in that behalf, the Institute issues identification to such individual. The identification carries a brief description of the agent's identity such as the name of the agent, National Identity Card or the Passport number, Sri Lanka Insurance Institute registration number and the company with which he/she is associated and the level of grading achieved at the examination. Any person who wishes to query information and establish the identity of an agent with whom he or she wishes to deal, can access the website hosted by the Institute (www.slii.org).

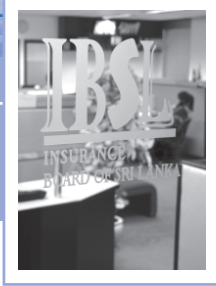
South Asian Insurance Regulators' Forum (SAIRF)

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

During the year Mr. Madhav Prasad Upadhyay, Chairman, Beema Samiti (Insurance Board) of Nepal was the Chairman of SAIRF, while Mr.C.S.Rao, Chairman, Insurance Regulatory and Development Authority of India (IRDA), Mr. Sonam Wangchuk from the Royal Monetary Authority of Bhutan, Mr. Dasho Daw Tenzin from the Royal Monetary Authority of Maldives, Mr. Tarif Hassan from the Securities and Exchange Commission of Pakistan, Kabir Md. Ashraf Alam from the Department of Insurance of Bangladesh and Mrs. Lasinee Serasinhe from the Insurance Board of Sri Lanka were the Vice-Chairpersons.

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

The Annual Meeting of the Forum was held in Kathmandu, Nepal on 23rd April 2005. Mrs.Lasinee Seresinhe, Director General, Insurance Board of Sri Lanka attended this meeting.



General Review *Contd...*

Other Related Matters

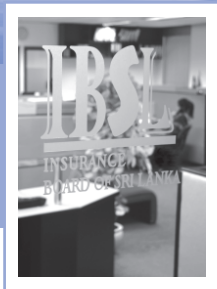
National Council for Road Safety

The National Council for Road safety (NCRS) was established under the Motor Traffic Act. The mission of NCRS is “to create a safer road environment for road users by improving every aspect of safety in order to support sustainable growth and continual social and economic development in the country”.

In terms of the Regulations made under section 213B of the Motor Traffic Act (Chapter 203) as amended by Act No.5 of 1988 every insurer providing motor insurance cover is required to contribute one per centum (1%) of the third party insurance premium to the Road Safety Fund.

The Secretariat of NCRS comes under the purview of the Minister of Railways and Transport. All expenses for the activities of the Council are met from the Road Safety Fund. The Fund is also utilized by NCRS for the payment of compensation to the victims who are affected as a result of “hit and run” vehicles in terms of the Guidelines formulated by the Council under the Regulations.

The Minister of Railways and Transport in terms of the above said Act appoints the Council Members. Mrs. Damayanthi Fernando, Assistant Director Legal was nominated as a Council Member for a three-year term with effect from 20th March 2006



Part 3



Statistical Review of 2004 / 2005

Premium Income

The total overall gross written premium from long term insurance business and general insurance business during the year amounted to Rs.37,224 million (2004:Rs.29,555 million) which shows a growth rate of 25.95% when compared with the previous year's growth rate of 22.40%.

General insurance business with a premium income of Rs.22,410 million (2004: Rs.17,037 million) contributed 60.20% (2003: 57.65%) of the total gross written premium, while contribution from long term insurance was 39.80% (2004: 42.35%) with a premium income of Rs.14,814 million (2004: 12,518 million).

The total gross written premium contributed 1.58% to the Gross Domestic Product (GDP) this year when compared with the previous year's contribution of 1.52%. The insurance sector accounted for approximately 5.0%* of the country's total financial sector assets during the year 2005. *Refer Table 1*

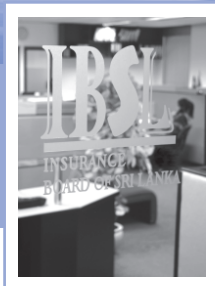
Table 1

Premium Income

(in million rupees)

	1999	2000	2001	2002	2003	2004	2005
Long Term Insurance	5,453	6,252	7,494	8,682	10,613	12,518	14,814
General Insurance	7,762	8,615	9,366	11,599	13,534	17,037	22,410
Total Premium Income	13,215	14,867	16,860	20,281	24,147	29,555	37,224
Total premium as a % of GDP*	1.21	1.18	1.20	1.28	1.37	1.52	1.58
Growth Rate	10.23	12.52	13.39	20.29	19.06	22.40	25.95

* Source: Central Bank Annual Report



Statistical Review of 2004 / 2005 *Contd...*

Long Term Insurance Business

Premium Income

Company wise Market Share

Long term insurance business witnessed a higher growth rate of 21.6% with a gross written premium income of Rs.14,814 million when compared with previous year's growth rate of 17.9% with a gross written premium income of Rs.12,517 million.

Analysis of Data Appearing in Table 2

Ceylinco Insurance Company Ltd. with a premium income of Rs.4,793 million (2004:Rs. 3,961 million) and a market share of 32.36% (2004:31.65%), Asian Alliance Insurance Company Ltd. with a premium income of Rs.577 million (2004:Rs.421 million) and market share of 3.90% (2004:3.37%), HNB Assurance Ltd. with a premium income of Rs.354 million (2004: Rs.205 million) and a market share of 2.39% (2004: 1.64%) and Life Insurance Corporation (Lanka) Ltd. with premium income of Rs.204 million (2004:Rs.82 million) and with a market share of 1.38% (2004:0.66%) demonstrated an increase in their market shares compared with the previous year.

Union Assurance Ltd. with a premium income of Rs. 1,456 million (2004: Rs.1,209 million) and market share of 9.83% (2004: 9.66%) and Janashakthi Insurance Company Ltd. with a premium income of Rs.691 million (2004: Rs. 532 million) and market share of 4.67% (2004:4.26%) reflected a marginal increase in their market shares compared with the previous year.

Sri Lanka Insurance Corporation Limited with a premium income of Rs. 3,602 million (2004: Rs. 3,331 million) accounts for the market share of 24.32%, which reflects a decline when compared with the previous year's market share of 26.62%

Eagle Insurance Company Ltd. with a premium income of Rs.2,832 million (2004:Rs.2,500 million) and a market share of 19.12% (2004:19.97%) reflected a marginal decrease in its market share compared with the previous year.

(Only companies with a market share of 1% and above are included in the analysis)



Statistical Review of 2004 / 2005 *Contd...*

Long Term Insurance Business

Table 2

Gross Written Premium

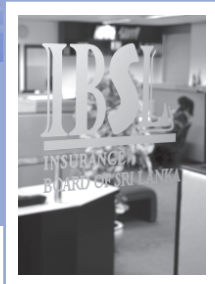
Company wise Market Share - 2005

Company	2000		2001		2002		2003		2004		2005	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
SLICL	2,260,288	36.15	2,526,814	33.70	2,788,636	32.12	3,238,959	30.52	3,331,583	26.62	3,602,639	24.32
NICL	179,444	2.87	184,308	2.50	178,475	2.06	157,543	1.48	136,128	1.09	123,489	0.83
CICL	1,428,052	22.84	2,091,907	27.90	2,359,671	27.18	3,042,655	28.67	3,961,390	31.65	4,793,650	32.36
UAL	701,957	11.23	730,417	9.70	934,147	10.76	1,096,149	10.33	1,209,534	9.66	1,456,576	9.83
EICL	1,386,325	22.17	1,616,758	21.60	1,827,208	21.05	2,169,843	20.45	2,500,131	19.97	2,832,541	19.12
JICL	280,600	4.49	284,008	3.80	343,000	3.95	416,220	3.92	532,643	4.26	691,199	4.67
COICL	9,000	0.14	11,700	0.20	24,519	0.28	44,144	0.42	51,610	0.41	61,897	0.42
AAICL	6,942	0.11	45,902	0.60	163,280	1.88	274,470	2.59	421,280	3.37	577,693	3.90
HAIGICL	-	-	2,273	0.00	8,620	0.10	14,387	0.14	19,342	0.15	8,681	0.06
HNBAL	-	-	-	0.00	35,297	0.41	104,436	0.98	205,883	1.64	354,181	2.39
ATL	-	-	-	-	19,439	0.22	39,990	0.38	60,658	0.48	86,272	0.58
LICLL	-	-	-	-	-	-	13,319	0.13	82,127	0.66	204,618	1.38
SSRS	-	-	-	-	-	-	480	0.00	5,245	0.04	18,737	0.13
PALL	-	-	-	-	-	-	-	-	-	-	2,055	0.01
Total	6,252,608	100.0	7,494,087	100.0	8,682,292	100.0	10,612,595	100.0	12,517,554	100.0	14,814,228	100.0
% Increase (Growth Rate)		14.6		19.8		15.9		22.2		17.9		21.6

Abbreviations

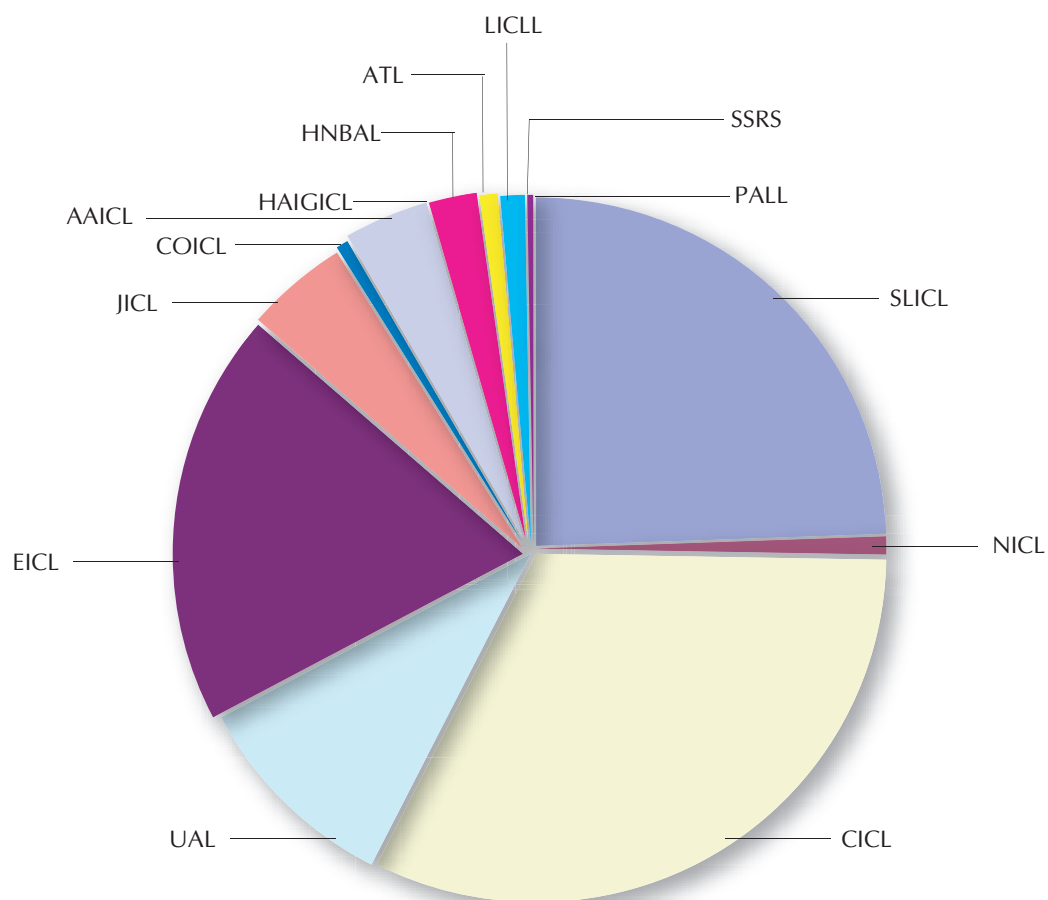
SLICL	: Sri Lanka Insurance Corporation Ltd.
NICL	: National Insurance Corporation Ltd.
CICL	: Ceylinco Insurance Company Ltd.
UAL	: Union Assurance Ltd.
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COICL	: Co-operative Insurance Company Ltd.

AAICL	: Asian Alliance Insurance Company Ltd.
HAIGICL	: Hayleys AIG Insurance Company Ltd.
HNBAL	: HNB Assurance Ltd.
ATL	: Amana Takaful Ltd .
LICLL	: Life Insurance Corporation (Lanka) Ltd.
SSRS	: Seemasahitha Sanasa Rakshana Samagama
PALL	: Prudential Assurance Lanka Ltd.

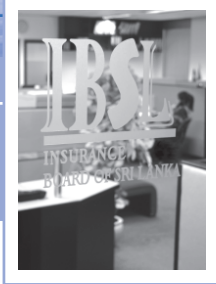


Statistical Review of 2004 / 2005 *Contd...*

Long Term Insurance Business
Gross Written Premium
Company wise Market Share - 2005



SLICL	24.32%	AAICL	3.90%
NICL	0.83%	HAIGICL	0.06%
CICL	32.36%	HNBAL	2.39%
UAL	9.83%	ATL	0.58%
EICL	19.12%	LICLL	1.38%
JICL	4.67%	SSRS	0.13%
COICL	0.42%	PALL	0.01%



Statistical Review of 2004 / 2005 *Contd...*

General Insurance Business

Premium Income

Company wise Market Share

General insurance business with the gross written premium income of Rs.22,410 million (2004:Rs.17,037 million) reflected a significant growth rate of 31.5% when compared with the previous year's growth rate of 25.9%. This may be attributable to the insurance consciousness created among the public as a result of the Tsunami in December 2004.

Analysis of Data Appearing in Table 3

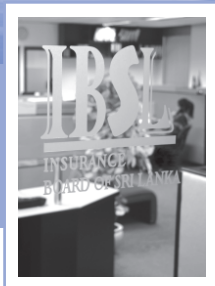
Ceylinco Insurance Company Ltd. with a premium income of Rs.8,003 million (2004:Rs.5,580 million) accounted for 35.85% (2004: 32.76%) of the market share in respect of general insurance business indicating an increase compared with the previous year.

HNB Assurance Ltd. with premium income of Rs.469 million (2004:Rs.338 million) and a market share of 2.10% (2004:1.99%) reflected a marginal increase in its market share whereas Amana Takaful Ltd. with the premium income of Rs.383 million (2004: Rs.183 million) and a market share of 1.71% (2004:1.08%) reflected a 58% growth rate compared with the previous year.

Union Assurance Ltd. with the premium income of Rs.1,720 million (2004: Rs.1,302 million) accounts for 7.68% (2004: 7.65%) of the market share maintaining the market share at the same level as the previous year. Sri Lanka Insurance Corporation Ltd. with the premium income of Rs.6,680 million (2004: Rs.5,303 million) accounts for 29.81% of the market share reflected a decline compared with the previous year's market share of 31.13%.

It was also noted that Eagle Insurance Company Ltd. with a premium income of Rs.1,210 million (2004:Rs.1,058 million) and a market share of 5.40% (2004:6.21%), Janashakthi Insurance Company Ltd. with the premium income of Rs.2,851 million (2004:Rs.2,443 million) and a market share of 12.73% (2004:14.34%), Aian Alliance Insurance Company Ltd. with the premium income of Rs.354 million (2004 :Rs.310 million) and a market share of 1.58% (2004:1.82%) and Hayleys AIG Insurance Company Ltd. with the premium income of Rs.396 million (2004:Rs.318 million) and market share of 1.77% (2004:1.87%) reflected a marginal decline in their market shares.

(Only companies with a market share of 1% and above are included in the analysis)



Statistical Review of 2004 / 2005 *Contd...*

General Insurance Business

Table 3

Gross Written Premium

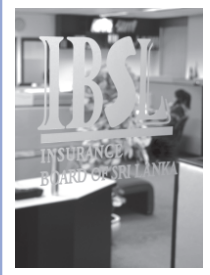
Company wise Market Share - 2005

Company	2000		2001		2002		2003		2004		2005	
	Premium		Premium		Premium		Premium		Premium		Premium	
	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%
SLICL	3,835,602	44.52	3,961,163	42.29	4,922,866	42.44	4,866,149	35.95	5,303,104	31.13	6,680,703	29.81
NICL	580,863	6.74	549,809	5.87	357,684	3.08	254,689	1.88	40,200	0.24	1,956	0.01
CICL	1,693,047	19.65	1,895,185	20.23	2,607,339	22.48	3,721,206	27.50	5,580,643	32.76	8,033,195	35.85
UAL	1,018,085	11.82	1,132,730	12.09	1,218,997	10.51	1,264,961	9.35	1,302,894	7.65	1,720,783	7.68
EICL	686,112	7.96	730,511	7.80	909,883	7.84	1,072,666	7.93	1,058,025	6.21	1,210,939	5.40
JICL	536,450	6.23	718,235	7.67	947,971	8.17	1,407,309	10.40	2,443,808	14.34	2,851,792	12.73
COICL	59,119	0.69	60,650	0.65	85,482	0.74	161,128	1.19	157,741	0.93	180,433	0.81
AAICL	165,443	1.92	244,738	2.61	285,607	2.46	271,097	2.00	310,400	1.82	354,167	1.58
HAIGICL	39,821	0.46	61,602	0.66	109,554	0.94	186,571	1.38	318,254	1.87	396,681	1.77
HNBAL	-	-	11,785	0.13	122,233	1.05	243,390	1.80	338,708	1.99	469,929	2.10
ATL	-	-	-	-	31,783	0.27	84,842	0.63	183,581	1.08	383,425	1.71
SSRS	-	-	-	-	-	-	-	-	-	-	39,985	0.18
AICLL	-	-	-	-	-	-	-	-	-	-	75,399	0.34
PALL	-	-	-	-	-	-	-	-	-	-	10,769	0.05
Total	8,614,542	100.0	9,366,408	100.0	11,599,399	100.0	13,534,008	100.0	17,037,358	100.0	22,410,156	100.0
% Increase (Growth Rate)		11.0		8.7		23.8		16.7		25.9		31.5

Abbreviations

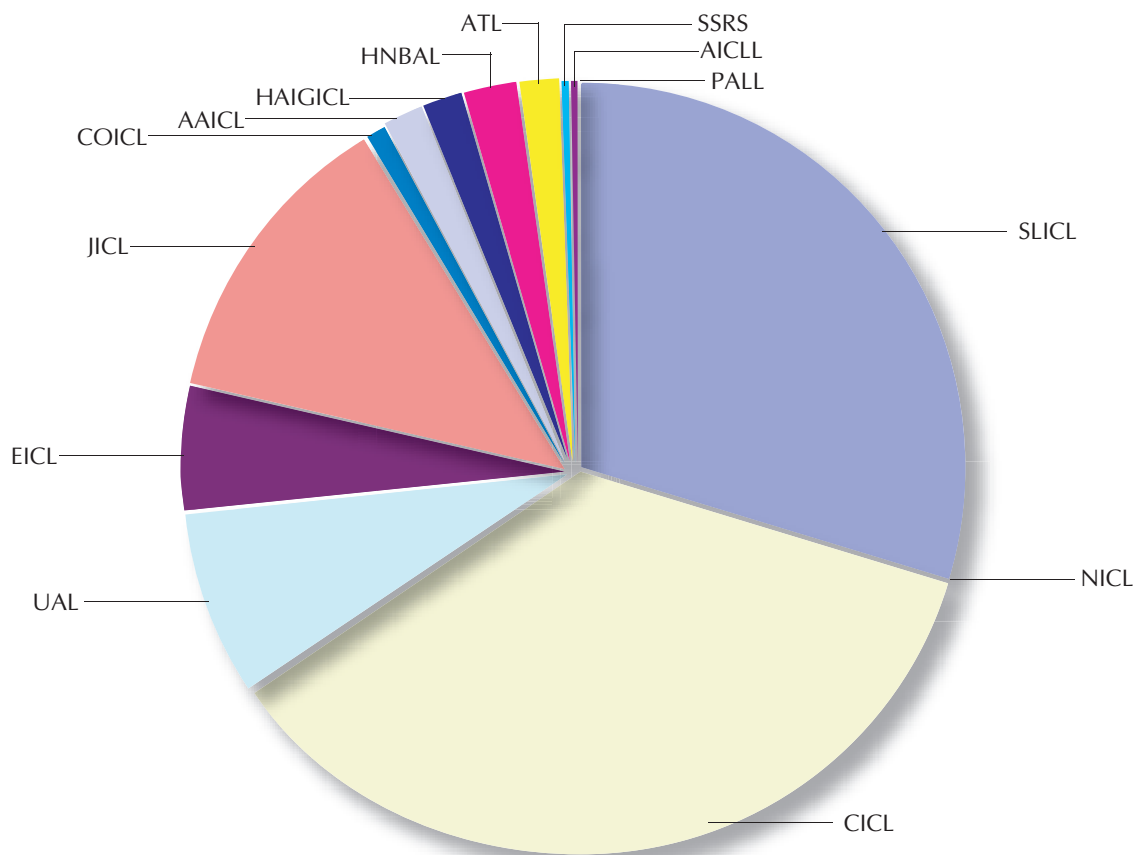
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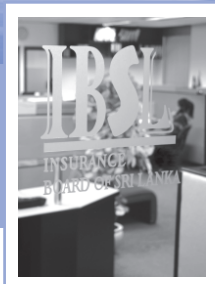


Statistical Review of 2004 / 2005 *Contd...*

General Insurance Business
Gross Written Premium
Company wise Market Share - 2005



SLICL	29.81%	AAICL	1.58%
NICL	0.01%	HAIGICL	1.77%
CICL	35.85%	HNBAL	2.10%
UAL	7.68%	ATL	1.71%
EICL	5.40%	SSRS	0.18%
JICL	12.73%	AICLL	0.34%
COICL	0.81%	PALL	0.05%



Statistical Review of 2004 / 2005 *Contd...*

General Insurance Business

Distribution of Gross Written Premium

Motor insurance continued to be the major contributor to the general insurance gross written premium income. During the year motor insurance business with a gross written premium of Rs.11,102 million (2004:Rs.8,367 million) accounted for 49.54% (2004: 49.11%) and also reflected a growth rate of 32.69%. Fire insurance business with the premium income of Rs.4,140 million (2004: Rs.2,978 million) accounted for 18.48% (2004:17.48%) of the total premium income and reflected a growth rate of 38.99%. Miscellaneous Insurance and Marine insurance with premium income of Rs.5,808 million (2004:Rs4,518 million) and Rs.1,358 million (2004:Rs.1,172 million) accounted for 25.92% (2004:26.52%) and 6.06% (2004:6.88%) respectively and both classes reflected a marginal decline. Refer Table 4 and Chart 3

Table 4

Distribution of Gross Written Premium General Insurance Business

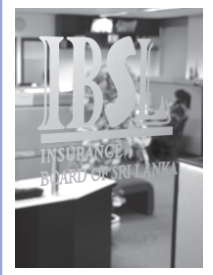
YEAR	Fire Rs.'000	Marine Rs.'000	Motor Rs.'000	Misc. Rs.'000	Total Rs.'000
1998	1,846,904	679,534	2,739,819	1,844,415	7,110,672
1999	1,912,212	706,656	3,160,937	1,982,044	7,761,849
2000	2,010,136	842,178	3,528,391	2,194,092	8,574,797
2001	2,339,829	809,547	3,774,471	2,442,561	9,366,408
2002	2,475,897	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
2004	2,978,979	1,172,810	8,367,447	4,518,122	17,037,358
2005	4,140,458	1,358,033	11,102,737	5,808,928	22,410,156

% Change

YEAR	Fire Rs.'000	Marine Rs.'000	Motor Rs.'000	Misc. Rs.'000	Total Rs.'000
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
2004	9.33	22.56	34.43	24.54	25.89
2005	38.99	15.79	32.69	28.57	31.54

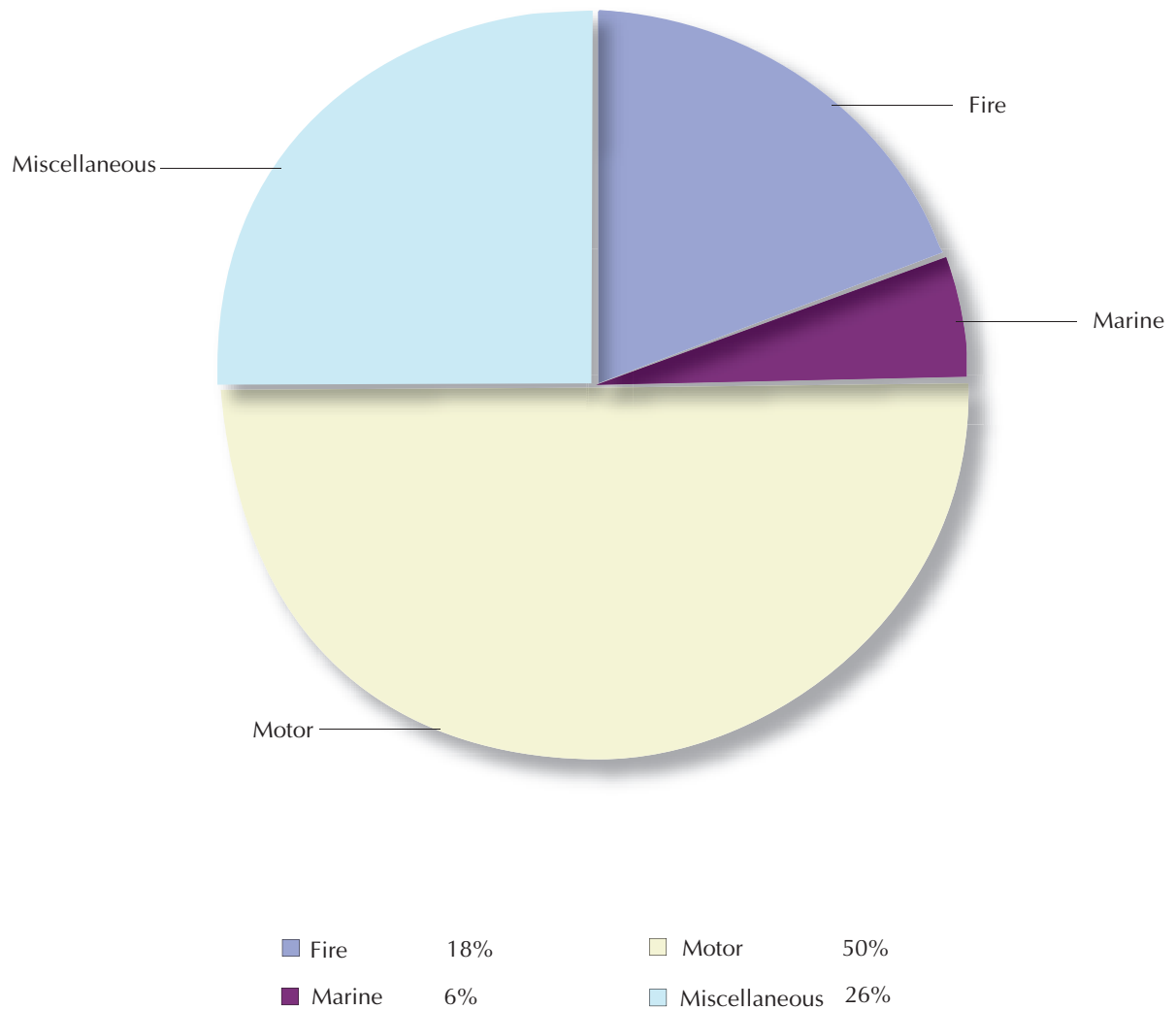
% Share

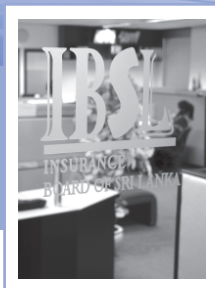
YEAR	Fire Rs.'000	Marine Rs.'000	Motor Rs.'000	Misc. Rs.'000	Total Rs.'000
1998	25.97	9.56	38.53	25.94	100.00
1999	24.64	9.10	40.72	25.54	100.00
2000	23.44	9.82	41.15	25.59	100.00
2001	24.98	8.64	40.3	26.08	100.00
2002	21.35	8.13	38.78	31.74	100.00
2003	20.13	7.07	45.99	26.81	100.00
2004	17.48	6.88	49.11	26.52	100.00
2005	18.48	6.06	49.54	25.92	100.00



Statistical Review of 2004 / 2005 *Contd...*

Distribution of Gross Written Premium
of General Insurance Business
Sub-class wise





Statistical Review of 2004 / 2005 *Contd...*

General Insurance Business

Reinsurance and Retention of Gross Written Premium

During the year insurance companies had retained Rs.16,468 million (2004: Rs.12,323 million) out of the total gross written premium of Rs.22,410 million (2004:Rs.17,037 million), thereby 73.48% of the premium was retained compared with the previous year's retention of 72.33% indicating gradual increase in retention levels.

Motor insurance accounted for the highest retention with 95.14% (2004:95.92%) followed by miscellaneous insurance with 74.44% (2003: 71.64%) and marine insurance with 51.67% (2004:43.19%), whereas fire insurance had the lowest retention of 21.24% (2004: 18.57 %). Refer Table 5.

Table 5

Gross Written Premium

	1998	1999	2000	2001	2002	2003	2004	2005
Fire	1,846,904	1,912,212	2,034,780	2,339,829	2,475,897	2,724,800	2,978,979	4,140,458
Marine	679,534	706,656	848,250	809,547	942,868	956,900	1,172,810	1,358,033
Motor	2,739,819	3,160,937	3,533,619	3,774,471	4,498,495	6,224,332	8,367,447	11,102,737
Miscellaneous	1,844,415	1,982,044	2,197,969	2,442,561	3,682,139	3,627,976	4,518,122	5,808,928
Total Gross Written Premium	7,110,672	7,761,849	8,614,618	9,366,408	11,599,399	13,534,008	17,037,358	22,410,156

Reinsurance Premium

Fire	1,393,506	1,408,244	1,524,421	1,686,421	2,076,360	2,246,092	2,425,875	3,260,854
Marine	330,306	359,656	485,003	445,694	580,348	554,160	666,292	656,340
Motor	681,997	758,972	219,663	198,587	350,853	272,217	341,072	539,951
Miscellaneous	544,585	472,375	642,429	808,975	1,182,228	1,756,857	1,281,222	1,484,923
Total Reinsurance Premium	2,950,394	2,999,247	2,871,516	3,139,677	4,189,789	4,829,326	4,714,461	5,942,068

Net Written Premium (Retention)

Fire	453,398	503,968	490,210	653,408	399,537	478,708	553,104	879,604
Marine	349,228	346,999	336,881	363,853	362,520	402,740	506,518	701,693
Motor	2,057,822	2,401,965	3,311,912	3,575,884	4,147,642	5,952,115	8,026,375	10,562,786
Miscellaneous	1,299,829	1,509,669	1,553,503	1,633,586	2,499,911	1,871,119	3,236,900	4,324,005
Total Net Written Premium	4,160,277	4,762,601	5,692,506	6,226,731	7,409,610	8,704,682	12,322,897	16,468,088

Retention as a percentage of the Gross Written Premium

Fire	24.55	26.36	24.09	27.93	16.14	17.57	18.57	21.24
Marine	51.39	49.10	39.71	44.95	38.45	42.09	43.19	51.67
Motor	75.11	75.99	93.73	94.74	92.20	95.63	95.92	95.14
Miscellaneous	70.47	76.17	70.68	66.88	67.89	51.57	71.64	74.44
Overall Retention	58.51	61.36	66.08	66.48	63.88	64.32	72.33	73.48



Statistical Review of 2004 / 2005 *Contd...*

Performance of Insurance Brokers

Fifty-five Insurance brokers operated during the year. These insurance brokers continued to concentrate in general insurance business as in the previous years. Insurance brokers accounted for 23.24% (2004:24.16%) amounting to Rs. 5,208 million (2004:Rs.4,117 million) out of the total gross written premium of Rs.22,410 million (2004:Rs.17,037 million) in respect of general insurance business reflecting a marginal drop in the insurance brokers contribution.

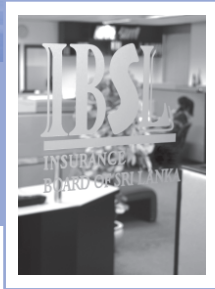
Further the contribution from the insurance brokers in respect of long term insurance business continued to be low. They accounted for 0.69% (2004:0.70%) amounting to Rs.103 million (2004:Rs.88 million) out of the total gross written premium of Rs. 14,814 million (2004:Rs.12,517 million) in respect of life insurance business.

The total gross premium income earned through brokers during the year was Rs. 5,311 million out of which 85% (Rs. 4,518 million) was through twelve insurance brokers. Refer Table 6.

Table 6
Premium Income of Insurance Brokers – 2005

Insurance Brokers	T O T A L		
	Life Rs.	General Rs.	Life & General Rs.
Alfino Insurance Brokers (PVT) Ltd.	655,654	117,834,207	118,489,861
CF Insurance Brokers (PVT) Ltd.	1,899,981	787,421,414	789,321,395
Commercial Insurance Brokers (PVT) Ltd.	44,813,518	625,886,113	670,699,631
Delmege Insurance Brokers (PVT) Ltd.	3,464,103	502,997,480	506,461,583
Essajee Carmanjee and Company	1,554,213	124,433,076	125,987,289
Finlay Insurance (Brokers) Ltd.	653,718	300,310,194	300,963,912
Industrial & Commercial Insurance Brokers (PVT) Ltd.	6,884,781	644,983,237	651,868,018
Insurex Insurance Brokers (PVT) Ltd.	228,441	182,002,095	182,230,536
Lanka Orix Insurance Brokers Ltd.	4,955,487	425,962,303	430,917,790
MLL Insurance Brokers (PVT) Ltd.	26,390	129,166,941	129,193,331
Protection & Assurance Insurance Brokers (PVT) Ltd.	336,264	441,819,608	442,155,872
Senaratne Associates Ltd.	2,702,160	167,285,456	169,987,616
Total	68,174,710	4,450,102,124	4,518,276,834
Other Insurance Brokers (43)	35,046,461	757,843,883	792,890,344
Grand Total	103,221,171	5,207,946,007	5,311,167,178

(Details of insurance brokers whose premium income were greater than Rs.100 million based on the quarterly returns submitted)



Initiatives & Work-In-Progress

Regulation & Supervision

Consolidation of Sri Lankan Insurance Laws

The Board during the latter part of the year initiated compilation of all insurance related laws into a single binder to facilitate easy reference to the RII Act; Rules; Regulations; Determinations; Directives; Circulars; etc. applicable to the insurance industry. This will also be a reference document for insurance professionals and facilitate all educational needs in the country in this respect. The binder will be updated by the Board as required.

The binder was published in early 2006 and is available at the Board for purchase. The Board expects every insurance company, insurance broking company and Insurance professional to possess a copy of the binder and comply accordingly.

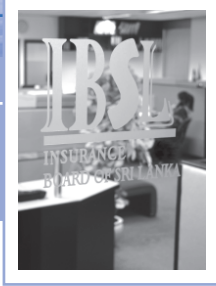
Qualification of General Actuaries to be retained by Insurance Companies to certify the Provisions of Technical Reserves in respect of General Insurance Business

The Board in November 2005 approved the recommendation of the Secretariat to recognize Indian Actuaries with the qualification of Fellow of the Society of Actuaries of India in terms of Section 114(1) of the RII Act in order to provide general insurance related actuarial service to Insurance Companies in Sri Lanka.

Consultants

The Board liaised with an independent consultant assigned to it as an Insurance Supervision Advisor, since September 2004 under a Technical Assistance Program of the International Monetary Fund (IMF), to strengthen the on-site and off-site supervision of Insurance Companies.

The Board, with the assistance of the consultant, developed an action plan focusing on on-site and off-site supervision of Insurance Companies through the adoption of a Risk Based Supervision Methodology using the CARMELS Rating Framework, and development of a Risk Assessment Summary (RAS) for each insurance company. The Risk Based Supervision Methodology introduced by the consultant replaced the Audit Procedures previously used by the Board for inspection of Insurance Companies.



Initiatives & Work-In-Progress *Contd...*

Regulation & Supervision

Co-insurance

Occurs where more than one insurer is in direct contractual relationship with the insured for part of the same risk. The Companies are expected to accept risk only up to the limit for co-insurance stipulated in their reinsurance treaties.

On a request made by the insurance companies the Board has permitted insurance companies to engage in co-insurance subject to the following conditions:

1. The lead co-insurer would attach a Co-insurance Clause/allocation as an attachment to the policy which should be duly signed by all participating co-insurance companies
2. All co-insurance companies accepting co-insurance shall not accept amounts exceeding the limit for co-insurance stipulated in their treaties.
3. Insurance companies should inform their re-insurers that they are participating in co-insurance and suitable limits for co-insurance acceptance must be agreed with the re-insurers. Copies of such agreement should be lodged with the Board.

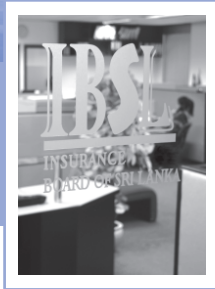
Reinsurance (facultative)

Occurs when a local insurance Company has accepted a risk of substantial value exceeding their own treaty limits and seeking reinsurance support for the amount exceeding the treaty limits.

Insurance companies are permitted to obtain re-insurance from re-insurers satisfying the rating criteria issued by the Board.

Statement of Recommended Practice (SORP) - Insurance Contracts for Insurance Companies

The Board liaised with the Institute of Chartered Accountants of Sri Lanka (ICASL) in developing the SORP for all insurance companies. The standard was finalized in March 2004. This standard will ensure a uniform financial statement reporting system, which will facilitate extracting more information for regulatory and research purposes. The companies have been requested to adopt SORP on a voluntary basis for year end 2005 financial statements and on a mandatory basis from 2006 onwards. New quarterly reporting of balance sheets and income statements to the Board effective Q1 2006 will also follow the SORP format.



Initiatives & Work-In-Progress *Contd...*

Consumer Issues

Dispute Resolution

The Board under section 98 of the RII Act is empowered to settle disputes relating to settlement of claims on policies of long term insurance business by which the sum assured does not exceed such sum determined by the Board. The Board has determined such amount to be Rupees Five Million. The Board initiates investigations into complaints received by it and makes orders in that respect.

The Board observes that issues regarding claims have arisen mainly due to unethical practices of insurance agents and ambiguous policy wordings. These matters have been brought to the attention of the respective companies.

Insurance Ombudsman

The Insurance Association appointed Dr Wickrama Weerasooria as the Insurance Ombudsman in January 2005. According to a MOU entered between the IASL and the Ombudsman, decision made by the Ombudsman is binding upon the insurer if the award in relation to a resolution of any complaint/dispute is up to Rs.500,000/-.

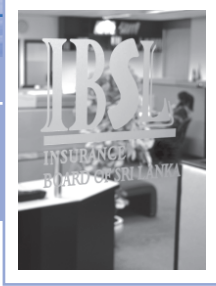
Corporate Governance

Code of Ethics

The Members of the Board and employees of the Board adhere to a Code of Ethics formulated by the Board. The Code specifies the activities that a Member and/or an employee of the Board should avoid engaging in, to ensure there will be no situation of conflict of interest arising in performing/discharging their responsibilities.

Code of Best Practice for Insurance Companies

The Insurance Association with the concurrence of insurance companies drafted a code of Best Practice, for voluntary adoption. The Board will be monitoring compliance with the code during its on-site supervision. This document is titled "Code of Ethics for Insurance Companies".



Initiatives & Work-In-Progress *Contd...*

Corporate Governance

Code of Best Practice for Insurance Broking Companies

In terms of Section 79 of the RII Act, it is mandatory that all registered insurance brokers and all applicants seeking registration are members of the Sri Lanka Insurance Brokers' Association. The members of the Association are subjected to a "Code of Conduct" formulated by the Association. The Code was first introduced in 1988 and is required to be complied by all members of the Association.

Provisions relating to "Fit and Proper Persons"

The International Association of Insurance Supervisors (IAIS) in its Insurance Core Principle six (6) "Licensing" and the Insurance Core Principle seven (7) "Suitability of Persons" has addressed the importance of possessing "fit and proper" guidelines/provisions in the insurance law and compliance of same. These Insurance Core Principles issued by the IAIS provide a globally accepted framework for the regulation and supervision of the insurance sector. Section 32 of the RII Act specify qualifications of the "Specified Officer" of an insurer and Section 94 requires the Board to determine the qualifications of the "Principal Officer" of an insurer and insurance broker at the time of appointment. However, "fit and proper" provisions are not stipulated in the RII Act.

In view of the importance of having persons with competency and integrity to conduct insurance business, the Board has drafted provisions relating to fit and proper persons to be included in the RII Act.

Awareness & Insurance Education

Discussion with University Academics (1)

The Board together with the Securities and Exchange Commission of Sri Lanka (SEC) conducted discussions with the academics of universities in Sri Lanka. Representatives of eight universities attended the discussion. The discussions were based on methods to enhance knowledge within insurance and securities industries for the mutual benefit of university students & academics. The Chairman, SEC & IBSL during the discussion stressed the importance of having long-term and short-term strategies to develop the Capital Market and Insurance Industry in the country.



Initiatives & Work-In-Progress *Contd...*

Awareness & Insurance Education

Discussion with University Academics (2)

The Board organized a meeting for academics on the 20th December 2005 in order to introduce subjects on insurance for the undergraduate courses of the commerce stream. The following Universities participated at the meeting:

- University of Sri Jayawardenepura
- University of Peradeniya
- University of Sabaragamuwa
- Eastern University

The Board also reviewed the curricula of the special degree conducted by the Wayamba University specializing in Insurance in comparison with the curricula of few other international universities in order to identify and formulate the most suitable curricula for the Universities.

Training Programme for Master Teachers and Teachers (Tamil Medium)

The Board together with the Securities and Exchange Commission conducted a three-day residential training programme on "Capital Market and Insurance Industry of Sri Lanka" in Tamil Medium for Master Teachers and Teachers at the National Institute of Education (NIE), Maharagama. The programme was held on 27th, 28th and 29th April 2005. A total of forty-three (43) participants attended the workshop and out of the entire participation majority was from the North-East Province. The Board conducted a special introductory session on Insurance and Regulation of the Insurance Industry for all participants.

Workshops

The Securities and Exchange Commission of Sri Lanka & the Board conducted a two day workshop for the academics of all universities in Sri Lanka on Capital Markets and Insurance. The workshop was held on the 06th and 07th June 2005 at the SEC auditorium.

Library Facilities

The Board has already created library facilities for all staff members. However, the Board is in the process of equipping and updating the library with additional publications. Pursuant to completion of purchasing substantial number of insurance related publications, the Board would consider extending library facilities to the industry.



Part 4



1 Mrs. Lasinee Seresinhe
Director General

2 Damayanthi Fernando
Asst. Director Legal

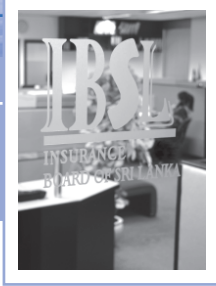
5 Harshana Wanniarachchi
Executive

3 Chamarie Ekanayake
Asst. Director Supervision

6 Shirani Amaratunga
Executive - Secretary

4 Sajeevani Bakmedeniya
Executive

7 Dimuthu Karunaratne
Executive



Supervisory Activities

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 duly comply with relevant laws and regulations.
- Conduct on-site inspections of Insurance Companies and Insurance Broking Companies
- Conduct off-site supervision of Insurance Companies and Insurance Broking Companies based on filings of Quarterly Returns, Annual Returns and Audited Accounts.
- Ensure that there is fairness and a level playing field in the Insurance Market.
- 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.

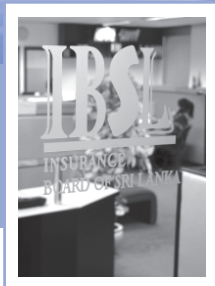
Activities carried out during the period

Insurance Companies Off-Site Supervision

Review of Quarterly Returns

The RII Act, requires all Insurance Companies to submit their Quarterly Returns within a month following the end of each quarter. The Supervision Division reviewed the Quarterly Returns submitted by Insurance Companies for all four quarters of 2005. The Division ensured that these Returns, were submitted to the Board on a timely and accurate basis.

The details in the Quarterly Returns pertaining to premium income, reinsurance, and other expenses and investments were analysed in order to obtain a general overview of the performance of the insurance industry and ascertain the class wise and company wise performance within the industry based on premium incomes, and also to identify the average percentage of total investments maintained by insurance companies in Government Securities.



Supervisory Activities *Contd...*

Insurance Companies Off-Site Supervision

Review of Annual Statutory Returns, Audited Accounts and Actuarial Reports

The Audited Accounts, Annual Statutory Returns and Actuarial Reports are required to be submitted to the Board within six months following the end of the financial year. The Division whilst ensuring that these reports are submitted on a timely manner reviewed them for accuracy and compliance with applicable rules.

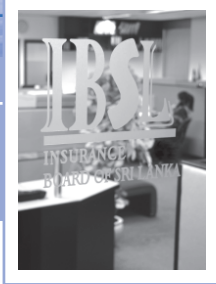
The Division also reviewed the Audited Accounts, Annual Statutory Returns and Actuarial Reports of Insurance Companies for the year ended 31st December 2004 with the assistance of an Actuarial Consultant from India. The Solvency Margins of the Insurance Companies were also verified as at 31st December 2004.

Where discrepancies were observed in the above documents the companies concerned were required to take corrective action within given timelines. Areas of concern identified from the review of Annual Statutory Returns, Audited Accounts and Actuarial Reports, which required further examination were addressed at meetings with companies and/or during onsite inspections and the necessary guidance for corrective action was provided to the insurance companies by the Board.

Revised Quarterly, Annual and Actuarial Returns

To be consistent with the move to the Risk Based Supervision Methodology and the development of an "Early Warning System", the Board undertook a major overhaul of the quarterly, annual and actuarial reporting requirements to ensure that relevant, appropriate and complete information was filed on a timely basis to monitor solvency margins, financial condition and compliance with the Board's requirements.

New regulatory reporting formats for quarterly returns were developed during the year, in consultation with the industry, which the insurance companies are required to comply with effective from Q1 2006.



Supervisory Activities *Contd...*

Insurance Companies Off-Site Supervision

New regulatory reporting formats for Actuarial Returns and Annual Statutory Returns were developed during the year.

Information contained in the Returns will be used by the Board to monitor financial and operational performance of companies and support the Board's newly introduced "Early Warning System" which will complement the risk based supervision framework.

Compliance Certification – Circular 18

Insurance companies file half-yearly certifications with regard to compliance with certain aspects of the RII Act and related requirements with effect from 1st January 2005. This certification is required to be submitted to the Board within 6 weeks of the end of every half-year. The Board examines the compliance certifications and requests further details where necessary in order to verify the accuracy of these certifications. During on-site inspections of insurance companies, the supervision staff examine relevant documents in order to determine whether the certification provided to the Board was based on complete and accurate information.

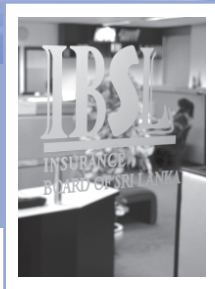
Some companies disclosed certain aspects of the Circular with which they were unable to comply. In such instances the companies were instructed to take necessary action in order to rectify their position.

Risk Assessment Summary (RAS)

Risk Assessment Surveys were sent to all insurance companies in order to obtain the information necessary to develop a Risk Assessment Summary (RAS) for each insurance company. The Board uses the RAS as the primary document to assess the risk profile, risk management and financial position of an insurance company. The RAS was used as the basis for planning the nature, scope and extent of the on-site inspection work prior to commencement of the inspections of the four insurance companies during the year, under the guidance of the Insurance Supervision Advisor. The RAS is updated to reflect the on-site inspection findings and the results of off-site supervision.

Evaluation of Financial Standing of New Applicants for Insurance Business

During the year 2005, licences were issued to Allianz Insurance Company Limited to carry on General Insurance Business, and to Prudential Assurance Lanka Limited to carry on Long Term and General Insurance Business. The Business Plans and Financial Statements of these companies, and other relevant documents were reviewed in detail prior to issuance of a licence in order to ascertain the financial viability of the projected insurance business.



Supervisory Activities *Contd...*

Insurance Companies On-Site Supervision

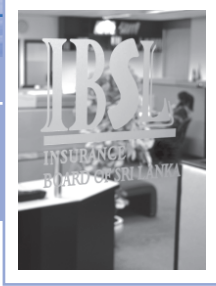
Risk Based Supervision

The Board carried out pilot on-site inspections of four Insurance Companies using the new Risk Based Supervision Methodology introduced by the independent consultant (Insurance Supervision Advisor) enlisted through the IMF. The purpose of the inspections was to assess the financial condition and operations of the insurance companies, their ability to meet obligations as they fall due, and to assess compliance with RII Act and Board requirements.

The inspections focused on assessing and rating the risk profiles of the insurance companies, with regard to Capital (C), Assets (A), Reinsurance (R), Actuarial Liabilities (A), Management (M), Earnings (E), Liquidity (L) and Subsidiaries (S). The Board refers to this methodology as the 'CARAMELS' Rating Framework.

The Risk Based Supervision Methodology includes detailed reviews of documents such as organization charts; strategic/corporate plans; mandate and minutes of Board and Committee meetings; internal and external audit reports; policies relating to capital, dividends, investments, reinsurance and liquidity; procedure manuals for product development, underwriting, marketing, reinsurance and claims etc. In addition, interviews were held with all relevant senior officials of the company, audit committee/board members, as well as the actuaries and internal and external auditors.

Prior to finalization of comprehensive on-site inspection reports, draft inspection reports were discussed in detail with the company officials in order to obtain their views pertaining to the Board's observations and recommendations. This was followed by the issuance of a final inspection report setting out the Board's observations and recommendations and requesting the company's response, together with an Action Plan for corrective action, within a prescribed timeframe. The Board reviewed the completeness and adequacy of responses from the companies and further information was requested where necessary.



Supervisory Activities *Contd...*

Insurance Broking Companies Off-Site Supervision

Review of Quarterly returns

One of the main activities of off-site supervision process is to review the quarterly returns, which are submitted by all Insurance Brokers as specified by the Board. During our review of these returns where we observed discrepancies, the brokers were informed of these and explanations were called for. In certain instances companies were requested to re-submit the returns to ensure accuracy of the information submitted therein. The information in the quarterly returns is further verified during on-site inspections.

The Board identified the need to improve the standard of quarterly reporting formats and introduced a new set of reporting formats with the consultation of the industry. These new quarterly reporting formats were published in Government Gazette No. 1412/30 – 29th September 2005.

Evaluation of Financial Statements

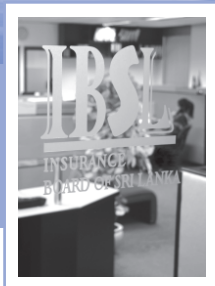
The Audited Financial Statements and Interim Financial Statements of Insurance brokers were reviewed in order to evaluate the financial performance and condition of insurance broking companies during the Annual licence renewal and registration process.

Insurance Broking Companies On-Site Supervision

Review of company activities

During the year the Board carried out on-site inspections of sixteen Insurance Broking Companies in order to ensure that these entities carry out their business in a professional and prudent manner in compliance with the RII Act.

During our inspections where weaknesses were observed, these companies were requested to take remedial action, based on the inspection findings and recommendations given by the Board.



Regulatory Activities

Core Functions

- Formulate amendments to the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act) and subordinate legislation made thereunder.
- Formulate Rules, Regulations, Directives and Determinations required to be made in terms of the Regulation of Insurance Industry Act, No. 43 of 2000.
- Provide advisory services to the Board on legal matters and complaints made by policyholders and aggrieved persons.
- Evaluate applications for registration of persons as insurers and insurance brokers to engage in 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.

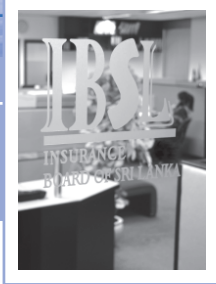
Activities carried out during the period

During the year under review the Legal Division, *inter alia*, carried out the following activities:

Rules

The Board in terms of the powers vested in it under the RII Act published Rules in Gazette Notification No.1412/30 dated 29th September 2005. These Rules address the following:

1. Deposit to the Treasury that is required to be made by persons seeking registration as insurers. The deposit is Rupees Fifty Thousand for long term insurance business and Rupees Two Hundred Thousand for general insurance business.
2. Fee for obtaining a copy or any part of a copy of any return furnished to the Board under the RII Act, other than confidential information, by payment of Rupees Six per page.



Regulatory Activities *Contd...*

Rules

3. Method of ascertaining the value of assets and liabilities of an insurer in the case of winding up.
4. Paid up share capital of a person who wishes to be registered as a broker under the RII Act; the sum should be not less than Rupees one million.
5. Fee to be paid by a person to the Board in order to be registered as a broker; the fee is Rupees Fifty Thousand per class of insurance business and applicable taxes on such payment.
6. Form and manner in which a broker is required to maintain its accounts; these accounts should be furnished to the Board within forty-five days from the end of the quarter. The form and manner of accounts is specified in the first schedule to the Rules.
7. Qualifications required for the appointment of Principal Officer of an insurer and a broker.

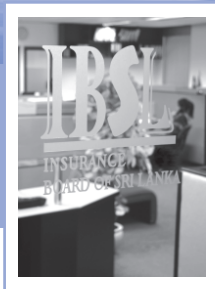
The person to be appointed as the principal officer by an insurer-

- (a) shall possess the qualification of an Associate or Fellow of the Chartered Insurance Institute or an equivalent academic or professional qualification acceptable to the Board, and have not less than five years post qualification experience in insurance related activity at managerial level, immediately preceding the date of appointment as principal officer; and
- (b) should not have been declared bankrupt or have been convicted of an offence by any court of law within or outside Sri Lanka.

The person to be appointed as the principal officer by a broker –

(a) shall -

- (i) possess the qualification of an Associate or Fellow of the Chartered Insurance Institute, or an equivalent qualification acceptable to the Board, and have not less than five years post qualification experience in insurance related activity at an executive level and carrying on insurance sales related activity, or consultancy work, for a period not less than two years prior to being appointed as principal officer;



Regulatory Activities *Contd...*

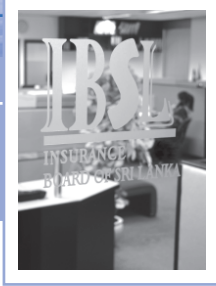
Rules

- (ii) have not less than fifteen years of experience in insurance related activity of which not less than ten years is at an executive level and not less than five years at managerial level and carrying on insurance sales related activity or consultancy work for a period not less than two years prior to being appointed as principal officer; or
 - (iii) have not less than ten years of experience in insurance related activity at managerial level and carrying on insurance sales related activity or consultancy work not less than two years prior to being appointed as principal officer; and
- (b) should not have been declared bankrupt or have been convicted of an offence by any court of law within or outside Sri Lanka.
- 8. Form and manner in which the register of policies should be maintained by every insurer and broker; the form and manner is specified in the Second Schedule to the Rules.
- 9. Utilization of monies lying to the credit of the Policyholders Protection Fund; the fund may be utilized for the general protection of policyholders and for the following specific purposes in so far as it would be for the benefit of the policyholders and potential policyholders:
 - (a) defraying the expenditure incurred in creating awareness of the insurance industry amongst the public and other expenditure incurred in the development of the insurance industry; and
 - (b) defraying the expenditure incurred by the Board in the exercise, discharge and performance of its powers, functions and duties.

Regulations

The Hon. Minister of Finance under the powers vested in him under the RII Act published Regulations in Gazette Notification No. 1414/19 dated 12th October 2005. These Regulations address the following:

- 1. Paid up share capital of a person who wishes to be registered as an insurer; the sum should be not less than Rupees One Hundred million for each class of insurance business.



Regulatory Activities *Contd...*

Regulations

2. Fee to be paid to the Board by a person who wishes to be registered as an insurer; the fee is Rupees Two Hundred and Fifty Thousand per class of insurance business and applicable taxes on such payment.

3. Annual fee to be paid by an insurer to the Board;

The annual fee -

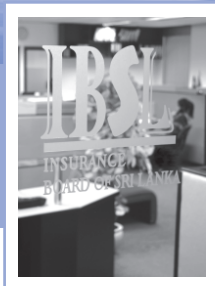
- (a) A sum of one hundred thousand rupees, in respect of each class of insurance business; or
- (b) (i) one twentieth of one percent (0.05%) of the gross written premium of long term insurance business of the preceding year; and
(ii) one twentieth of one percent (0.05%) of the gross written premium of general insurance business of the preceding year,

whichever amount is higher.

4. Manner in which the assets of an insurer may be kept outside Sri Lanka.

Determinations

The Board amended Determination 9 made on 30th October 2002, which specifies the renewal of registration fee of a broker, under the powers vested in it under section 83(c) of the RII Act. The renewal fee of a certificate registration issued to a broker has been increased to Rs.25,000/- per class of insurance business with effect from 15th June 2005.



Regulatory Activities *Contd...*

Brokers

Renewals & New Registrations of Insurance Brokers

Pursuant to processing of applications for renewal of registration and new registration of brokers, the Division granted registration to fifty-three insurance brokers to carry out insurance business for the year 2006. Out of the fifty-three insurance brokers forty one companies have been registered to carry out both general and long-term insurance business and twelve companies have been registered to carry out only general insurance business.

Regulatory / Advisory Measures

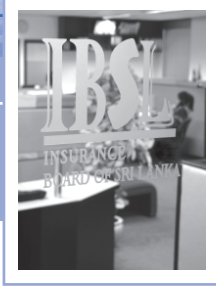
- Evaluated two proposed bancassurance agreements for compliance with the requirements of the Regulation of Insurance Industry Act No.43/2000 and noted changes to be made in the agreements.
- In view of the amendment to the Workmen's Compensation Act, increasing the amounts of compensation payable to workmen and the minimum tariff applicable for Employers' Liability Insurance, we have requested observations from interested parties.
- The following Circulars were forwarded to all insurance companies and broking companies for compliance during the year under review:

Circular 18 – Bi-annual certifications by the CEO's and CFO's of all registered insurers; this certification requires insurers to certify whether they are in compliance with the relevant provisions of the RII Act, Rules, Regulations, Determinations and Guidelines issued by the Board

Circular 19 - Submission of audited annual accounts, actuarial report and statutory reports

Circular 20 - Increase in renewal of registration fees of brokers

Circular 21 – Procedure for renewal of registration of insurance broking companies



Regulatory Activities *Contd...*

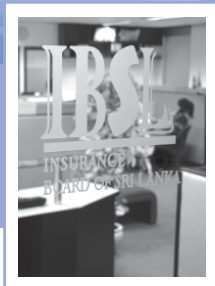
Regulatory / Advisory Measures

- The following returns, pertaining to financial and non-financial regulatory reporting were forwarded to all insurance companies for their compliance. These returns enhance the Board's ability to perform off-site supervision on a more comprehensive and effective basis and provide information required for the Board's "Early Warning System". These returns will also be published in the Government Gazette:
 - Returns relating to the Actuarial Abstract required to be furnished to the Board by insurers in terms of Section 48 of the RII Act. A copy of the abstract is required to be submitted to the Board within six months from the end of the financial year.
 - Returns relating to the preparation of Annual Accounts. The Annual accounts prepared according to the specified format should be submitted to the Board within six months after the end of each financial year.
 - Returns relating to "Quarterly and Further Returns" required to be furnished to the Board by insurers in terms of Sections 49 and 56 of the Regulation of Insurance Industry Act, No. 43 of 2000.
- The Board entered into a Memorandum of Understanding (MOU) with the Central Bank of Sri Lanka on 30th December 2005. This MOU facilitates effective exchange of information between the parties.

Prevention of Money Laundering

The Financial Transactions Reporting Act and The Prevention of Money Laundering Act came in to force in March 2006. The Financial Intelligence Unit (FIU) has been setup within the Central Bank of Sri Lanka to administer the provisions of these statutes.

Insurance companies and insurance intermediaries will be required to comply with the relevant provisions of these statutes. The Board will make necessary refinements to its regulatory/supervisory framework and work closely with the FIU to ensure that all parties coming under the regulatory purview of the RII Act comply with the relevant provisions of these statutes.



Investigations

Core Functions

- Investigate into suspected irregular activities in the insurance industry.
- Conduct investigations into complaints made by policyholders.
- Conduct investigations into alleged violations of laws governing the insurance industry.

Activities carried out during the period

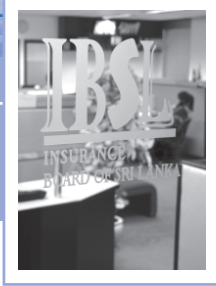
Statistics of Complaints
Received during the year

Complaints Brought forward from previous year	Complaints Received during year
3	30
Complaints Resolved during year	Complaints carried forward to next year
31	2

Nature of Complaints
Received during the year

The Board received thirty complaints during the year and the nature of the complaints received are summarized below:

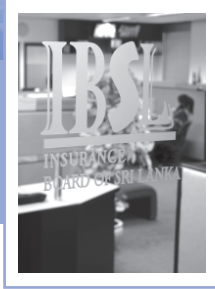
- Lapsed Policies
 - Three complaints were received from policyholders regarding their lapsed policies.
 - One complaint was received from an insurance company against an insurance broker regarding non-remittance of premium on time, which caused lapsing of few policies.



Investigations *Contd...*

Nature of Complaints
Received during the year

- Non-payment of benefit / bonus/ claim/ commission
 - Thirteen complaints were received from policyholders regarding non-payment of benefits, bonus and claims.
 - One complaint was received from a policyholder alleging that the insurance company concerned had failed to be present in the Magistrate Court on her claim.
 - One complaint was received on non-payment of commission, which is not within the purview of the Board.
- Operating as an insurance broker / agent without registration
 - One complaint was received against a company acting as an insurance broker without due registration by the Board under the Act.
 - One complaint was received against an individual acting as insurance agent without due registration with an insurer or broker.
- Inadequate compensation / settlement / surrender value
 - Six complaints were received against insurance companies on inadequate compensation / settlement / surrender value.
- Recruitment of “terminated sales officers” by an insurance company
 - One complaint was received from an insurance company against two insurance companies regarding recruitment of two sales officers terminated due to fraud.
- Others
 - One complaint was received regarding the increase of insurance premium.
 - One complaint was received regarding insurance covers offered to clients by a finance company.



Market Development

Core Functions

- Coordinate International Relations.
- Publish books, booklets, brochures and other documents to assist market development.
- Conduct training programmes.
- Dissemination of relevant information to the Board and industry.

Activities carried out during the period

During the year under review the Market Development Division, *inter alia*, carried out the following activities:

Publications

Booklet on the Insurance Industry (Sinhala) authored by Mr. Nimal Perera, General Manager, Reinsurance and Risk Management, Union Assurance Limited was translated to Tamil language. The booklet is published and available at the Board for general public.

The Board published a **brochure** outlining the constitution of the Board, Mission, Functions, and Activities etc. The brochure is available at the Board's library for public use. Additionally, a second and a third brochure is in the pipeline to be published during the year 2006. The second brochure is on the basics of Life Insurance and the third is on Motor Insurance.

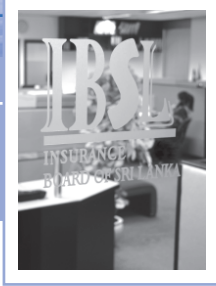
The 2004 **Annual Report** of the Board was printed and is available for general public. The publication is in all three languages.

Staffing Training

The staff of the Board participated in the following in-house training programmes during the year, which assisted in enhancing their knowledge with regard to the insurance industry and its technical aspects:

- A five-day training session on Reinsurance conducted by a former General Manager of a local insurance company.
- A series of in-house training sessions on the new "Risk Based Supervision Methodology" and the "CARMELS Rating Framework", conducted by the Insurance Supervision Advisor assigned to the Board through the IMF.

The staff also participated in overseas training programmes during the year to get an insight of benchmarked international regulatory systems and to enhance their knowledge with regard to globally accepted IAIS Insurance Core Principles (ICP), regulatory and supervisory methods. These programmes were fully sponsored by the organizing institutions.



Market Development *Contd...*

Perusal of Advertisements

Newspaper advertisements published during the year by insurance companies and insurance broking companies were perused to verify whether they contain any information or material which is false, incorrect or is likely to mislead the public and necessary action was taken to prevent such advertisements containing information or material which is false, incorrect or misleading.

Web

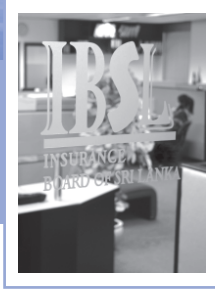
The web site of the Board was updated/amended throughout the year to provide current information to the general public. The Board has also taken an initiative to revamp the web site during year 2006 in order to accommodate more information and to make the web site more user friendly with simple navigational tools.

Compliance with International Standards

The ASEAN Insurance Training and Research Institute (AITRI) forwarded a framework to formulate an Action Plan to all ASEAN countries including our Jurisdiction to evaluate compliance with a selected number of Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS). The Board completed the Action Plan Setting out procedures and time frames to achieve the compliant status. Implementation of the Action Plan is ongoing

Comprehensive Economic Participation Agreement Between Sri Lanka and India

The Board coordinated with Insurance Association of Sri Lanka and Insurance Brokers Association of Sri Lanka in order to forward observations on the document prepared by the sub-group of the working group on financial services in relation to the proposed Comprehensive Economic Partnership Agreement (CEPA) for negotiations with India. Representatives of the Board participated actively in all sub-group meetings held at the Ministry of Trade and Commerce and the Central Bank.



Administrative Review

Core Functions

- Financial control and budgeting including preparation of monthly, quarterly and annual financial statements.
- Manage the Policy Holders Protection Fund.
- Human Resource Management.
- Supervise general maintenance and upkeep of the Board.
- Procurement of supplies.

Activities carried out during the period

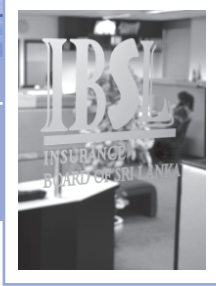
Staffing

The Board placed emphasis to recruit appropriately qualified personnel. Accordingly appointments of the Director General, two Assistant Directors, three Executives, two Confidential Secretaries were made during the year to the permanent Cadre.

The staff of the Securities and Exchange Commission of Sri Lanka (SEC) well trained in regulatory work, discharged the mandate of the Board until such time the permanent recruitments were made to the Board. Six members of the staff of the SEC were seconded to the Board during the year under review.

Administration

The Board from the inception of its operations on 1st March 2001 was housed at the premises of the SEC. On 28th April 2005 the Board moved to a separate fully equipped office in the same building in order to discharge its mandate more effectively and efficiently.

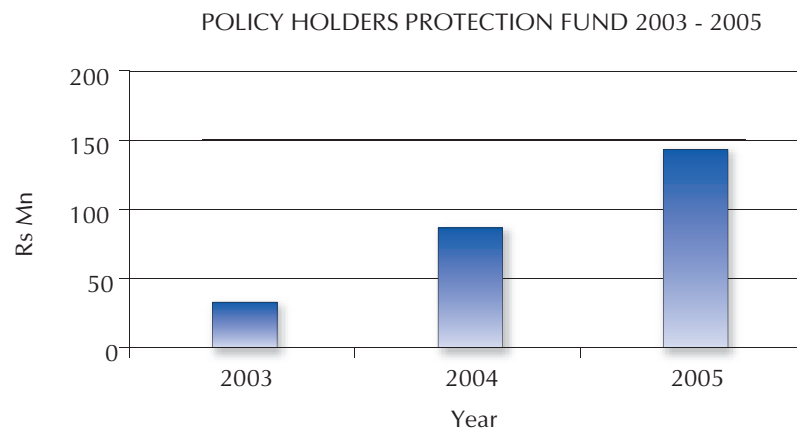


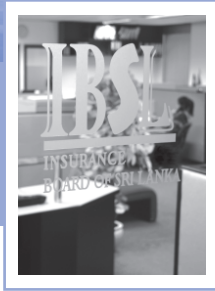
Administrative Review *Contd...*

Policy Holders Protection Fund

Section 103 of the Regulation of Insurance Industry Act, No. 43 2000 states that 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 under section 7 of the Act.

In terms of Gazette notification No 1244/5 dated 9th 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 annual net premium income. The effective date of the Gazette was 9th January 2003. The Cess is received on a quarterly basis and falls due on or before the end of the first month after the end of the quarter. The collection of Cess credited to the "Policy Holders Protection Fund" amounted to Rs. 72 Mn as at the end of the year under review in comparison to Rs. 49 Mn as at 31st December 2004. The balance of the Fund as at 31st December 2005 amounted to Rs. 143 million. The growth of the fund during the period 2003 – 2005 is depicted below:





1 M. Kanapathipillai
Consultant

4 Dhammika Jayawardene
Secretary

2 Shirantha Ranasinghe
Executive

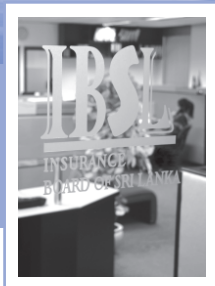
5 E. Srikanthan
Secretary

3 Lasanthi Thotahewa
Executive

6 P. W. L. Piyatissa
Office Aide



Part 5



Balance Sheet as at 31st December 2005

	Notes	As at 31.12.05 Rs.	As at 31.12.04 Rs.
Assets			
Non Current Assets			
Property Plant & Equipment	1	8,632,547	-
Policy Holders Protection Fund	2	143,146,635	86,560,645
Current Assets			
Inventories	3	176,119	76,849
Receivables	4	11,874,022	27,130
Advance & Prepayments	5	158,462	-
Investments in Repo		1,500,000	-
Cash & Cash Equivalents	6	5,979,759	90,701
Total Assets		171,467,544	86,755,325
Net Assets & Liabilities			
Reserve & Liabilities			
Reserve			
Accumulated Fund	7	15,816,240	(450,432)
		15,816,240	(450,432)
Policy Holders Protection Fund	8	143,146,635	86,560,645
Non Current Liabilities			
Lease Creditor	9	1,785,479	-
Grant - Policy Holders Protection Fund	10	6,757,547	-
		8,543,026	-
Current Liabilities			
Receipt in Advance		2,130,185	53,342
Accrued Expenses	11	1,307,633	588,780
Amounts due to Related Parties		-	2,990
Lease Creditor	9	523,825	-
		3,961,643	645,112
Total Net Assets & Liabilities		171,467,544	86,755,325

The Accounting Policies and Notes appearing on pages 63 to 71 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

Lasinee Seresinha
DIRECTOR GENERAL

Colombo.
27th March 2006

Gamini Wickramasinghe
CHAIRMAN

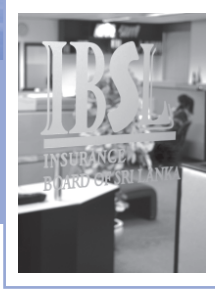


Income & Expenditure Statement

for the year ended 31st December 2005

INCOME	Notes	Year Ended 31.12.05 Rs	Year Ended 31.12.04 Rs
Government Grants		4,250,000	7,743,000
Annual Fees		15,314,652	-
Registration Fees		1,283,117	665,334
Sundry Income		1,805	1,140
Recognition of Grant	10	654,892	-
		<u>21,504,466</u>	<u>8,409,474</u>
Less:			
EXPENDITURE			
Staff Costs	12	10,196,177	3,503,002
Professional Charges	13	2,498,323	3,139,335
Administration & Establishment Expenses	14	8,626,673	1,955,051
Finance & Others	15	184,583	28,781
Contribution to set up an Insurance Ombudsman Office		1,000,000	-
Total Expenditure		<u>22,505,756</u>	<u>8,626,169</u>
Excess expenditure over income		(1,001,290)	(216,695)
Transfer from Policy Holders Protection Fund	8	17,267,962	-
Net Surplus/ (Deficit) for the period		<u>16,266,672</u>	<u>(216,695)</u>

The Accounting Policies and Notes appearing on pages 63 to 71 form an integral part of the Financial Statements.



Statement of Changes in Reserves

for the year ended 31st December 2005

	Year Ended 31.12.05 Rs.	Year Ended 31.12.04 Rs.
Accumulated Fund		
Balance at the beginning of the period	(450,432)	(233,737)
Net Surplus/(Deficit) for the period	16,266,672	(216,695)
Balance at the end of the period	<u>15,816,240</u>	<u>(450,432)</u>

The Accounting Policies and Notes appearing on pages 63 to 71 form an integral part of the Financial Statements.

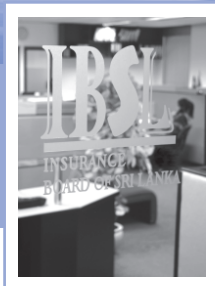


Cash Flow Statement

for the year ended 31st December 2005

	NOTE	Year Ended 31.12.05 Rs	Year Ended 31.12.04 Rs
Cash flow from operating activities			
Net Increase/(Decrease) for the period		16,266,672	(216,695)
Adjustment for Depreciation		1,279,892	-
Recognition of Grant	10	(654,892)	-
Net Increase before Working Capital changes		16,891,672	(216,695)
Change of Working Capital			
(Increase)/Decrease in Inventories		(99,270)	(3,916)
(Increase)/Decrease of Receivables		(11,846,892)	981
(Increase)/Decrease of Advance & Prepayments		(158,462)	8,500
Increase/(Decrease) of Receipt in Advance		2,076,843	(8,023)
Increase/(Decrease) of Creditors & Accruals		715,863	242,624
Cash Flow from Operating Activities		(9,311,918)	240,166
Net Cash Flow from Operating Activities		7,579,754	23,471
Cash Flow into Investing Activities			
Purchase of Property Plant & Equipments		(9,912,439)	-
Net Cash from Investing Activities		(9,912,439)	-
Cash Flow from Financing Activities			
Capital Transfer from policy Holders Protection Fund		7,412,439	-
Increase in Finance Lease		2,309,304	-
Short Term Loans obtained from Related Parties		-	2,206,132
Repayments of Short Term Loans to Related Parties		-	(2,188,216)
Net Cash Flows from Financing Activities		9,721,743	17,916
Net Increase/(Decrease) in Cash and Cash Equivalents		7,389,058	5,555
Cash and Cash Equivalents at beginning of period	6	90,701	85,146
Cash and Cash Equivalents at end of period		7,479,759	90,701
Cash at Bank	6	5,979,759	90,701
REPO Investments		1,500,000	
		7,479,759	90,701

The Accounting Policies and Notes appearing on pages 63 to 71 form an integral part of the Financial Statements.



Policy Holders Protection Fund Cash Flow Statement

for the year ended 31st December 2005

	Note	Year Ended 31.12.05 Rs	Year Ended 31.12.04 Rs
Cash Flows from Operating Activities			
Net Increase of Policy Holders Protection Fund		56,585,991	53,655,854
Net increase before working capital changes		56,585,991	53,655,854
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Treasury Bills		(7,079,029)	(426,630)
(Increase)/Decrease of Rent Deposit		(1,737,240)	-
		<u>(8,816,269)</u>	<u>(426,630)</u>
Net Cash from Operating Activities		<u>47,769,722</u>	<u>53,229,224</u>
Cash Flow into Investing Activities			
Investments in Treasury Bills		(45,206,572)	(53,039,928)
Net Cash from Investing Activities		<u>(45,206,572)</u>	<u>(53,039,928)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		2,563,150	189,296
Cash and Cash Equivalents at beginning of period		228,407	39,111
Cash and Cash Equivalents at end of period	2	<u>2,791,557</u>	<u>228,407</u>
Cash at Bank	2	2,791,556	228,407
		<u>2,791,557</u>	<u>228,407</u>

The Accounting Policies and Notes appearing on pages 63 to 71 form an integral part of the Financial Statements.



Accounting Policies

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The Financial Statements of the Board are presented in Sri Lankan Rupees rounded to the nearest Rupee.

The Financial Statements of the Board are prepared under the historical cost convention in accordance with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka. Where appropriate accounting policies are disclosed in succeeding notes.

1.2 CONVERSION OF FOREIGN CURRENCY

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

1.3 EVENTS AFTER THE BALANCE SHEET DATE

All material events after the Balance Sheet date are considered and appropriate adjustments or disclosure made in the financial statements where necessary.

1.4 COMPARATIVE FIGURES

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

2. ASSETS & BASES OF VALUATION

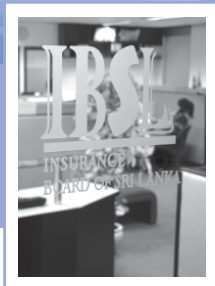
2.1 PROPERTY, PLANT & EQUIPMENT

OWNED PROPERTY PLANT & EQUIPMENT

Property, Plant & Equipment together with any incidental expenses thereon are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the estimated useful lives of same applying the following rates.

Motor Vehicles	25.00%
Furniture, Fixtures and Fittings	12.50%
Office and EDP Equipment	25.00%
Training Equipment	25.00%

Full year depreciation is provided for all assets purchased during the first half of the financial year and no depreciation is provided for assets purchased during the second half of the year.



Accounting Policies *Contd...*

2.2 LEASE OF MOTOR VEHICLES

The assets on finance lease which effectively transfer to the Board substantially all of the risk and benefits incidental to ownership of the leased item is capitalized at cash cost. Depreciation and finance charges arising out of such leasehold assets are charged to the Income & Expenditure account whilst the payments of lease rental are recognized to reduce the lease liability.

2.3 INVESTMENTS

Government Treasury bills are stated at cost or market value whichever is lower.

2.4 INVENTORIES

Inventories are stated at lower of cost or net realizable value. The cost of inventories is valued on first-in, first-out (FIFO) basis.

2.5 RECEIVABLES

Receivables are stated at estimated realizable value.

2.6 CASH AND CASH EQUIVALENTS

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

3. LIABILITIES AND PROVISIONS

3.1 RETIREMENT BENEFITS

3.1.1 DEFINED BENEFIT PLANS

No provision is made in these financial statements for Retiring Gratuities payable under the Payment of Gratuity Act No.12 of 1983 since all the permanent appointments were made to the Board during the year under review.

3.1.2 DEFINED CONTRIBUTION PLANS

All permanent employees' are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Board contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.



Accounting Policies *Contd...*

3.2 ACCOUNTS PAYABLE

Other payable accounts are stated at cost.

3.3 GRANT

Capital Expenditure transferred from Policy Holders Protection Fund is treated as a grant and recognized on the estimated useful life of the asset.

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

Revenue is recognized on accrual basis.

Cess received consists of Cess receivable for the last quarter of the preceding year falling due during the first month of the current financial year along with the Cess received for the first, second and third quarters of the current financial year.

4.2 GOVERNMENT GRANTS

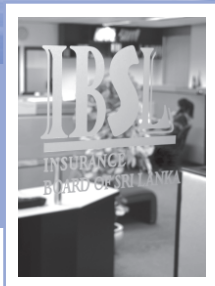
Grants received from the General Treasury of the Government of Sri Lanka are recognized as income.

4.3 EXPENDITURE RECOGNITION

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

4.4 CASH FLOW STATEMENT

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



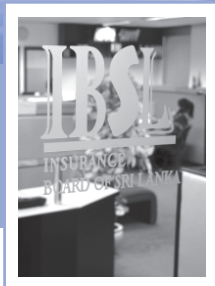
Notes to the Financial Statements

	COST	ACCUMULATED DEPRECIATION	NET CARRYING VALUE
	Rs.	Rs.	As At 31.12.05 Rs.
1 PROPERTY PLANT & EQUIPMENTS			
Office Equipments- Others	1,382,883	177,777	1,205,106
Office Equipments- Training	141,450	-	141,450
Office Equipments - EDP	2,832,286	103,500	2,728,786
Furniture & Fittings	1,178,389	138,936	1,039,453
Fixtures & Fittings	1,877,431	234,679	1,642,752
	7,412,439	654,892	6,757,547
Lease Hold Motor Vehicle	2,500,000	625,000	1,875,000
	9,912,439	1,279,892	8,632,547
2 POLICY HOLDERS PROTECTION FUND INVESTMENTS AND OTHERS			
ASSETS	As at 31.12.05	As at 31.12.04	
Investment in Treasury Bills	130,379,488	85,172,916	
Refundable Deposit - ORCL	1,737,240	-	
Interest Receivable on Treasury Bills	8,238,351	1,159,322	
Balance at Bank	2,791,556	228,407	
	143,146,635	86,560,645	
3 INVENTORIES			
Printing, Stationery & Computer Accessories	143,800	42,323	
Publications	32,319	34,526	
	176,119	76,849	
4 RECEIVABLES			
Annual Fees - 2005	15,314,652	-	
Received during the year	3,466,955		
Receivable for the year	11,847,697	11,847,697	
GST receivables		26,325	26,486
WHT Receivable		-	644
		11,874,022	27,130
5. ADVANCE & PREPAYMENTS			
Medical Insurance		33,516	-
Personal insurance		50,325	-
Subscription for Membership & Periodicals		60,986	-
Greeting cards, Diaries, Others		13,635	-
		158,462	-
6 CASH & CASH EQUIVALENTS			
Cash at Banks			
People's Bank - Mudalige Mawatha		148,695	34,639
Bank of Ceylon 1877		2,319,952	50,111
Bank of Ceylon 1866		3,466,955	-
HongKong & Shanghai Bank		44,157	5,951
		5,979,759	90,701
7 ACCUMULATED FUND			
Balance as at beginning of the period		(450,432)	(233,737)
Net Surplus/(Deficit) for the period		16,266,672	(216,695)
Balance as at end of the period		15,816,240	(450,432)



Notes to the Financial Statements *Contd...*

		As at 31.12.05 Rs.	As at 31.12.04 Rs.
8	POLICY HOLDERS PROTECTION FUND		
	Opening Balance	86,560,645	32,904,791
	Cess Received during the year	72,168,212	49,607,693
	Interest on Treasury Bill Investment	8,930,441	4,105,109
	Interest on Repo & Call Account	167,738	61,700
		167,827,036	86,679,293
	Less:		
	Transfers for Operational Expenses	17,267,962	
	Transfer for Capital Expenditure	7,412,439	-
	Total transfer- Policy Holders Protection Fund	24,680,401	
	Debit Tax	-	118,648
		24,680,401	118,648
	Closing Balance	143,146,635	86,560,645
9	LEASE CREDITOR		
	Lease Creditor	2,922,839	-
	Less: Interest in Suspense	613,535	-
		2,309,304	-
	Current portion of Finance Lease Liabilities	523,825	-
		1,785,479	-
10	GRANT - POLICY HOLDERS PROTECTION FUND		
	Capital Expenditure from Policy Holders Protection Fund	7,412,439	-
	Less: Recognition of Grant	(654,892)	-
		6,757,547	-
	Note - Recognition of Grant		
	Capital Transfer from policy Holders Protection Fund		
	Recognition of Grant in accordance with the SLAS 24 at the following rates.		
	Office Equipment - Others & EDP	25%	
	Furniture Fixtures & Fitting	12.50%	
11	ACCRUED EXPENSES		
	Telephone Expenses	88,527	6,075
	Courier Charges	24,994	3,000
	Electricity charges	11,391	-
	Audit Fees - Auditor General's Office	75,000	104,884
	Annual Report Printing	500,000	469,821
	Professional Charges - Foreign Consultants	166,650	-
	Overtime	5,356	-
	Newspapers	1,395	-
	VAT Payable	345,820	-
	Management Fee	59,500	-
	Trade Tax	5,000	-
	Office Upkeep	12,000	-
	Directors Fuel	12,000	-
	Meeting Expenses	-	5,000
		1,307,633	588,780



Notes to the Financial Statements *Contd...*

	Year Ended 31.12.05 Rs.	Year Ended 31.12.04 Rs.
12. STAFF COST		
Salaries & Allowances	2,912,573	120,000
EPF 12%	296,372	1,413
ETF 3%	74,093	353
Temporary Allowances	1,032,001	3,233,935
Salaries - Seconded Staff	2,065,176	-
Management Fee	1,496,375	-
Overtime	147	-
Exgratia Payment	50,185	-
Staff Training - Overseas	1,266,976	135,926
Advertising	147,200	-
Travelling Overseas - Commission Members	248,724	-
Staff Training - Local	117,915	11,000
Staff Medical Expenses & Insurance	95,561	-
Staff Welfare	122,879	375
Honorarium - Contract Staff	270,000	-
	10,196,177	3,503,002
13 PROFESSIONAL CHARGES		
Local Consultants	1,703,815	1,996,510
Foreign Consultants	794,508	1,142,825
	2,498,323	3,139,335
14 ADMINISTRATION COSTS		
Rent	2,970,864	-
Rent - Car Parking	108,630	-
Electricity	125,141	-
Telephone - General, Directors resi, Internet	855,908	77,434
Printing & Stationery	1,010,198	300,476
Public Awareness	170,445	-
Entertainment	180,793	29,315
Travelling - Local	15,199	5,755
Reimbursement of Fuel	98,837	-
Vehicle Hire Charges	33,310	-
Office Equipment & Maintenance	40,235	-
Office Upkeep	99,934	-
Insurance	42,792	-
International Membership of IAIS	756,199	590,100
Advertising	205,266	371,173
Board Members' Meeting Fees	59,414	45,432
Meeting Expenses	16,164	23,435
Library Books & Newspapers	281,399	-
Cost of Publications	2,208	229,451
Postage and Courier charges	51,651	42,662
Audit Fees - External	25,000	79,884
Legal Expenses	39,420	154,800
Finance Lease Charges	152,774	-
General Expenses	-	5,134
Trade Tax	5,000	-
Depreciation	1,279,892	-
	8,626,673	1,955,051
15 FINANCE & OTHERS		
Bank Charges	29,711	17,525
Debit Tax	154,872	11,256
	184,583	28,781



Notes to the Financial Statements *Contd...*

16. 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 favorably. Accordingly, no tax on income has been provided in these Financial Statements.

17. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2005

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2005

19. EVENTS AFTER THE BALANCE SHEET DATE

No material events occurred after the Balance Sheet date necessitating any adjustments or disclosure in the Financial Statements.

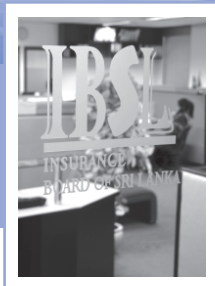
20. RELATED PARTY DISCLOSURES

Dr Dayanath C Jayasuriya resigned from the post of Chairman along with the following Members of the Board Mrs Dayani De Silva, Dr (Mrs) Rane Jayamaha, Mr Udayasri Kariyawasam and Mr O M Weerasooriya with effect from 6.12.05, 8.12.05, 7.12.05, 6.12.05 and 6.12.05 respectively.

The following Members of the IBSL were also Members of the Securities and Exchange Commission of Sri Lanka except Mr Channa de Silva who was the Director General of the SEC. Their dates of appointments and resignations to/from the SEC are given below.

Dr Dayanath C Jayasuriya	Member/Chairman resigned	w.e.f. 06.12.05
Mrs Dayani De Silva	Member resigned	w.e.f. 08.12.05
Dr (Mrs) Rane Jayamaha	Member resigned	w.e.f. 07.12.05
Mr Udayasri Kariyawasam	Member resigned	w.e.f. 06.12.05
Mr O M Weerasooriya	Member resigned	w.e.f. 06.12.05
Mr Channa de Silva	Director General appointed	w.e.f. 30.03.05

Mr Sumith Abeysinghe was the only Member that held office at the IBSL and the SEC at the end of the financial year.



Notes to the Financial Statements *Contd...*

The following table depicts the Directorships held by the Members of the Board at the end of the financial year.

Name	Name of Institution	Position
Mr Sumith Abeysinghe	• Securities and Exchange Commission of Sri Lanka	Member (Treasury Nominee)
	• Bank of Ceylon	Director (Treasury Nominee)
	• University Grants Commission	Director (Treasury Nominee)
	• Southern Development Authority	Director (Treasury Nominee)
	• De-La Rue Lanka	Director (Treasury Nominee)
	• Settlement Guarantee Fund	Trustee
Mr Channa de Silva	• Public Enterprises Reform Commission of Sri Lanka	Member
	• Sri Lanka Accounting & Auditing Standards Monitoring Board	Member
	• Settlement Guarantee Fund	Trustee
	• Construction Guarantee Fund	Trustee
	• Public Sector Infrastructure Development Co Ltd	Director



Notes to the Financial Statements *Contd...*

The following table depicts the Directorships held by the Members of the Board during the period in which they held office in the financial year.

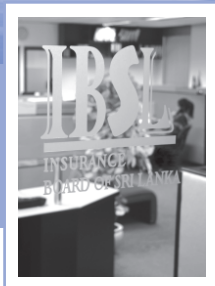
Name	Name of Institution	Position
Dr Dayanath C Jayasuriya	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka Settlement Guarantee Fund Public Utilities Commission National Procurement Agency 	Chairman (resigned w.e.f. 6.12.05) Trustee (resigned w.e.f. 6.12.05) Director (resigned w.e.f. 6.12.05) Director (resigned w.e.f. 6.12.05)
Mrs Dayani De Silva	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka National Procurement Agency 	Member (resigned w.e.f. 8.12.05) Member of the Board of Management
Dr (Mrs) Ranee Jayamaha	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka Credit Information Bureau National Council for Economic Development – Financial Sector Cluster 	Member (resigned w.e.f. 7.12.05) Chairman Co-Chairperson
Mr Udayasri Kariyawasam	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka 	Member (resigned w.e.f. 6.12.05)
Mr O M Weerasooriya	<ul style="list-style-type: none"> Securities and Exchange Commission of Sri Lanka 	Member (resigned w.e.f. 6.12.05)

The IBSL incurred the following expenditure in respect of goods & services obtained from the SEC.
Rs.

Temporary allowance paid to the staff of SEC for discharging the mandate of the Board from January 2005 to April 2005	1,544,814
Seconded Staff Salaries & other benefits from May 05 to December 05	2,065,176
Management Fee from May 2005 to Dec 2005	1,496,375
Vehicle Usage	68,040
Printing & Stationery	267,761
Courier Charges	1,412
Total	5,443,578

Rent and other related expenditure were not levied to the IBSL which was housed at the SEC premises during the period January 2005 to April 2005. The IBSL utilized the fixed assets of the SEC free of charge during the first four months of the year under review.

Other than the normal business transactions and the above mentioned transactions recorded there were no related party transactions.



Auditor General's Report



நெடு ஈழநிலம்-இலங்கை
ஈழ ஈழநிலம்-இலங்கை
AUDITOR-GENERAL'S DEPARTMENT



முடிவாக
எனது
My No. } LP/F/IBSL/2006/01

அமர்வாக
எனது
Your No. }

திகதி
தேதி
Date } 20 April 2006

The Chairman

Insurance Board of Sri Lanka.

Report of the Auditor General on the accounts of the Insurance Board of Sri Lanka (IBSL) for the year ended 31 December 2005 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 (IBSL) for the year ended 31 December 2005 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.

1:2. 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.

தலைநகரில்,
மேலே 07, அலுவலகம்

தலைநகரில், இலங்கை,
தலைநகரில் 07, அலுவலகம்

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Auditor General's Report *Contd...*

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, the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes (Nos. 1.1 to 4.4) to the financial statements and give a true and fair view of the financial position of the Board as at 31 December 2005, and the financial result and cash flow for the year then ended.

2:2 Comments on Accounts

2:2:1 Non compliance with Laws, Rules and Regulations

Following instances of non-compliance were observed in audit.

	Reference to Laws, Rules, Regulations and Management decisions	Particulars
(a)	Public Enterprises Circular No.PED/12 of 02 June 2003 Section 8:3:4	The limits for telephone call charges of the Director General had been exceeded the limits prescribed in the Circular.
(b)	Management Service Circular No. 14 of 03 January 2002.	An Executive Secretary had been recruited since June 2005 on contract basis and paid salary from the fund provided by the Treasury without obtaining the approval of the Ministry of Finance.
(c)	Management Service Circular No. 26 of 14 November 2005 and letter No. PE/STBD/274/2 dated 16 December 2005 of the Director General of the Department of Public Enterprises	The newly recruited employees of the IBSL had been paid bonus amounting to Rs. 31,491 contrary to the approval given by this letter.

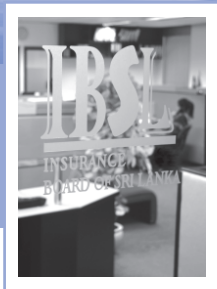
3. Financial and Operating Review

3:1 Financial Results

According to the accounts presented, the operation of the Board for the year ended 31 December 2005 had resulted in a surplus of Rs. 16,266,672 as against the deficit of Rs. 216,695 for the preceding year, thus indicating an improvement of Rs. 16,483,367 in the financial results for the year under review.

3.2. Uneconomic Transaction

The IBSL had been relocated in the World Trade Centre without following the tender procedure, and expenditure incurred on rent and car parking fees amounting to Rs. 4,702,304 and Rs. 89,700 respectively during the last 08 months period in 2005. These expenses considerably contributed to the increase of recurrent expenditure by 258% during the year under review.



Auditor General's Report *Contd...*

3:3 Transactions not supported by adequate authority

The temporary monthly allowance approved by the Ministry of Finance in 2002 had been continuously implemented up to April 2005 considering that the employees of the Securities and Exchange Commission (SEC) had cover up the duties of the IBSL. This payment had been made again as a management fee from May to September 2005 even after relocation of the IBSL as an identified unit at least cost since May 2005 with the separate staff. The total payments made to the employees of the SEC without specific approval was amounting to Rs. 2,129,460.

3:4 Idle and under utilized Assets

The Board had purchased 2 binding machines and 1 laminating machine at a cost of Rs. 81,650. However, these items were remained idle as all printing activities of the Board had been outsourced.

3:5 Transaction of a Contentious Nature

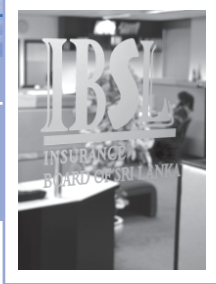
A sum of Rs. 1,000,000 had been paid to the Insurance Association of Sri Lanka by the Board without proper authority to set up an office for the Insurance Ombudsman Scheme which was suggested to handle the complaints from policy holders relating to general insurance. However, it could not be satisfied in audit on the delegation of the responsibility of the Board to an outside person and depend on his performance to achieve its objectives.

4. Systems and Controls

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

- a) Usage of telephone
- b) Nomination for foreign training

(S. C. MAYADUNNE)
AUDITOR GENERAL



Responses of the Board to the matters raised by the Auditor General

Responses of the Board to the matters raised by the Auditor General in the report of the Auditor General on the Accounts of the Insurance Board of Sri Lanka for the year ended 31st December 2005 in terms of Section 14(2) (C) of the finance act no 38 of 1971

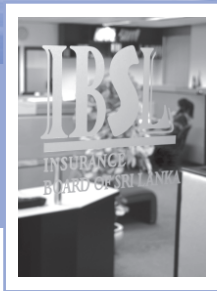
2.2 Comments on Accounts

2:2:1 Non Compliance with Laws, Rules and Regulations

Following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

- | | |
|--|--|
| <p>(a) Public Enterprises Circular No. PED/12 of 2nd June 2003 Section 8.3.4</p> <p>The limits for telephone call charges of the Director General had been exceeded the limits prescribed in the Circular.</p> | <p>Due to the nature of work the Chief Executive Officer/DG of the Insurance Board has to discharge, it is inevitable that the official telephone bill could exceed marginally the maximum limit prescribed in the handbook on "Public Enterprises Guidelines for Good Governance."</p> |
| <p>(b) Management Service Circular No 14 of 3rd January 2002</p> <p>An Executive Secretary had been recruited since June 2005 on contract basis and paid salary from the fund provided by the Treasury without obtaining the approval of the Ministry of Finance.</p> | <p>In terms of section 10 (1) of the Regulation of Insurance Industry Act, No.43 of 2000 the Board may appoint such officers and servants as it considers necessary for efficient discharge of its functions. The Members of the Board approved the appointment of the said secretary.</p> |
| <p>(c) Management Service Circular No 26 of 14 November 2005 and letter No PE/STBD/274/2 dated 16th December 2005 of the Director General of the Department of Public Enterprises.</p> <p>The newly recruited employees of the IBSL had been paid bonus amounting to Rs 31,491/- contrary to the approval given by this letter.</p> | <p>In terms of the approval granted by the Director General Department of Public Enterprises by the letter ref: PE/STBD/274/2 dated 16th December 2005 the staff of the IBSL were paid the said bonus proportionately to the period served.</p> |



Responses of the Board to the matters raised by the Auditor General *Contd...*

3.2 Uneconomic Transaction

The IBSL had been relocated in the World Trade Center without following the tender procedure, and expenditure incurred on rent and car parking fees amounting to Rs 4,702,304/- and Rs 89,700/- respectively during the last 8 months period in 2005. These expenses considerably contributed to the increase of recurrent expenditure by 258% during the year under review.

Board approval and concurrence of the Ministry of Finance was obtained for housing the Secretariat of the IBSL at the present location. Parking fees were in respect of the vehicles of the staff who are seconded from the SEC. Earlier the parking fees were paid by SEC.

3.3 Transactions not supported by adequate authority

The temporary monthly allowance approved by the Ministry of Finance in 2002 had been continuously implemented up to April 2005 considering that the employees of the Securities and Exchange Commission (SEC) had cover up the duties of the IBSL. This payment had been made again as a Management fee from May to September 2005 even after relocation of the IBSL as an identified unit at least cost since May 2005 with the separate staff. The total payments made to the employees of the SEC without specific approval was amounting to Rs 2,129,460.

The office of the Insurance Board of Sri Lanka (IBSL) was relocated at a separate location as approved by the Ministry of Finance. The only permanent appointment made to the Board at that stage was of the Director General.

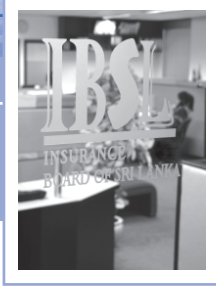
The Members of the IBSL decided to pay a Management Fee to the SEC with regard to the work discharged by the members of the staff of the SEC until such time appointments were made to the permanent cadre of the Board.

Since a few appointments were made to the Board it was decided to reduce the Management Fee with effect from October 2005 to the extent of the services rendered in connection with Finance & Administration only. The reduced fee will continue until such time the Board made arrangements to recruit the necessary personnel to discharge the said functions.

3.4 Idle and under utilized Assets

The Board had purchased 2 binding machines and 1 laminating machine at a cost of Rs 81,650/-. However these items were remained idle as all printing activities of the Board had been outsourced.

The Board purchased one Normal Binding Machine and one Thermal Binding Machine. For effective functioning of the IBSL the purchase of basic office equipment were approved by the Members of the Board. The said equipment are utilized to handle day to day printing, binding and laminating reports, agendas and certificates etc. Since the equipment was purchased no work was outsourced pertaining to printing etc. In the long run the investment on the said machines will certainly pay off.



Responses of the Board to the matters raised by the Auditor General *Contd...*

3.5 Transaction of a Contentious Nature

A sum of Rs 1,000,000/- had been paid to the Insurance Association of Sri Lanka by the Board without proper authority to set up an office for the Insurance Ombudsmen Scheme, which was suggested to handle the complaints from policyholders relating to general insurance. However, it could not be satisfied in audit on the delegation of the responsibility of the Board to an outside person and depend on his performance to achieve its objectives.

Insurance Ombudsman Scheme was established by the Insurance Association of Sri Lanka with the concurrence of the IBSL. Since the IBSL is not empowered under the RII Act to deal with complaints in respect of general insurance claim disputes and provide redress to the affected parties IBSL supported the establishment of an Insurance Ombudsman Scheme and provided Rs.1,000,000/- for capital expenditure with the approval of Board.

4 Systems and Control

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

- (a) Usage of telephone
- (b) Nomination for foreign training

Due care will be taken.

Nominations for foreign training approval are decided by the Board after taking into consideration the training needs of the Officer.



Appendix i

Insurance Companies Registered under the RII Act up to 30th May 2006

ABC Insurance Company Limited

Allianz Insurance Company Lanka Limited

Amana Takaful Limited

Asian Alliance Insurance Company Limited

Ceylinco Insurance Company Limited

Ceylinco Takaful Limited

Cooperative Insurance Company Limited

Eagle Insurance Company Limited

Hayleys AIG Insurance Company Limited

HNB Assurance Limited

Janashakthi Insurance Company Limited

Life Insurance Corporation (Lanka) Limited

National Insurance Corporation Limited

Seemasahitha Sanasa Rakshana Samagama

Sri Lanka Insurance Corporation Limited

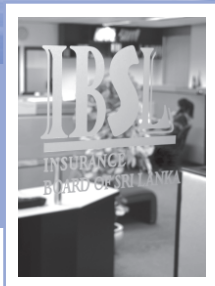
Union Assurance Limited



Appendix ii

Insurance Broking Companies Registered under the RII Act for the year 2006

Name	Period of Registration	Class of Business
1. ADZ Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
2. Alfinco Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
3. Amity Insurance Brokers (Pvt) Limited	17/01/2006 – 31/12/2006	Long-Term & General
4. AMW Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
5. Arcadia Insurance Brokers (Pvt) Limited	02/03/2006 – 31/12/2006	Long-Term & General
6. Brilliance Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
7. Cee Lanka Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
8. Ceyexxe Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006 22/05/2006 – 31/12/2006	General Long-Term
9. Ceylon Insurance Brokers Company (Pvt) Limited	20/09/2005 – 19/09/2006	Long-Term & General
10. CF Insurance Brokers (Pvt) Limited	03/01/2006 – 31/12/2006	Long-Term & General
11. Commercial Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
12. Delmege Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
13. Equity Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
14. Essajee Carimjee & Co. (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
15. Finlay Insurance Brokers Limited	01/01/2006 – 31/12/2006	Long-Term & General
16. Industrial & Commercial Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
17. Insurex Insurance Brokers Company (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
18. Jay Insurance Consultants (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
19. JF Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
20. Kaido Insurance Brokers (Pvt) Limited	22/07/2005 – 21/07/2006	Long-Term & General
21. Lak Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
22. Lanka Orix Insurance Brokers Limited	01/01/2006 – 31/12/2006	Long-Term & General
23. L M & A Insurance Brokers & Consultants (Pvt) Limited	06/02/2006 – 31/12/2006	Long-Term & General
24. Mackwoods Insurance Brokers (Pvt) Limited	05/01/2006 – 31/12/2006	Long-Term & General
25. Maxwell Enterprises Limited	01/01/2006 – 31/12/2006	Long-Term & General
26. Oasis Insurance Broker (Pvt) Limited	29/08/2005 – 28/08/2006	Long-Term & General
27. P & A Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
28. Premier Insurance Brokers (Pvt) Limited	25/01/2006 – 31/12/2006	Long-Term & General
29. Protection & Utmost Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
30. Ro-Pa Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
31. Senaratne Associates Limited	01/01/2006 – 31/12/2006	Long-Term & General
32. Sun Shine Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
33. Super Insurance Brokers (Pvt) Limited	08/02/2006 – 31/12/2006	Long-Term & General
34. Suriya Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
35. United Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
36. United Life & General Assurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
37. Veracity Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
38. Victor Emmanuel Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
39. Visionwide Insurance Brokering & Financial Services (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
40. Volanka Insurance Services (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General
41. Zenith Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	Long-Term & General



Appendix ii *Contd...*

Insurance Broking Companies Registered under the RII Act for the year 2006

Name	Period of Registration	Class of Business
42. Austasia Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	General
43. DP Insurance Brokers Limited	20/01/2006 – 31/12/2006	General
44. Eastern Insurance Consultants (Pvt) Limited	04/01/2006 – 31/12/2006	General
45. Hiru Insurance Brokers (Pvt) Limited	21/02/2006 – 31/12/2006	General
46. Interbroker (Pvt) Limited	02/03/2006 – 31/12/2006	General
47. Kandurata Insurance Brokers (Pvt) Limited	23/01/2006 – 31/12/2006	General
48. Koshiha Insurance Brokers (Pvt) Limited	04/01/2006 – 31/12/2006	General
49. Mark Lloyed & Company (Pvt) Limited	10/01/2006 – 31/12/2006	General
50. Micro Insurance Brokers (Pvt) Limited	01/01/2006 – 31/12/2006	General
51. MLL Insurance Brokers Limited	01/01/2006 – 31/12/2006	General
52. Procure Insurance Brokers (Pvt) Limited	10/01/2006 – 31/12/2006	General
53. Vanik Insurance Brokers (Pvt) Limited	07/04/2006 – 31/07/2006	General



Insurance Board of Sri Lanka

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