

Strengthening Regulating Protecting

IBSL

Insurance Board of Sri Lanka

Annual Report 2007

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Vision

“To strengthen the regulatory framework of the insurance industry, creating an environment that promotes public confidence and the development of the insurance industry thereby contributing towards sustainable economic growth”

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”

General Information

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Legal Form

A statutory Board established 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 is 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
Peoples Bank
Hong Kong & Shanghai Banking Corporation Limited

Members of the Board



Pictured here is Chairman of IBSL Dr. Gamini Wickramasinghe (third from left) with the Members (left to right) Mr. Graetian Gunawardhana, Mr. Sumith Abeysinghe, Dr. Raneer Jayamaha, Mr. C P E Gunasingam and Mr. Wilfred Wickramasinghe. Not in the picture is Mr. Channa de Silva, Member.

Events

We had a very positive year which included several programmes to achieve the goals - creating awareness, micro insurance sector development & in-house staff training



April

IBSL conducted a seminar on the basics of insurance for A/L students of Medagama Maha Vidyalaya, Dehiattakandiya, Ampara.



June

With the aim of educating the general public and students on the basics of insurance, the IBSL conducted a two day seminar and exhibition at the Sri Saddharmalankara Pirivena in Bibile.



June

In conjunction with Asian Development Bank, IBSL organized a two day regional workshop in Colombo on “Micro Insurance Sector Development” for local and foreign insurance professionals and policy makers in the insurance sector.

July

IBSL conducted a seminar for small and medium business entrepreneurs on “The Importance of Insurance to the Small & Medium Entrepreneurs” at the “Ruhunu Navodaya 2007 Exhibition” in Hambantota.



October

IBSL conducted a seminar for students of the Technical College in Kegalle on “The Importance of Insurance.”



September

A two day residential training programme was conducted for the staff of IBSL at Deer Park Hotel, Giritala.



November

IBSL conducted a seminar for students of the Technical College in Kuliyaipitiya on “The Importance of Insurance.”



Chairman's Statement



I have great pleasure in submitting the Annual Report of the Insurance Board of Sri Lanka

(Board) for the year 2007 to be laid before Parliament, as required in terms of section 106 of the Regulation of Insurance Industry Act No.43 of 2000.

During the year, the insurance industry in Sri Lanka recorded positive growth both in terms of assets and premia. Total industry assets grew by 14% YoY whilst general insurance and life insurance premia recorded YoY 20% and 21% growth respectively. General insurance accounted for more than 60% of the gross written premia – a continued trend from previous years. The significantly higher motor insurance sales accounted for 55% of the gross written premia in respect of the latter. The combined assets of the insurance sector represent 3.1% of the total assets of major financial institutions.

There has been a significant increase of approximately 29% in new life insurance policies issued by insurance companies during the year, which accounted for population-wise Life Insurance penetration of 9.6% when compared with the previous year's penetration of 8.8%.

The Board remains focused on progressing to a more proportionate and flexible approach to regulation and supervision based on sound risk assessments. The adoption of risk based supervisory framework approach, now in its third year of implementation, continues to be redefined to sharpen the focus on institution-specific risks in the supervisory assessment and rating process.

“There has been a significant increase of approximately 29% in new life insurance policies issued by insurance companies during the year, which accounted for population-wise Life Insurance penetration of 9.6%...”

The solvency margins rules relating to long term insurance business and general insurance business have been redesigned to broaden the scope of investments. This allows for inclusion of new instruments currently available in the market, with a view to diversification and enhancement of investment performance whilst simultaneously improving asset liability structures.

The Board is taking steps to increase the capital of insurance companies and is also studying a model for introducing risk based capital, in order to move towards a system which is more appropriate. The latter is now practiced in most jurisdictions. It is an ideal model for Sri Lanka, providing the ability to retain sufficient capital proportionate to underwritten risk.

After liberalization of the state controlled insurance sector in 1987 for private sector and foreign participation, a number of local and foreign insurance companies commenced insurance business. These companies depended on foreign reinsurers for reinsurance support.

In order to provide reinsurance support to local insurers, the Government of Sri Lanka established the National Insurance Trust Fund (NITF) under the National Insurance Trust Fund Act No. 28 of 2006.

The Financial Services Academy (FSA) that was established jointly by the Securities & Exchange Commission of Sri Lanka and the Board, conducted several insurance programmes including various international seminars. Resource persons required for the programmes were drawn locally and from the Singapore College of Insurance with which FSA has signed an MOU.

The Board is also actively engaged in fostering the relationship with the South Asian Insurance Regulators' Forum and the International Association of Insurance Supervisors. The Board pursues a robust regulatory and supervisory system that is compatible with domestic market conditions and capabilities, whilst promoting market efficiency and stability.

On behalf of the Members of the Board, I take this opportunity to thank the Director General and the staff of the Board for the co-operation and commitment in executing the decisions of the Board. The Board has worked in concurrence with the Insurance

Association of Sri Lanka, Sri Lanka Insurance Brokers Association, Sri Lanka Insurance Institute and the Insurance Ombudsman, and wishes to appreciate the contributions made by them at various forums.



Dr. Gamini Wickramasinghe

Chairman

27th May 2008

“The aim and effort of the Board is to maintain a robust regulatory and supervisory system that is compatible with domestic market conditions and capabilities, while at the same time promoting market efficiency and stability.”

Director General's Review



Economy and the Insurance Industry

The Sri Lankan economy has been moving

towards a higher growth of more than 6% since 2005 when compared with the historic average growth of 4-5%. Industry and services sectors were the main contributors to the higher economic growth. During the year, per capita income rose to US dollars 1,617 from the previous year's US dollars 1,421, while reaching the lowest unemployment level of 6%. In spite of the higher oil prices and the turbulent situation that prevailed due to terrorist activity, the country has been able to record an economic growth of 6.8%.

The insurance industry, with a gross written premium of Rs. 51,885 million, has demonstrated a higher growth rate of 20.56% when compared with the previous year's growth rate of 15.61%. Gross written premium indicates both classes of insurance business have similar growth rates of around 21%, when compared with the previous year's growth of around 16%. The GDP penetration by the insurance sector is around 1.46%, which is at the same level as the previous year's penetration with the revised GDP for the year 2006.

It is observed that not all companies made an underwriting profit which has resulted in an overall underwriting loss. However, the insurance companies were able to achieve overall operating profits as a result of income generated from investments due to high market rate of interest that prevailed during the year.

Creating Awareness

During the year the Board conducted insurance programmes district-wise for the public, creating awareness of the benefits in obtaining insurance covers.

“The main priorities for the year 2008 have been identified as formulating laws to develop and regulate the Micro Insurance Sector, developing a model for a Risk Based Capital system and strengthening Risk Based Supervision.”

Regulatory Developments

Since the proposed amendments to the Act were pending, the Board had to make certain additions to the proposed amendments, in keeping with global developments to make the regulatory system more effective and to improve transparency, in view of the mandate given to the Board under the Act to protect the interests of policyholders and potential policyholders.

Risk Based Capital

The Board decided to migrate to a Risk Based Capital System by year 2010. Work in this respect is being formulated. The Board completed a study of the systems and processes adopted in several other jurisdictions, and commenced its preliminary work in formulating a model suitable to Sri Lanka.

Corporate Plan of the Board - 2007 to 2009

In keeping with the Mission and Vision of the Board as per the Corporate Plan 2007-2009, the Board strived to achieve the goals and objectives set for itself for the year 2007, while managing the weaknesses and threats it faced in implementing the provisions of the Act, with a view to protect the interests of policyholders

and potential policyholders. The main priorities for the year 2008 have been identified, formulating laws to develop and regulate the Micro Insurance Sector, developing a model for a Risk Based Capital system and strengthening Risk Based Supervision.

Insurance as a subject for the G.C.E. Ordinary Level and Advanced Level

The Board jointly with the National Institute of Education (NIE), developed a curriculum to introduce insurance as a subject in the commerce stream of the G.C.E. Ordinary Level and Advanced Level. There is no doubt that this will pave the way to increase and spread the knowledge on insurance.

National Insurance Trust Fund (NITF)

The NITF Act requires all registered insurance companies to cede a percentage, not exceeding 50%, of reinsurance premium to NITF. In terms of the above provision, NITF instructed all insurance companies to cede 20% of all types of Reinsurance Treaties and Facultative Reinsurance arrangements in respect of general insurance business with effect from 1st January 2008, to NITF.

Due to the new arrangement, a sizable amount of the gross written premium will be retained in the country, thereby conserving valuable foreign exchange remitted as reinsurance premium to foreign reinsurers, and at the same time will gradually develop local skills and expertise in handling reinsurance business in Sri Lanka.

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors (IAIS), we continued to adopt regulatory measures formulated by IAIS on a best effort basis. The Board, is one of the founder members of the South Asian Insurance Regulators' Forum, closely associated with the other members of the Forum in obtaining information for strengthening our regulatory system, and assisting them in their work.

In conclusion I wish to thank the Chairman, Dr. Gamini Wickramasinghe, and the Members of the Board for their co-operation and guidance and the staff of the Board for their dedicated support in the efforts taken in achieving the vision and mission of the Board during the year.



Mrs. Lasinee Seresinhe

Director General

27th May 2008

“The Board, is one of the founder members of the South Asian Insurance Regulators’ Forum, closely associated with the other members of the Forum in obtaining information for strengthening our regulatory system, and assisting them in their work.”

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

Registration and Market Structure Insurance Companies

In terms of section 13 of the Act, a company interested in engaging in insurance business in Sri Lanka should incorporate a public company under the Companies Act No. 7 of 2007 and register as an insurer under the Act after having fulfilled other statutory requirements.

Fifteen insurance companies were in operation during the year, out of which 11 companies engaged in composite insurance, carrying on both long term insurance business and general insurance business, while out of the rest, one company engaged in long term insurance business and three companies engaged in general insurance business.

Insurance Brokers

In terms of section 80 of the Act, a company interested in engaging in insurance broking business in Sri Lanka should incorporate a company under the Companies Act and obtain a registration as an insurance broker under the Act after having fulfilled other statutory requirements. During the year there were 54 companies engaged in insurance broking business in Sri Lanka.

Insurance Agents

Insurance agents are individuals appointed and registered by insurers and insurance brokers and they play a key role in marketing life insurance products. In Sri Lanka there are around 25,000 insurance agents and they procure around 95% of the life insurance business.

The Board in terms of section 78(4) of the Act, has issued rules specifying the minimum educational qualifications and other entry requirements to appoint an individual as an insurance agent.

The Board has authorised the Sri Lanka Insurance Institute (SLII) to conduct the pre-recruitment test for insurance agents in respect of long term insurance and general insurance in all three languages.

Company Status and Changes in Equity Insurance Companies

The Hon. Minister of Finance, in terms of the powers vested in him under the Act, issued Regulations increasing the minimum paid up share capital of insurance companies to Rs.100 million in respect of each class of insurance business with effect from 12th October 2005.

Further, the Board decided to increase the capital in respect of each class of insurance business to Rs.250 million by end of December 2008 and Rs.500 million by the end of December 2010. The Board also decided to request all insurance companies to obtain a rating of Insurers' Financial Strength (IFS), which indicates the insurer's ability to pay claims on a voluntary basis, from a rating agency acceptable to the Board. Sri Lanka Insurance Corporation Ltd, HNB Assurance PLC and Asian Alliance Insurance PLC got their companies rated by local rating agencies.

Six insurance companies i.e. Ceylinco Insurance PLC, Eagle Insurance PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC and Amana Takaful PLC are listed on the Colombo Stock Exchange.

Foreign equity participation is permitted up to 100% in insurance companies in terms of the Gazette Notification No.1232/14 dated 19th April 2002 published by the Controller of Exchange.

Out of the 15 insurance companies, 5 have foreign collaboration. Allianz Insurance Company Lanka Ltd., is a wholly owned subsidiary of Allianz Group of Germany. Majority shareholding of Eagle Insurance PLC, Hayleys AIG Insurance Company Ltd., and Life Insurance Corporation (Lanka) Ltd., are held by Aviva Company, American International Group and Life

Insurance Corporation of India respectively. Takaful Malaysia has 15% equity participation in Amana Takaful Ltd.

Insurance Brokers

In terms of Rules made by the Board under section 80(1)(a) of the Act, the paid up share capital requirement to register companies as insurance brokers was increased to Rs.1 million with effect from 29th September 2005.

The Board decided to increase the capital of insurance brokers to Rs. 2.5 million by end of December 2008, and also to increase the existing professional indemnity cover of Rs. 5 million to a sum equal to three times the brokerage of the business for the last accounting period (financial year) ending prior to the inception or renewal of the policy, subject to a maximum limit of liability of Rs.10 million with effect from 2009.

Levy of Cess From Insurance Companies

By virtue of powers vested in the Minister in terms of section 7 of the Act, an order was made by the Hon. Minister of Finance for the levy of Cess at the rate of 0.2% of the total net premium of long term insurance business, and 0.4% of the total net premium of general insurance business. This was published in the Gazette Notification No.1244/5 on 9th July 2002. The Cess collection from insurers commenced effective from January 2003. Total amount of Cess collected for the year 2007 was Rs.113 million.

Policy Holders Protection Fund

The Cess collected from insurance companies is deposited into the Policy Holders Protection Fund, established in terms of section 103 of the Act. The amounts lying to the credit of the Policy Holders Protection Fund is invested in Treasury Bills. The accumulated amount in the Fund as at 31st December 2007 was Rs.351 million.

Insurance Tariff

The tariff on Workmen's Compensation Insurance (WCI) was de-tariffed with effect from 1st January 2007. Presently there are no tariffs on any class of general insurance business. Insurance companies are free to charge premium rates commensurate with the risks they underwrite.

Overseas Insurance - Travel, Health and Liability Insurance

In terms of section 101 of Act, the Board approved any person to place directly or indirectly health and travel insurance, and also insurance companies to obtain directors' and employer's liability insurance, with an insurer licensed or registered overseas, even if such insurer is not registered in Sri Lanka under the Act.

Exemptions

Provisions of the Regulation of Insurance Industry Act do not apply in respect of the Agriculture and Agrarian Insurance Board established under the Agriculture and Agrarian Insurance Act No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established under the Sri Lanka Export Credit Insurance Corporation Act No.15 of 1978, the Social Security Board established under the Social Security Board Act No.17 of 1996 and National Insurance Trust Fund established under the National Insurance Trust Fund Act No.28 of 2006.

The provisions of the Act do not apply to the enterprises which enter into agreements with the Board of Investment (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.

Other Related Matters

Insurance Association of Sri Lanka

The Insurance Association of Sri Lanka (IASL) was established in 1989. Every insurance company registered under the Act is eligible to obtain membership in the Association. All insurance companies are members of the Association.

The Association maintains a close working relationship with the Board.

Sri Lanka Insurance Brokers' Association

The Sri Lanka Insurance Brokers' Association (SLIBA) is the only Association of insurance brokers that has been approved by the Board in terms of section 79 of the Act. Further in terms of Section 79 of the Act, it is mandatory that all registered insurance brokers and all

General Review continued

applicants seeking registration as insurance brokers 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 very cordial relationship with the Board.

The Sri Lanka Insurance Institute

The Sri Lanka Insurance Institute (SLII) was established in 1982. It is a non-profit making organization and its main objective is to develop the skills and knowledge of persons engaging in or employed in the insurance business. The Institute conducts classes for those who are preparing for the examinations of the Chartered Insurance Institute of London, Insurance Institute of Australia, and Insurance Institute of India.

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

The Board has entrusted the Institute with the responsibility of conducting the pre-recruitment test for persons who are to be appointed as insurance agents. The Institute continues to conduct pre-recruitment tests in respect of both classes of insurance business.

Accordingly, all insurance agents are required to pass the pre-recruitment test before they are appointed by an insurance company or a broker.

South Asian Insurance Regulators' Forum (SAIRF)

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

During the year Mr. Sonam Wangchuk from the Royal Monetary Authority of Bhutan was the Chairman of SAIRF, while Mr. C.S. Rao, Chairman, Insurance Regulatory and Development Authority of India

(IRDA), Mr. Madhav Prasad Upadhyay, Chairman Beema Samiti (Insurance Board) of Nepal, Mr. Dasho Daw Tenzin from the Royal Monetary Authority of Maldives, Mr. Tarif Hassan from the Securities and Exchange Commission of Pakistan, Mr. 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 to facilitate regulatory activities, the sharing of information and experiences and harmonization of legislative approaches and financial reporting systems, to the extent feasible.

International Association of Insurance Supervisors (IAIS)

The Insurance Board of Sri Lanka is a member of the IAIS. The Board receives publications, guidelines such as insurance core principles, and information regarding other activities of IAIS on a regular basis. Some of the core principles recommended by the IAIS are adopted by the Board for effective supervision and monitoring of the insurance industry.

Mrs. Lasinee Serasinhe, Director General, attended the Tri-Annual Meeting of IAIS held in Dubai from 12th to 15th February 2007 and the Tri-Annual Meeting and the Annual Conference of the IAIS held in Florida, USA from 14th to 19th October 2007.

National Insurance Trust Fund

The National Insurance Trust Fund (NITF) was established under the National Trust Fund Act No.28 of 2006. NITF comes under the purview of the Ministry of Finance and Planning. All insurance companies are required to cede 20% of their reinsurance premium in respect of general insurance business to NITF. The Board is represented on the Board of NITF.

National Council for Road Safety

The National Council for Road Safety (NCRS) was established under the Motor Traffic Act. It is under the purview of the Ministry of Transport. Every insurer providing motor insurance cover is required to contribute one per cent (1%) of the third party

insurance premium to the Road Safety Fund. The Board is represented on the Council of the NCRS.

Inter Regulatory Institutions Council

The Inter Regulatory Institutions Council (IRIC) was established by the Central Bank of Sri Lanka (CBSL). This is a high level committee chaired by the Governor of the CBSL. IRIC was set up to ensure that appropriate policy directions are set out for orderly development of financial markets, and that all regulatory agencies coordinate and exchange information in the interest of the wider financial system. The Board is represented in the Council.

Working Group of Regulators on Financial Conglomerates

The Working Group of Regulators on Financial Conglomerates was appointed by the Central Bank of Sri Lanka. The objectives of the group are to assess the systemic risks of financial conglomerates, to recommend a course of action for the regulation and supervision of the respective institutions on a consolidated basis, and to propose necessary legal framework relating to regulation and supervision of financial conglomerates. The Board is represented in the group.

Statistical Review of 2006/2007

Premium income

The insurance industry reported an overall gross written premium of Rs.51,885 million (2006: Rs.43,035 million) from long term insurance business and general insurance business, recording a higher growth of 20.56% when compared with the previous year's growth of 15.61%. The total gross written premium represents 1.46% of the gross domestic product (GDP), which is at the same level as in the previous year based on the revised GDP for the year 2006 in the Central Bank Annual Report for the year 2007.

General insurance business contributed the major share of 60.05% (2006: 60.26) with a gross written premium of Rs.31,156 million (2006: Rs.25,931 million), while contribution from long term insurance business was 39.95% (2006: 39.74%) with a premium income of Rs. 20,729 million (2006: Rs.17,104 million). Contribution from general insurance business was higher than long term insurance business to total premium income during the year, but both classes showed higher growth than the previous year as shown in Table 1.

Table 1

Premium Income (in million rupees)

	2001	2002	2003	2004	2005	2006	2007
Long Term Insurance	7,494	8,682	10,613	12,518	14,814	17,104	20,729
General Insurance	9,366	11,599	13,534	17,037	22,410	25,931	31,156
Total Premium Income	16,860	20,281	24,147	29,555	37,224	43,035	51,885
Gross Domestic Product in billion *			1,822	2,091	2,453	2,939	3,578
Total premium as a % of GDP	1.20	1.28	1.33	1.52	1.41	1.46	1.46
Growth Rate	13.39	20.29	19.06	22.4	25.94	15.61	20.56

*Source: Annual Report 2007 of the Central Bank of Sri Lanka

Total Shareholders' Funds of Insurance Companies

Total Shareholders' Funds as at 31st December 2007 amounted to Rs.19,521 million showing a 7.2% increase when compared with the previous year's total

Shareholders' Funds of Rs.18,208 million. Company-wise analysis of Shareholders Funds for the years 2006 and 2007 is shown in Table 2, and the distribution of Shareholder's Funds for the year 2007 is shown in Chart 1.

Table 2

Total Shareholder's Funds of Insurance Companies

Insurer	2006		2007					
	Total Shareholders' Fund		Paid-up Capital	General Reserves	Retained Earnings/ (Loss)	Other Reserves	Total Shareholders' Fund	
	Rs.'000	%					Rs.'000	%
SLICL	9,082,672	49.88	6,000,000	536,339	2,341,460	0	8,194,871	41.98
NICL	1,790,203	9.83	-	-	-	-	-	-
CICL	2,949,429	16.2	202,288	2,007,437	1,697,174	574,458	4,481,357	22.96
UAL	977,927	5.37	388,432	48,632	716,121	-	1,153,185	5.91
EICL	1,715,469	9.42	300,000	925,000	167,602	592,426	1,985,028	10.17
JICL	302,409	1.66	1,100,000	-	295,128	-	1,395,128	7.15
COICL	133,664	0.73	140,250	-	29,755	-	170,005	0.87

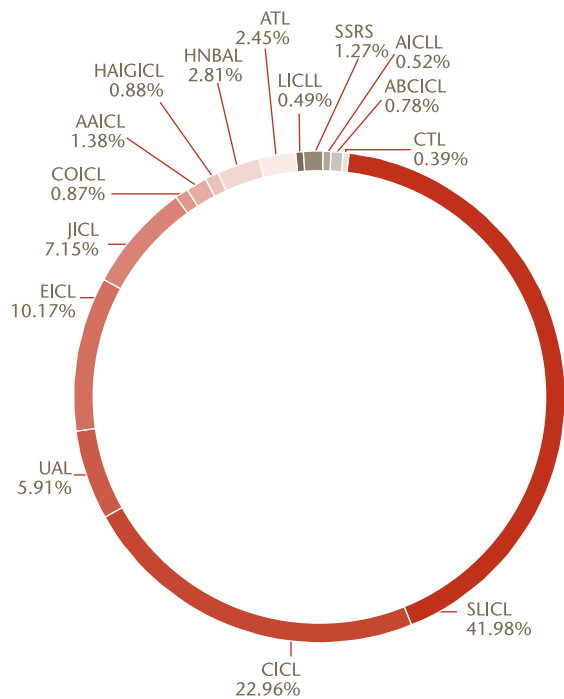
Table 2 Contd.

Total Shareholder's Funds of Insurance Companies Contd.

Insurer	2006		2007					
	Total Shareholders' Fund		Paid-up Capital Rs.'000	General Reserves Rs.'000	Retained Earnings/ (Loss) Rs.'000	Other Reserves Rs.'000	Total Shareholders' Fund	
	Rs.'000	%					Rs.'000	%
AAICL	167,860	0.92	250,000	-	18,655	-	268,655	1.38
HAIGICL	17,618	0.1	326,249	-	(153,773)	-	172,476	0.88
HNBAL	450,811	2.48	375,000	-	174,143	-	549,143	2.81
ATL	103,245	0.57	500,000	-	(21,864)	-	478,136	2.45
LICLL	180,246	0.99	250,000	112,500	(266,498)	-	96,002	0.49
SSRS	67,780	0.37	146,573	83,795	(13,184)	30,880	248,064	1.27
AICLL	68,873	0.38	67,510	-	33,072	-	100,582	0.52
ABCICL	115,244	0.63	277,887	-	(128,168)	1,961	151,680	0.78
CTL	84,534	0.46	100,000	-	(22,909)	-	77,091	0.39
Total	18,207,984	100	10,424,189	3,713,703	4,866,714	1,199,725	19,521,403	100

Chart 1

Company-Wise Analysis of Shareholders Funds 2007



Abbreviations

- SLICL : Sri Lanka Insurance Corporation Ltd.
- NICL : National Insurance Corporation Ltd.
- CICL : Ceylinco Insurance PLC
- UAL : Union Assurance PLC
- EICL : Eagle Insurance PLC
- JICL : Janashakthi Insurance Company Ltd.
- COICL : Co-operative Insurance Company Ltd.
- AAICL : Asian Alliance Insurance PLC
- HAIGICL : Hayleys AIG Insurance Company Ltd.
- HNBAL : HNB Assurance PLC
- ATL : Amana Takaful PLC
- LICLL : Life Insurance Corporation (Lanka) Ltd.
- SSRS : Seemasahitha Sanasa Rakshana Samagama
- AICLL : Allianz Insurance Company Lanka Ltd.
- ABCICL : ABC Insurance Company Ltd.
- CTL : Ceylinco Takaful Ltd.



Statistical Review of 2006/2007 continued

Table 3

Total Assets of Insurance Companies

Insurer	Distribution of Assets							
	2006				2007			
	Long Term Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000	%	Long Term Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000	%
SLICL	33,522,888	19,423,802	52,946,690	45.00	37,415,528	21,167,009	58,582,537	43.43
NICL	1,282,255	3,835,548	5,117,803	4.35	1,097,146	-	1,097,146	0.81
CICL	16,235,627	8,048,306	24,283,933	20.64	19,385,321	11,665,014	31,050,335	23.02
UAL	5,996,511	3,595,214	9,591,725	8.15	7,951,945	4,017,020	11,968,965	8.87
EICL	11,270,492	3,589,258	14,859,750	12.63	13,034,225	3,884,486	16,918,711	12.54
JICL	1,543,490	4,216,025	5,759,515	4.90	2,638,168	4,933,631	7,571,799	5.61
COICL	152,751	266,208	418,959	0.36	209,217	365,492	574,709	0.43
AAICL	738,798	427,439	1,166,237	0.99	1,102,067	855,052	1,957,119	1.45
HAIGICL	-	455,559	455,559	0.39	-	577,572	577,572	0.43
HNBAL	697,195	778,290	1,475,485	1.25	1,091,705	917,174	2,008,879	1.49
ATL	168,031	299,271	467,302	0.40	239,027	625,937	864,964	0.64
LICLL	397,699	-	397,699	0.34	447,435	-	447,435	0.33
SSRS	31,762	136,095	167,857	0.14	85,244	247,064	332,308	0.25
AICLL	-	263,488	263,488	0.22	62,409	377,998	440,407	0.33
ABCICL	39,658	152,824	192,482	0.16	62,409	301,068	363,477	0.27
CTL	-	94,315	94,315	0.08	-	119,858	119,858	0.09
Total	72,077,157	45,581,642	117,658,799	100.00	84,821,846	50,054,375	134,876,221	100.00

Total Assets of Insurance Companies

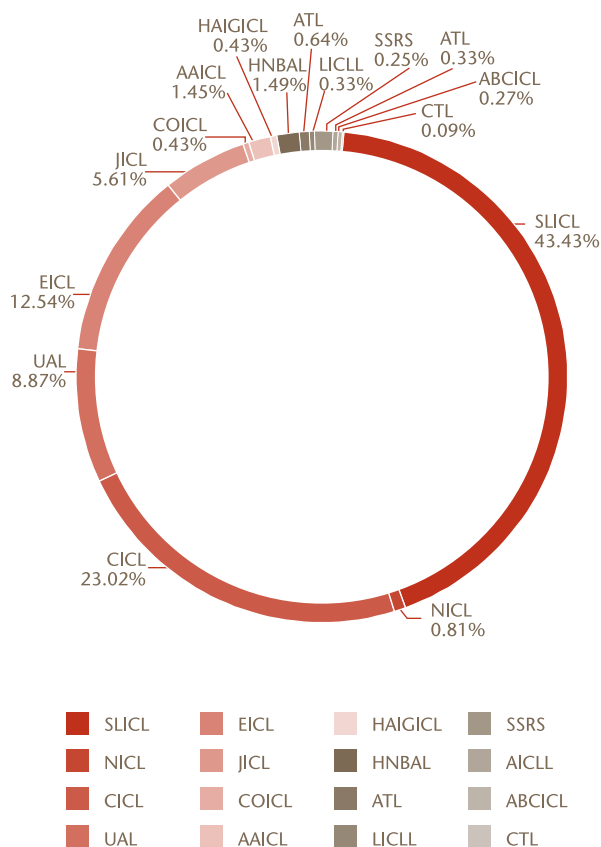
Total assets of insurance companies as at 31st December 2007 was Rs.134,876 million (2006: Rs.117,658 million) which reflects an increase of 14.63% when compared with the previous year.

Assets of long term insurance business amounting to Rs.84,821 million (2006:Rs.72,077 million) represents 62.89% (2006:61.26%) of the total assets of insurance companies while assets of general insurance business amounting to Rs.50,054 million (2006: Rs. 45,581 million) accounts for 37.11% (2006:38.74%).

Ref: Table 3 and Chart 2

Chart 2

**Concentration of Assets
Company-wise Analysis - 2007**



Concentration of Assets of Long Term Insurance Business of Insurance Companies

Table 4 and Chart 3 show the distribution of the assets of long term insurance business. Investment in government securities amounting to Rs.41,901 million represents 49.61% of the total fund.

Table 4

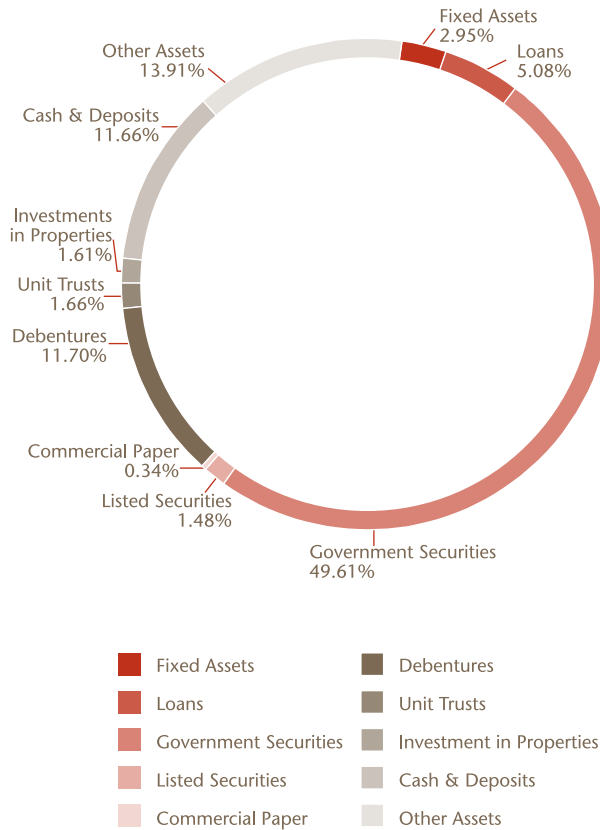
Distribution of Assets of Long Term Insurance Business - 2007

Type of Investment	Rs.'000	Percent
Fixed Assets	2,492,171	2.95
Loans	4,288,417	5.08
Government Securities	41,901,427	49.61
Listed Securities	1,250,988	1.48
Commercial Paper	286,300	0.34
Debentures	9,882,888	11.70
Unit Trusts	1,399,033	1.66
Investment in Properties	1,359,283	1.61
Cash and Deposits	9,852,187	11.66
Other Assets	11,746,743	13.91
Total	84,459,437	100.00

Statistical Review of 2006/2007 continued

Chart 3

Concentration of Assets of Long Term Insurance Business
Company-wise Analysis 2007



Concentration of Assets of General Insurance Business of Insurance Companies

Total assets of general insurance business for the year amounted to Rs.50,054 million. Investment in government securities amounting to Rs.11,494 million represents 22.96% of the total assets. Table 5 and Chart 4 show the distribution of assets of general insurance business.

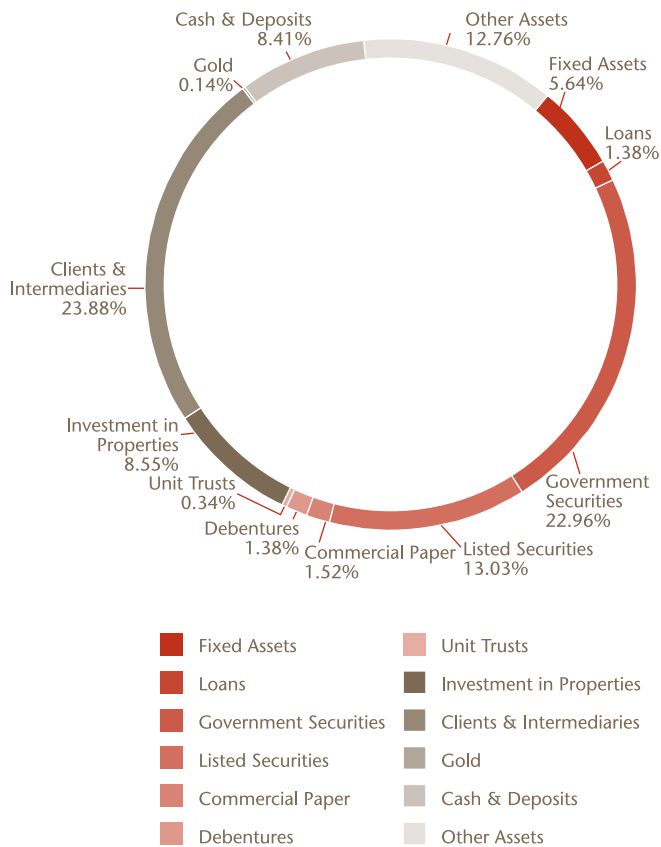
Table 5

Distribution of Assets of General Insurance Business - 2007

Type of Asset	Rs.'000	Percent
Fixed Assets	2,823,803	5.64
Loans	689,890	1.38
Government Securities	11,494,128	22.96
Listed Securities	6,524,224	13.03
Commercial Paper	760,032	1.52
Debtentures	692,482	1.38
Unit Trusts	171,293	0.34
Investment in Properties	4,279,940	8.55
Amount due from Reinsurers/ Clients and Intermediaries	11,954,709	23.88
Gold	68,310	0.14
Cash and Deposits	4,210,499	8.41
Other Assets	6,385,065	12.76
Total	50,054,375	100.00

Chart 4

**Concentration of Assets of General Insurance Business
Company-wise Analysis - 2007**



Distribution of Total Assets of Major Financial Institutions

Total assets of Major Financial Institutions amounted to Rs. 4,324.0 billion (2006: Rs.3,733.5 billion) and the insurance sector accounted for 3.1% (2006: 3.1%), with total assets of Rs. 134.8 billion (2006: Rs. 117.6 billion) which was at the same level as in the previous year.

Table 6 shows the percentage share of each sector of the Financial System for years 2005 to 2007, and the distribution of assets for the year 2007 is indicated in Chart 5.

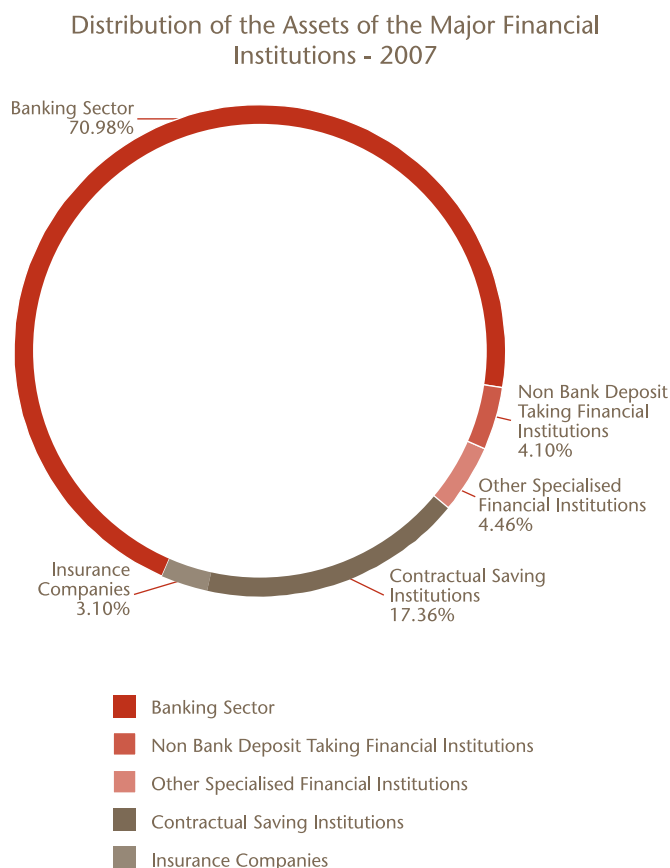
Table 6

* Financial Sector	Distribution Assets					
	2005		2006		2007	
	Rupees billion	%	Rupees billion	%	Rupees billion	%
Banking Sector	2,208.4	70.1	2,635.0	70.6	3,068.5	71.0
Non Bank Deposit Taking Financial Institutions	119.2	3.8	140.9	3.8	177.1	4.1
Other Specialized Financial Institutions	129.3	4.1	170.8	4.6	192.9	4.5
Contractual Saving Institutions	588.8	18.7	669.2	17.9	750.7	17.4
Insurance Companies	105.2	3.3	117.6	3.1	134.8	3.1
	3,150.9	100.0	3,733.5	100.0	4,324.0	100.0

* Source: CBSL Annual Report - 2007

Statistical Review of 2006/2007 continued

Chart 5



Long Term Insurance Business Gross Written Premium

Long term insurance business demonstrated a significant growth of 21.2%, with a premium income of Rs.20.729 million when compared with the previous three years, as shown in Table 7 and Chart 6.

Table 7

Company	Company-wise Market Share of Gross Written Premium											
	Long Term Insurance											
	2002		2003		2004		2005		2006		2007	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
SLICL	2,788,636	32.12	3,238,959	30.52	3,331,583	26.62	3,602,639	24.32	3,885,022	22.71	4,477,537	21.60
NICL	178,475	2.06	157,543	1.48	136,128	1.09	123,489	0.83	111,500	0.65	97,881	0.47
CICL	2,359,671	27.18	3,042,655	28.67	3,961,390	31.65	4,793,650	32.36	5,717,887	33.43	6,847,185	33.03
UAL	934,147	10.76	1,096,149	10.33	1,209,534	9.66	1,456,576	9.83	1,672,744	9.78	2,163,480	10.44
EICL	1,827,208	21.05	2,169,843	20.45	2,500,131	19.97	2,832,541	19.12	3,150,042	18.42	3,788,103	18.27
JICL	343,000	3.95	416,220	3.92	532,643	4.26	691,199	4.67	912,658	5.34	1,108,152	5.35
COICL	24,519	0.28	44,144	0.42	51,610	0.41	61,897	0.42	73,695	0.43	100,393	0.48
AAICL	163,280	1.88	274,470	2.59	421,280	3.37	577,693	3.9	747,934	4.37	890,794	4.30
HAIGICL	8,620	0.1	14,387	0.14	19,342	0.15	8,681	0.06	-	-	-	-
HNBAL	35,297	0.41	104,436	0.98	205,883	1.64	354,181	2.39	503,322	2.94	767,576	3.70

Table 7 Contd

Company	Company-wise Market Share of Gross Written Premium											
	Long Term Insurance											
	2002		2003		2004		2005		2006		2007	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
ATL	19,439	0.22	39,990	0.38	60,658	0.48	86,272	0.58	90,895	0.53	130,986	0.63
LICLL	-	-	13,319	0.13	82,127	0.66	204,618	1.38	186,770	1.09	254,238	1.23
SSRS	-	-	480	0	5,245	0.04	18,737	0.13	27,826	0.16	55,548	0.27
ABCICL	-	-	-	-	-	-	2,055	0.01	23,891	0.14	47,438	0.23
Total	8,682,292	100	10,612,595	100	12,517,554	100	14,814,228	100	17,104,186	100	20,729,311	100.00
% Increase (Growth Rate)	15.9		22.2		17.9		18.3		15.5		21.2	

Analysis of data in Table 7

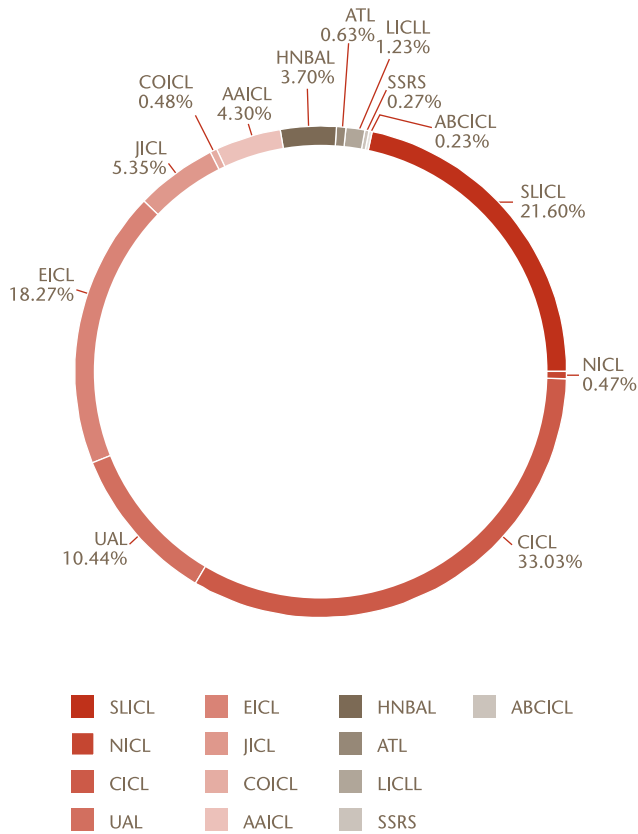
Ceylinco Insurance PLC with a premium income of Rs.6,847 million (2006: Rs.5,718 million) accounted for 33.03% (2006: 33.43%) of market share and recorded a 19.74% growth which was marginally below the industry growth rate of 21.2%. Sri Lanka Insurance Corporation Ltd., with a premium income of Rs.4,478 million (2006: Rs.3.885 million), had a market share of 21.60% (2006: 22.71) with a growth of 15.26% which was below industry growth. Eagle Insurance PLC with a premium income of Rs.3,788 million (2006: Rs.3,150 million) and a market share of 18.28% (2006:18.42%) reflected a growth of 20.25% which was closer to industry growth. Union Assurance PLC with a premium income of Rs.2,163 million (2006: Rs.1,672 million) and a market share of 10.44% (2006: 9.78%) demonstrated a growth of 29.36% which was well above industry growth. Janashakthi Insurance Company with a premium income of Rs.1,108 million (2006: Rs.912 million) and market share of 5.35% (2006: 5.34%) had a growth of 21.49%, similar to industry growth. Asian Alliance Insurance PLC with a premium income of Rs.890 million (2006: Rs.747 million) and a market share of 4.30% (2006: 4.37%) showed a growth of 19.14% which indicates a lesser rate of growth when compared to industry growth. HNB Assurance with a premium income of Rs.767 million (2006: Rs.503

million) and a market share of 3.70% (2006: 2.94%) reflected a substantial growth of 52.48% which is well above industry growth. Life Insurance Corporation (Lanka) Ltd with a premium income of Rs.254 million (2006: Rs. 176 million) and market share of 1.28% (2006: 1.09%) also showed a significant growth of 44.31%, well above industry growth. Insurance companies with a market share of less than 1% are not included in the analysis.

Statistical Review of 2006/2007 continued

Chart 6

Gross Written Premium Company-wise Market Share Long Term Insurance - 2007



Life Insurance Penetration

Table 8 shows the total number of new policies issued during each year and the total number of policies in force at the end of each year for the years 2002 to 2007. It is evident from the data given in Table 8, penetration of life insurance business as a percentage of the total population and the total labour force increased from 6.3% and 16.8% in 2002 to 9.6% and 25.3% in 2007 respectively. The 527,385 new life insurance policies issued during the year showed an increase of 28.65% when compared with the previous year's increase of 11.96%. This may be attributable to public becoming more aware of the benefits of insurance and also due to increased per capita GDP.

Table 8

	2002	2003	2004	2005	2006	2007
No. of New Policies Issued	241,412	305,092	304,639	366,132	409,933	527,385
No. of Policies in Force	1,200,763	1,359,536	1,490,191	1,629,061	1,740,648	1,923,550
Total Population (in '000) *	19,007	19,252	19,462	19,668	19,886	20,010
Total Labour Force (in '000) *	7,150	7,564	8,061	8,141	7,599	7,489
Penetration as % of the Total Population	6.3	7.1	7.7	8.3	8.8	9.6
Penetration as % of the Labour Force	16.8	19	20.8	22.8	24.3	25.3

* Source: Annual Report – 2007 of Central Bank of Sri Lanka

General Insurance Business Gross Written Premium

Industry performance with regards to general insurance business also demonstrated a higher growth of 20.15%

during the year with a premium income of Rs.31,156 million (2006:Rs.25,930 million) when compared with previous year's growth of 15.7%.

Ref: Table 9 and Chart 7.

Table 9

Company	Gross Written Premium - General Insurance Company-wise Market Share									
	2003		2004		2005		2006		2007	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
SLICL	4,866,149	35.95	5,303,104	31.13	6,680,703	29.81	6,640,055	25.6	8,848,192	28.40
NICL	254,689	1.88	40,200	0.24	1,956	0.01	2,124	0.01	-	-
CICL	3,721,206	27.5	5,580,643	32.76	8,033,195	35.85	9,561,249	36.9	10,350,684	33.22
UAL	1,264,961	9.35	1,302,894	7.65	1,720,783	7.68	2,384,909	9.2	2,814,651	9.03
EICL	1,072,666	7.93	1,058,025	6.21	1,210,939	5.4	1,468,420	5.66	1,867,142	5.99
JICL	1,407,309	10.4	2,443,808	14.34	2,851,792	12.73	3,099,955	12	3,678,224	11.81
COICL	161,128	1.19	157,741	0.93	180,433	0.81	207,490	0.8	289,688	0.93
AAICL	271,097	2	310,400	1.82	354,167	1.58	417,680	1.61	383,590	1.23
HAIGICL	186,571	1.38	318,254	1.87	396,681	1.77	443,997	1.71	681,148	2.19
HNBAL	243,390	1.8	338,708	1.99	469,929	2.1	618,502	2.39	704,578	2.26
ATL	84,842	0.63	183,581	1.08	383,425	1.71	589,067	2.27	678,013	2.18
SSRS	-	-	-	-	39,985	0.18	110,855	0.43	178,764	0.57
AICLL	-	-	-	-	75,399	0.34	300,949	1.16	414,015	1.33
ABCICL	-	-	-	-	10,769	0.05	70,418	0.27	230,431	0.74
CTL	-	-	-	-	-	-	14,849	0.06	36,931	0.12
Total	13,534,008	100	17,037,358	100	22,410,156	100	25,930,519	100	31,156,051	100
% growth	16.7		25.9		31.5		15.7		20.2	

Analysis of data in Table 9

Ceylinco Insurance PLC with a premium income of Rs.10,350 million (2006: Rs.9,561 million) and a market share of 33.22 (2006: 36.87%) showed a decrease in its market share and its growth of 8.25% was below industry growth of 20.2%. Sri Lanka Insurance Corporation Ltd., with a premium income of Rs.8,848 million (2006: Rs.6,640 million) and a market share of 28.40% (2006: 25.61%) improved its market share during the year and also showed a growth of 33.25% which was well above the industry growth. Janashakthi Insurance Company Ltd., with a premium income of Rs.3,678 million (2006: Rs.3,100 million) and a market share of 11.81% (2006: 11.95%) showed a growth

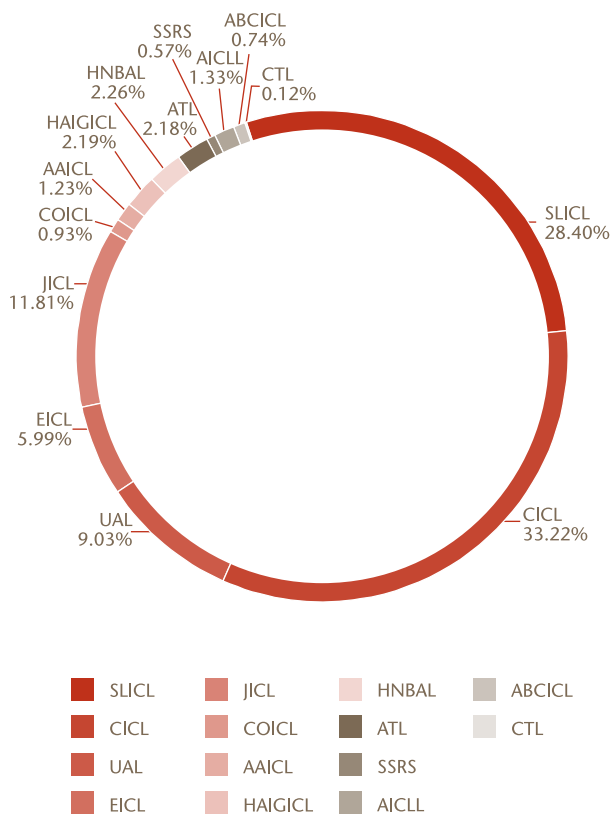
of 18.64% which was marginally below the industry growth. HNB Assurance PLC with a premium income of Rs.704 million (2006: Rs.618 million) and market share of 2.26% (2006: 2.39%) showed a growth of 13.91% which was lower than the industry growth. Hayleys AIG Insurance Company Ltd., with a premium income of Rs. 681 million (2006: Rs.444 million) and a market share of 2.19% (2006:1.71%) showed a significant growth of 53.38% which was well above the industry growth. Amana Takaful PLC with a premium income of Rs.678 million (2006: Rs.589 million) and market share of 2.18% (2006: 2.27%) recorded a growth of 15.11% which was lower than the industry growth. Asian Alliance Insurance PLC with a premium income

Statistical Review of 2006/2007 continued

of Rs.383 million (2006: Rs. 417 million) and a market share of 1.23% (2006: 1.61%) showed a negative growth of 8.15%. Allianz Insurance Company Lanka Ltd., with a premium income of Rs. 414 million (2006: Rs.300 million) and a market share of 1.33% (2006: 1.16%) recorded a growth of 38.0% which was well above the industry growth rate. Other companies, which had less than 1% of market share, were not analyzed.

Chart 7

Gross Written Premium Company-wise Market Share General Insurance - 2007



Distribution of Gross Written Premium Class-wise - General Insurance 2007

As in previous years, the highest contribution of 54.76% (2006:54.01%) was from motor insurance with a premium income of Rs.17,060 million (2006: Rs. 14,005 million) showing a growth rate of 21.81% when compared with the previous year.

Miscellaneous insurance with a premium income of Rs.6,733 million (2006: Rs.5,743 million) accounted for 21.61 % of the total premium and showed a growth of 17.24% when compared with the negative growth of 1.12% during the previous year.

Fire insurance with the premium income of Rs.5,721 million (2006: Rs.4,627 million) accounted for 18.37% of the total premium and demonstrated significant growth of 23.64% when compared with the previous year's growth of 11.75%.

As in the previous years, the contribution of 5.21% (2006: 6.00%) from marine insurance with a premium income of Rs.1,637 million (2006: Rs.1,554 million) was the lowest and further, growth of 5.34% was significantly lower when compared with the growth of 14.47% during the previous year.

Ref: Table 10 and Chart 8.

Table 10
Class-wise Analysis of Gross Written Premium

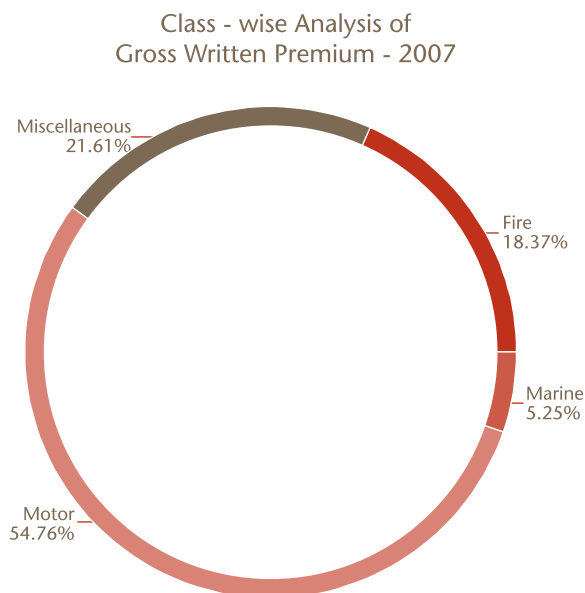
Class	Gross Written Premium					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2007 Rs.000
Fire	2,475,897	2,724,800	2,978,979	4,140,458	4,627,075	5,724,377
Marine	942,868	956,900	1,172,810	1,358,033	1,554,560	1,637,019
Motor	4,498,495	6,224,332	8,367,447	11,102,737	14,005,560	17,060,829
Miscellaneous	3,682,139	3,627,976	4,518,122	5,808,928	5,743,624	6,733,828
Total Gross Written Premium	11,599,399	13,534,008	17,037,358	22,410,156	25,930,819	31,156,053

	Percentage Growth					
	2002	2003	2004	2005	2006	2007
Fire	5.82	10.05	9.33	38.99	11.75	23.71
Marine	16.47	1.49	22.56	15.79	14.47	5.30
Motor	19.18	38.36	34.43	32.69	26.15	21.81
Miscellaneous	50.75	-1.47	24.54	28.57	-1.12	17.24
Total Gross Written Premium	23.84	16.68	25.89	31.54	15.71	20.15

	Percentage Share					
	2002	2003	2004	2005	2006	2007
Fire	21.35	20.13	17.48	18.48	17.84	18.37
Marine	8.13	7.07	6.88	6.06	6.00	5.25
Motor	38.78	45.99	49.11	49.54	54.01	54.76
Miscellaneous	31.74	26.81	26.52	25.92	22.15	21.61
Total Gross Written Premium	100.00	100.00	100.00	100.00	100.00	100.00

Statistical Review of 2006/2007 continued

Chart 8



General Insurance – Claims Ratio

Overall, a claims ratio of 64.95% indicates higher claims during the year when compared with the overall claims ratio of 60.64% during the previous year.

As in the previous year, marine insurance showed the lowest claims ratio of 35.56%, although it is higher when compared with the previous year's claims ratio of 30.34%. Claims ratio of 63.94% for miscellaneous insurance indicates that there has been an improvement in this class when compared with the previous year's claims ratio of 65.20%. The claims ratio of motor insurance increased during the year to 65.15% when compared with the previous year's claims ratio of 60.44%. Very high claims ratio of 84.79% for fire insurance compared with the previous year's claims ratio of 68.81%, indicates that the rate of premium charged by insurance companies is not in keeping with the risks involved.

Ref: Table 11

Table 11

Class	Earned Premium					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2007 Rs.'000
Fire	425,623	425,942	687,351	1,033,804	757,066	962,204
Marine	351,343	390,171	474,776	545,962	667,135	606,908
Motor	3,740,044	4,993,288	6,920,787	9,153,642	11,920,208	14,518,179
Miscellaneous	2,036,067	2,223,099	2,267,407	3,316,000	3,584,231	4,095,975
Total	6,553,077	8,032,500	10,350,321	14,049,408	16,928,640	20,183,266

Class	Claims Incurred					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2007 Rs.'000
Fire	165,378	203,143	851,804	486,354	520,944	815,821
Marine	198,871	112,796	150,590	122,131	202,379	215,824
Motor	2,881,487	3,117,013	4,421,530	5,810,762	7,204,754	9,459,168
Miscellaneous	1,612,231	1,684,102	1,894,192	2,338,487	2,337,018	2,618,869
Total	4,857,967	5,117,054	7,318,116	8,757,734	10,265,095	13,109,871

Table 11 Contd.

Class	Claims Ratio (%)					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2007 Rs.'000
Fire	38.86	47.69	123.93	47.05	68.81	84.79
Marine	56.6	28.91	31.72	22.37	30.34	35.56
Motor	77.04	62.42	63.89	63.48	60.44	65.15
Miscellaneous	79.18	75.75	83.54	70.52	65.2	63.94
Total	74.13	63.7	70.7	62.34	60.64	64.95

Reinsurance and Retention of Gross Written Premium

As in the previous years, motor insurance showed the highest retention of 94.61% (2006: 95.55%), which is around 1% less than the previous year. Retention by insurance companies in respect of miscellaneous insurance was 70.46% which is also marginally lower than the previous year's retention of 71.37%.

Retention in respect of fire insurance showed a significant increase of 24.06% when compared with the

retention during the previous five years. Retention of 39.73% in respect of marine insurance also showed a lower retention when compared with the previous year's retention of 41.14%.

The overall retention of 73.78% shows that the premium retained by insurance companies is higher than the previous years. This is due to the high retention of motor insurance premium and fire insurance premium. Ref: Table 12

Table 12

Gross Written Premium, Reinsurance Premium and Retention by Insurer

Class	Gross Written Premium					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2007 Rs.'000
Fire	2,475,897	2,724,800	2,978,979	4,140,458	4,627,075	5,724,377
Marine	942,868	956,900	1,172,810	1,358,033	1,554,560	1,637,019
Motor	4,498,495	6,224,332	8,367,447	11,102,737	14,005,560	17,060,829
Miscellaneous	3,682,139	3,627,976	4,518,122	5,808,928	5,743,624	6,733,828
Total Gross Written Premium	11,599,399	13,534,008	17,037,358	22,410,156	25,930,819	31,156,053

Statistical Review of 2006/2007 continued

Table 12 Contd.

Gross Written Premium, Reinsurance Premium and Retention by Insurer Contd.

Class	Reinsurance Premium					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2,007 Rs.'000
Fire	2,076,360	2,246,092	2,425,875	3,260,854	3,904,755	4,346,992
Marine	580,348	554,160	666,292	656,340	915,086	986,706
Motor	350,853	272,217	341,072	539,951	623,688	919,537
Miscellaneous	1,182,228	1,756,857	1,281,222	1,484,923	1,644,675	1,989,109
Total Reinsurance Premium	4,189,789	4,829,326	4,714,461	5,942,068	7,088,204	8,242,344

Class	Retention					
	2002 Rs.000	2003 Rs.000	2004 Rs.000	2005 Rs.000	2006 Rs.000	2,007 Rs.'000
Fire	399,537	478,708	553,104	879,604	722,320	1,377,385
Marine	362,520	402,740	506,518	701,693	639,474	650,313
Motor	4,147,642	5,952,115	8,026,375	10,562,786	13,381,872	16,141,292
Miscellaneous	2,499,911	1,871,119	3,236,900	4,324,005	4,098,949	4,744,719
Total Net Written Premium	7,409,610	8,704,682	12,322,897	16,468,088	18,842,615	22,913,709

Class	Retention as a percentage of the Gross Written Premium					
	2002 %	2003 %	2004 %	2005 %	2006 %	2,007 Rs.'000
Fire	16.14	17.57	18.57	21.24	15.61	24.06
Marine	38.45	42.09	43.19	51.67	41.14	39.73
Motor	92.2	95.63	95.92	95.14	95.55	94.61
Miscellaneous	67.89	51.57	71.64	74.44	71.37	70.46
Overall Retention	63.88	64.32	72.33	73.48	72.66	73.54

Performance of Insurance Brokers

Fifty four insurance brokers operated during the year. As in the previous years they concentrated on general insurance business and collected gross written premium amounting to Rs.7,393 million (2006: Rs. 6,028 million) which accounted for 23.7% (2006: 23.8%) of the total gross written premium of Rs.31,156 million (2006: Rs. 25,931 million), thereby maintaining their contribution at the same level as in the previous year.

As regards long term insurance business, insurance brokers contribution continued to be low. The premium of Rs.158 million (2006: Rs.144 million) collected by them towards life insurance represented 0.76%

(0.84%) of the total gross written premium of Rs.20,729 million (2006: Rs.17,104 million), which indicates that insurance brokers' main activity is centered more towards engaging in the procurement of general insurance business.

Nineteen insurance brokers whose gross written premium was more than Rs.100 million is given in Table 13 below, and they account for 92 % of total gross written premium of Rs.7,551 million collected by them in respect of both classes of insurance business.

Ref: Table 13

Table 13

Name of Insurance Brokers	Gross Written Premium		
	Long Term Rs. '000	General Rs. '000	Total Rs. '000
1 ADZ Insurance Brokers (Pvt) Ltd.	2,223	143,705	145,928
2 Alfinco Insurance Brokers (Pvt) Ltd.	92	169,009	169,101
3 Cee Lanka Insurance Brokers (Pvt) Ltd.	635	110,182	110,817
4 CF Insurance Brokers (Pvt) Ltd.	1,213	1,101,905	1,103,118
5 Commercial Insurance Brokers (Pvt) Ltd.	70,049	736,741	806,790
6 Delmage Insurance Brokers (Pvt) Ltd.	2,853	594,727	597,580
7 DP Insurance Brokers Ltd.	-	246,570	246,570
8 Essajee Carimjee & Co. (Pvt) Ltd.	1,999	133,649	135,648
9 Finlay Insurance (Brokers) Ltd.	-	403,640	403,640
10 Industrial & Commercial Insurance Brokers (Pvt) Ltd.	15,728	440,605	456,333
11 Insurex Insurance Brokers Co. (Pvt) Ltd.	158	182,571	182,729
12 Lanka ORIX INSURANCE Brokers (Pvt) Ltd.	10,184	890,630	900,814
13 Nations Insurance Brokers (Ltd)	-	262,799	262,799
14 Procure Insurance Brokers (Pvt) Ltd.	217	119,518	119,735
15 Protection & Assurance Insurance Brokers (Pvt) Ltd.	400	543,850	544,250
16 Reliance Insurance Brokers (Pvt) Ltd	898	116,559	117,457
17 Senaratne Associates Ltd.	13,046	315,680	328,726
18 Volanka Insurance Services (Pvt) Ltd.	4,629	211,334	215,963
19 Zenith Insurance Brokers (Pvt) Ltd.	419	111,697	112,116
Sub-total	124,743	6,835,371	6,960,114
Other Insurance Brokers (35)	33,022	558,221	591,243
Grand Total	157,765	7,393,592	7,551,357

Review of Operations in 2007

Supervisory Activities

Insurance Companies

1. Review of Returns submitted to the Board.

■ Quarterly Returns.

The Board reviewed the Quarterly Returns submitted by Insurance Companies for the four quarters of 2007. The review mainly focused on premium income, reinsurance and other costs and investments with a view to obtaining a general overview of the performance of each insurance company and to ascertain class-wise and company-wise performance within the industry based on premium incomes. These returns are furnished to the Board within forty-five days following the end of each quarter.

■ Annual Statutory Returns, Audited Financial Statements and Actuarial Report.

The Board whilst ensuring that these returns are submitted on a timely manner, reviewed them for accuracy and compliance with relevant rules and regulations of the Act.

To review the Actuarial Reports, the Board obtained the technical assistance from an independent consultant actuary. In respect on long term insurance business, every insurance company is required to submit an Actuarial Report with the certification from the company actuary that the long term insurance fund of the insurer is adequate to meet all liabilities, current and contingent of its policyholders. The actuary also determines the surplus in the long term insurance fund and recommends the quantum of bonus that may be paid to policyholders and the amount that is available to the shareholders.

The Board also requested all insurers to actuarially validate the General Insurance, Incurred But Not Reported Claims Reserves (IBNR) on a voluntary basis. Most of the companies complied with this request. Information pertaining to same was published in the website of the Board.

Where discrepancies were observed in the returns, companies concerned were required to take corrective action within specified timelines. Areas of concern identified from the review were addressed at meetings with companies and during onsite inspections carried

out by providing necessary guidance for corrective action.

2. Monitoring Capital Requirements of Insurance Companies.

According to the regulations of the Board, new insurance companies are required to have a minimum paid up share capital of Rs.100 million in respect of each class of business, with effect from October 2005. The Board also decided to increase the issued share capital of insurers to Rs. 500 million on a staggered basis for each class of insurance business by the year 2010.

On reviewing the capital requirements of insurance companies it has been observed that though some companies complied with the minimum paid up share capital requirement, their Shareholder's Equity had deteriorated as a result of the start up costs and operating losses. Even though these companies were solvent, they were advised to take precautionary measures to guard against deterioration of their Shareholder's Equity, to ensure that the policyholders are protected from undue losses.

The Board in view of this situation considered that it is prudent that insurance companies should concentrate on maintaining a minimum level of Shareholders' Equity, equivalent to its paid up share capital at all times. Subsequent to discussions with the industry, the Board requested all insurers to maintain its Shareholders' Equity equivalent to its paid up capital, which action was commended by the industry. As a progressive measure to combat the issue, Companies whose Shareholders' Equity fell below its paid up capital were requested to submit, its capital and business plans, elaborating the manner in which they will meet the shortfall and the actions taken by the companies were monitored during the year based on the returns submitted to the Board.

3. Monitoring Compliance with Solvency Margin Rules.

Solvency margin requirements take into account not only the sufficiency of technical provisions to cover all expected and unexpected risks but also the sufficiency of capital to absorb significant unexpected losses, to the

extent not covered by the technical provisions. Towards this, the Act requires insurers to maintain in respect of each class of insurance business, a minimum solvency margin.

During the year, the Board closely monitored the Solvency Margins maintained in respect of Life Insurance and General Insurance. Solvency Margin with regard to General Insurance came into effect during the year 2007. Insurers are required to submit their Solvency Margin calculations along with their quarterly returns and these computations were scrutinized to ensure that, such calculations were in accordance with prescribed rules issued by the Board. Where solvency margin calculations were found to be inaccurate, the companies concerned were instructed to resubmit corrected Solvency Margin calculations in accordance with stipulated rules of the Board.

It was observed that few companies were not been able to satisfy the minimum required solvency margin level and were requested to take corrective action with immediate effect. Action was also initiated by the Board against companies which were non-compliant.

4. Monitoring Compliance with Investment Parameters.

■ Investments in Government Securities.

The Act requires a minimum of twenty percent of the assets of Technical Reserves being maintained for General Insurance business and a minimum of thirty percent of the assets of the Long Term Insurance Fund of Long Term Insurance Business, to be invested in Government Securities. The minimum levels of investments have been specified with a view of mitigating risks and the potential impact on technical provisions and solvency.

In order to ascertain the accuracy of the figures reported to the Board and to ascertain the ownership of investments in government securities, insurance companies were directed to confirm through the Central Bank of Sri Lanka that investments in government securities are in the name of such insurers as required under the Act.

The details relating to investments in government securities were reviewed and where there were discrepancies, the companies were instructed to rectify the situation and demonstrate compliance with the relevant provisions in the Act and to take serious note of the guidelines issued by the Central Bank of Sri Lanka in respect of investments in Government Securities.

■ Inspections relating to Investments in Government Securities.

In order to ascertain, whether insurance companies complied with rules relating to investments in government securities, and to ascertain whether companies suffered any losses due to noncompliance with investment rules, the Board carried out inspections. For such inspections, confirmations were called from the Central Bank of Sri Lanka to substantiate compliance with the provisions of the Act. Further, yield on government securities were compared with the rate of returns stipulated by the Central Bank of Sri Lanka with the support of yield curves developed for this activity. In this exercise, the Board observed that Companies had taken corrective action to the satisfaction of the Board.

■ Investments required to be made as per Determinations issued by the Board.

The balance assets of the Technical Reserves and Long Term Insurance Fund of an insurer should be invested in the manner instructed by the Board as per the Determinations promulgated under the Act.

The Board continuously monitored to ensure that insurers invest the balance assets of “Technical Reserves” and “Long Term Insurance Fund” in instruments and within the maximum limits permitted under the Determinations.

Where discrepancies were observed pertaining to the investments, the companies were instructed to take remedial action and to demonstrate compliance in accordance with the Determinations.

Review of Operations in 2007 continued

5. Risk Based Supervision

One of the main trends in insurance regulatory practice includes a major shift in regulatory emphasis from compliance-based supervision to a new paradigm of risk-based supervision. The process of risk based supervision, while not ignoring the need for assessing compliance by insurance companies with statutory requirements, supplements what is assumed to be sound insurance law and regulations with a focus on the dynamic events and circumstances of the insurance business that can affect solvency and ability to meet contractual obligations.

The Board carried out three onsite inspections based on the Risk Based supervisory framework, referred to as the “CARMELS” framework. In this methodology, inspections focused on assessing and rating the risk profiles of insurance companies, with regard to Capital (C), Assets (A), Reinsurance (R), Actuarial Liabilities (A), Management (M), Earnings (E), Liquidity (L) and Subsidiaries (S).

Subsequent to the risk based onsite inspections, the Board focused on assessing and rating the risk profiles of insurance companies, which in turn enabled the Board to take timely action and prompt intervention. Further, where particular risk areas were identified, special analysis were carried out followed by special inspections.

6. Interim Financial Statements of Insurance Companies.

The Capital Market Cluster formed under the National Council for Economic Development appointed by the Ministry of Finance required insurance companies to publish their quarterly Financial Statements in newspapers within two months from end of each quarter. In response to this, the Board drafted and issued the specimen reporting formats in accordance with the Sri Lanka Accounting Standards and generally accepted accounting practices to the insurance companies in order to comply with the Sri Lanka Accounting Standard 35 - “Interim Financial Reporting.

Insurance Broking Companies.

7. Review of Quarterly returns

One of the main pre-requisites of the off-site supervision process is to review the quarterly returns, which requires all Insurance Brokers to submit returns in the format specified by the Board. During the year, quarterly returns of all insurance brokers were reviewed, and discrepancies such as incomplete sections, prescribed formats not been followed, classification errors, discrepancies in the Insurance Broking Account, revenue account, premium outstanding without bank guarantees and net commission not properly computed etc. were observed. Such lapses were brought to the notice of the brokers and they were requested to resubmit the amended return with the explanation to the Board. The results of the review of returns were used to prioritize on-site inspections of companies and to identifying risk areas that may need particular attention.

8. Monitoring of Premium Collections of Insurance Brokers.

According to the Act, premium collected by Insurance Brokers on behalf of insurance companies, should be remitted within two weeks of such collection. In order to ascertain whether Insurance Brokers comply with this requirement, information was collated through the quarterly returns submitted by them and used to conduct off-site monitoring of premium collection of insurance brokers, which assisted the Board to identify brokers who were in breach of this provision.

The non-compliant broking companies were instructed to take immediate remedial action to rectify the situation and to demonstrate compliance. Authenticity of information reported in the quarterly returns was verified at on-site inspections carried out by the Board. Furthermore, actions were taken against the non-compliant broking companies, in terms of the Act.

9. Standardization of Financial Statements of Insurance Brokers.

The Board identified the necessity to have a quarterly financial reporting system for insurance brokers, since it was observed that most small-scale broking

companies did not prepare sufficient periodical financial statements, which provided information relating to their financial position, performance and changes in financial position of such companies. Also it was necessary to promote harmonization of financial reporting formats and to streamline the preparation of Financial Statements in accordance with the Sri Lanka Accounting Standards, since there was no uniformity in the presentation of Financial Statements by the most of the insurance brokers.

To address the issue, the Board instructed broking companies to present their quarterly Financial Statements according to the format prescribed by the Board, which was developed in accordance with the Sri Lanka Accounting Standards.

The Board ensured that Financial Statements of brokers were submitted within the stipulated time period and observations made during the review were informed promptly. Thereby the Board was able to take corrective action promptly, before the issues became serious.

10. Evaluation of Audited Financial Statements of Insurance Brokers.

The Audited Financial Statements of broking companies, which are required to be submitted in accordance with the Act, were evaluated with the view to ensuring that interests of policyholders are safeguarded and interests of broking company itself are not at risk because of adverse changes in the financial position. In pursuance of this exercise, much reliance was placed on the external auditors' report, which required to be supported with the financial statements of the Company. During the process of reviewing, additional information was requested on areas of concern, and based on the information furnished, the Board took appropriate action. Furthermore, the evaluation results were used during the process of renewing the registration of insurance brokers.

11. Registration of New Insurance Brokers and renewal of registration.

During the year Business Plans of new broking companies were evaluated, which forms part of the registration process. Financial projections submitted with the Three Year Business Plans by the applicants

were reviewed to ensure that they are realistic and capable of being achieved.

The Board also reviewed the financial stability of Insurance Broking Companies to consider their renewal of registration. The review was based on their Audited Financial Statements and quarterly returns.

Regulatory Activities Renewals & New Registrations of Insurance Brokers:

Pursuant to evaluating applications for renewal of registration and new registration of insurance brokers, the Board renewed the registration of 43 companies to carry on insurance broking business for year 2008.

In considering applications for renewal of registration, the Board considered insurance broking companies having related leasing companies, which were collecting insurance premium of their clients/lessees, and required the insurance broker concerned to provide an undertaking to the Board that they would require the related leasing company to instruct their clients to remit insurance premium direct to the insurance broker.

The Board also granted registration to six companies to carry on insurance broking business.

Registration of Insurance Companies

The Board received one application for registration as an insurer. The application was evaluated in terms of the provisions of the Act and in accordance with routine procedures. We also conducted extensive investigations to verify the accuracy of details contained in the application in terms of section 14 (3) of the Act, to determine the suitability of the applicant to be registered as an Insurer.

Accordingly the Board, upon a careful and objective consideration of all relevant facts and circumstances related to the application and all other material submitted therein, decided to reject the application since the Board could not be satisfied regarding the suitability of the applicant to be registered as an Insurer under the Act.

Review of Operations in 2007 continued

Regulatory/Advisory Measures

- The Board after having examined a request made by an insurer to invest in a foreign company in terms of section 25(3) of the Act and Regulations published in Gazette Extraordinary No. 1414/19 of October 12, 2005, did not consider the request favorably since it was noted that pursuant to the proposed investment the insurer would obtain management control of the foreign company and underwrite insurance business on behalf of the foreign company.
- The Board required an insurer to cease its operation of offering insurance policies at the branches of a related commercial bank since the policies were issued and marketed by the staff of the bank. The insurer was informed that their failure to comply with our requirement would compel the Board to initiate action in terms of the Act.
- The Board after having examined a request made by an insurer to rent its branch premises to set up Money Transfer outlets, did not grant permission in view of section 12(4) of the Act.
- The Board facilitated a discussion between the Insurance Association of Sri Lanka and the Registrar of Motor Vehicles in order to clarify issues pertaining to the amendments to the Motor Traffic Act. In this connection the Board informed the Insurance Association of Sri Lanka to convey suggestions that they may have in respect of the said amendments, in order for the Board to take up such suggestions with the Registrar of Motor Vehicles.
- The Board after having examined a request made by an insurer to distribute micro insurance products in collaboration with a non-governmental organisation, granted approval subject to certain conditions that are required to be fulfilled by such insurer to be compliant with the provisions of the Act. The collaboration is a culmination of a project, which was launched on an initiative by the Ministry of Finance with the

assistance of ADB to promote Micro Insurance in Sri Lanka.

- In order to comply with Anti Money Laundering Laws, the Board together with the Insurance Association of Sri Lanka had discussions with the Financial Intelligence Unit in relation to guidelines that would be made applicable to the insurance industry. The Board will also revisit its supervisory framework to meet its obligations with Anti Money Laundering Laws.

Regulatory Reforms

- Amendments to the Investment Framework of Insurance Companies

Proposed amendments to Determination 1 made under section 25(1) of the Act and Solvency Margin rules for Long Term Insurance Business and General Insurance Business have been forwarded to the Legal Draftsman's Office in June 2006 for approval.

Prior to finalizing the revisions, the Board had extensive consultations with the industry. The revisions have been made with the objective of broadening the investment framework by introducing new instruments for investment, such as asset backed securities, deposits with licensed Finance Companies, and Gold. Revisions have also looked at the limits of investments to correspond with the type of insurance business carried out.

The Board, on a request made by an insurer decided to consider investments in leasehold property for solvency calculations for a period of two years from the effective date of such rules. This grace period will be available to companies, which are presently considering leasehold property for solvency calculations and such companies will have to fall in line with the new rules thereafter. The above grace period was considered since the revisions to the Solvency Margin rules do not consider leasehold property as admissible assets.

- **Amendments to the Act**

The Attorney General's Department and the Legal Draftsman's Department approved the Amendments to the Act. These amendments need to go before Parliament prior to taking effect.

Some of the important amendments proposed are:

- Restricting the Board to register composite insurance companies to carry on both General and Long Term Insurance Business.

Existing composite insurance companies will be given a period of three years from the date on which the amendment comes into force to segregate their business into two companies.

- Empowering the Board to issue general directions to insurers, brokers and loss adjusters with a view to safeguarding the interests of policyholders and potential policyholders.
- Empowering the Board to deal with disputes relating to general insurance business in addition to long term insurance business.

Enforcement Action taken during the year

■ Warnings issued to insurers

The Board issued warnings to two insurers. One was for having violated sections 25(1), 26, 30 and 38 of the Act and other acts and omissions connected with its investments in Government Securities; and the other for having granted loans to related companies without obtaining the concurrence of the Board in terms of section 29 of the Act. These companies were cautioned that further violations of the Act could result in legal action being contemplated against such company's and the license being suspended / cancelled.

■ Suspension in terms of section 18 of the Act

Three insurers were suspended, two for failing to maintain the minimum solvency margin as required under the rules published on the Board. However since these two companies demonstrated that they have taken corrective measures to be compliant, the suspensions were removed.

The other suspension was in relation to non submission of its Audited Accounts for the year 2006 by the specified time period for submission indicated in the Act. The suspension was removed once the company furnished its Audited Accounts.

■ Directions issued to insurers in terms of sections 57 and 99 of the Act

The Board issued directions to an insurer to discontinue one of its advertising campaigns, which in the opinion of the Board contained information and material which was incorrect and misleading.

The company was further advised to refrain from such advertising in the future and also informed them that their failure to comply would compel the Board to consider initiating action against them in terms of the Act.

■ Review of investments in Government Securities by insurers in terms of section 25 of the Act

The Board during the review of Financial Statements and other Statutory Returns of six insurers observed that they have not lodged their investments in Government Securities in the Central Depository System of the Central Bank.

The Board informed them that the Board will not consider such investments in the name of the insurer if such investments have not been lodged with the Central Bank.

We also drew their attention to the confirmation received from the Central Bank in this connection which states that the Central Bank will not consider a person as the owner of investments made in Government Securities where a Primary Dealer (PD) or a Licensed Commercial Bank (LCB) has not recorded its customer's ownership in the Central Depository System (CDS) maintained by the Central Bank, and if so such PD or LCB is the owner of such securities and not the customer, since such securities are still in the PD's/ LCB's accounts in the CDS. The Central Bank further confirmed that under the System Rules of Lankasettle, the ownership of a Treasury Bill/Bond is accepted by the Central Bank only if such customer is registered in the CDS.

■ Warnings issued to insurance brokers in terms of section 84(1)(d) of the Act

The Board during the period under review warned eight insurance broking companies for having violated the following provisions in the Act:

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- Sec: 86 (2) – which requires insurance broking companies to furnish to the Board its audited accounts within a period of six months of the expiry of the accounting period.
- Sec. 86(1) – which requires insurance broking companies to furnish to the Board its Quarterly Returns within a period of forty-five days from the end of the quarter.
- Sec: 89 – which requires insurance brokers to remit insurance premium collected by them on behalf of an insurer, within two weeks of such collection.
- Refusal to grant renewal of registration to insurance brokers in terms of section 84 of the Act

The Board during the review of Quarterly Returns of an insurance broker observed that insurance premium collected by the company from policyholders was not remitted to respective insurers within two weeks of such collection as required by Section 89 of the Act.

Accordingly the Board carried out an extensive investigation into the matter and observed that the company has furnished us with false information. Therefore after giving them an opportunity to show cause why the renewal of registration application submitted by them should not be rejected, and the Board not being satisfied with the response refused the renewal of registration in terms of section 84(1)(e) of the Act.

Investigations

During the year 2007, the Board received 55 complaints from policyholders on insurance claims against insurance companies. In comparison with last year, it is a sharp drop of the number of complaints received by the Board. The reasons for this drop are the introduction of the Insurance Ombudsman Scheme and the insurance programmes conducted by the Board Island-wide to increase awareness on principles of insurance.

However the Board continues to deal with appeals, if any, arising from the decisions of the Insurance Ombudsman and any other type of complaints such as policy wordings and ethical issues.

Nature of Complaints received during the year.

The Board received fifty five (55) complaints during the year and the nature of the complaints received are summarized below:

- Twelve complaints were received from policyholders against Insurance Companies for non-payment of Motor Insurance Claims.
- Five complaints were received for non-payment of insurance miscellaneous claims against Insurance Companies.
- Three complaints were received for non-payment of Hospitalization claims against Insurance Companies.
- Three complaints were received for non-settlement of Guarantee Bonds against Insurance Companies.
- Eighteen complaints were received on Life Insurance Policies against Insurance Companies.
- Two complaints were received from policyholders on misappropriation of premiums by agents.
- One complaint was received from a policyholder regarding a lapsed policy against an insurance company.
- One complaint was received regarding reimbursement of surrender value against an insurance company.
- One complaint was received on termination of services of a Field officer.
- Two complaints were received on non payment of Fire Insurance claims against insurance companies.
- A complaint was received for non payment of workmen compensation claim against an insurance company.
- Two Tsunami claims were received for non payment against insurance companies.
- Two complaints were received against insurance companies for non payment of marine cargo insurance claims.
- Two complaints were received against insurance companies for non payment of Loan Protection Insurance claims.

Market Development Activities

Meeting with the industry

Four quarterly meetings were held with the CEOs of insurance companies and office bearers of Sri Lanka

Insurance Broker's Association (SLIBA). Various important matters pertaining to the industry were discussed at these meetings. The quarterly forums gives an opportunity to exchange views among insurers and the regulator and take decisions after deliberating matters.

Publications

In view of the importance of popularizing insurance as a risk mitigator and saving tool, the Board continued with its public awareness campaigns on the concepts of insurance. Spreading the concepts of insurance to the masses require carrying out publications aimed at educating the public on insurance related matters. It is equally essential that the public have a clear understanding on what is being offered through an insurance policy and when and under what circumstances those benefits would be honoured which will facilitate smooth and fair business dealings between the parties entering into the contract.

Paper Articles

a) "What you should know about insurance"

Two newspaper articles were published in English and in Tamil on "What you should know about Insurance" in a series of newspaper articles in all three languages (English, Sinhala & Tamil), regarding the Insurance Industry of Sri Lanka with the intention of making the subject of insurance easier to understand.

b) "Know more about insurance" - Article for an Insurance Supplement in the Daily Mirror

An article on insurance appeared in an Insurance Supplement in the Daily Mirror to educate the public on areas such as regulating the insurance industry, what is insurance & risk, types of insurance businesses, basic principles of insurance, basic legal requirements of an insurance contract, places where the public could buy an insurance product, useful pointers when buying an insurance product, how to make a claim, benefits to society, how to make a complaint, etc.

Press Notices to the Public

a) List of registered insurance brokers

The list of registered insurance brokers for the year 2007 was published in all three languages in Dinamina,

Virakesari and Daily Mirror, in the interest of the general public.

b) Insurance Proposal Forms

Published a notice in respect of insurance proposal forms in the Sunday Times with the intention of facilitating understanding of various important aspects involved in completing the insurance proposal forms by prospective policyholders. It further explained to the public, the importance of reading the proposal form carefully and disclosing full and accurate information to the insurance company.

c) Premium Payment Warranty

A press notice on Premium Payment Warranty was published in the Sunday Times, outlining the implications of the said warranty.

Booklets

a) "Life Insurance"

A booklet on "Life Insurance" emphasizing the need and importance of having a life assurance product was authored. The theme of the booklet is *"Life Assurance products provide a definite amount of security to the dependents of the insured in case the life insured dies during his active earning income period or becomes disabled on account of an accident causing reduction/ complete loss in his income earnings, and at the same time an individual can also protect his old age when he ceases to earn and has no other means of income by purchasing an annuity product. Thus, life assurance products offer protection and security to the families and provide happiness to the society"*.

b) "Know more about insurance"

"Know more about insurance" is an introductory guide, which is published by the Board, to help the public understand insurance. It gives information on the types of insurance business, the principles of insurance, and what needs to be done in the event of a loss.

Brochures

The Board published a brochure in Sinhala, to be distributed among the public during its awareness

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& training campaigns. This brochure contains information on topics such as what is insurance, obtaining an insurance policy, requirements in the Act to function as insurance agents & brokers, complaints handling mechanism, a list of registered insurance companies, contact details of institutions related to insurance, etc., which are useful for policyholders and potential policyholders when dealing with matters relating to insurance.

Training/Awareness Programmes and Seminars

During the year under review, the Board conducted several awareness programmes among university students, school children, students of technical colleges, the business community and general public. The intention of the Board in conducting these awareness and training programmes is to make a long term relationship with the universities, schools, technical colleges, business community and the general public to enhance knowledge on the insurance industry and its latest developments, which would benefit their day-to-day activities.

Awareness Programmes For University Students/lecturers

The Deans of Management, Finance and Commerce faculties of several universities have requested the Board to facilitate internship programmes for their students in the final year. This request from the universities was conveyed to the Insurance Association of Sri Lanka (IASL). The IASL has informed the Board that their members have agreed, in principle, to facilitate the internship programmes for undergraduate students. Accordingly, the Board received the profiles of final year students of the Eastern University of Sri Lanka, University of Sri Jayawardenapura, and Rajarata University, which were forwarded to the IASL.

Upon a request made by the Board, insurance companies agreed to conduct familiarisation programmes for the lecturers from Management, Finance and Commerce faculties, based on the fact that the universities receive new batches every year and the lecturers should be more aware of the practical aspects of insurance to conduct the lectures. Accordingly, Eagle Insurance PLC made arrangements to conduct

Awareness Programmes conducted by the Board for School Children/Students of Technical colleges/Business Community/General Public.

Date	Topic	To whom	Place
01st April 2007	Basics of Insurance	A-L Students	Medagama Maha Vidyalaya Dehiattakandiya, Ampara
01st & 02nd June 2007	Basics of Insurance	Students & General Public	Seminar & Exhibition at Sri Saddharmalankara Pirivena Bibile
28th July 2007	Importance of Insurance to the Small & Medium Entrepreneurs	Small & Medium Business Entrepreneurs Hambantota	Ruhunu Navodaya 2007 "Exhibition"
17th October 2007	Importance of Insurance	Students Of Technical College, Kegalle	Technical College Kegalle
24th October 2007	Regulatory Requirements Governing the Insurance Industry of Sri Lanka	Business Community	Chamber of Commerce
05th November 2007	Importance of Insurance	Students of Technical College, Kuliyaipitiya	Technical College Kuliyaipitiya

Familiarization Programmes for university lecturers of Sabaragamuwa, Eastern, and South Eastern Universities.

Seminars For School Teachers

The Board contacted the National Institute of Education (NIE), Maharagama, on conducting seminars at NIE for the teachers in the commerce stream. They informed the Board that the new curriculum will be implemented in the schools at the end of year 2008 and the said seminars could be arranged thereafter.

Residential Training Programme For The Staff

The annual event of two-day residential training programme was organised at the Deer Park Hotel, Giritale on 29th and 30th September 2007 for the staff of the Board. The main areas of the programme focussed on learning ‘Teamwork’ and ‘Leadership Skills’ with interactive sessions relating to team work and coordination, problem solving methods, acceptance of responsibilities individually as well as a group, leadership in a group etc.

Guidelines

Business Continuity Planning Guidelines

The Board issued Business Continuity Planning Guidelines to all insurance companies requesting them to formulate their own plans and submit to the Board. Business Continuity Plan provides a quick and smooth restoration of operations after a disruptive event. Business Continuity Planning is a major component of risk management and it includes business impact analysis, development of business continuity plan (BCP), testing the BCP, awareness & training for the staff on BCP, and maintenance of BCP by the relevant staff. The main objective of these guidelines is to explain the Board’s supervisory approach on Business Continuity Plan and provide guidance on sound practices, which the Board encourages insurance companies to follow in order to:

- a. Have workable and sound BCPs for servicing of existing and/or new policyholders to ensure that the agreed service levels are met in an event that one or more components of a system failure. Moreover, BCPs should ensure continuity of

agreed services in an event of a prolonged and widespread disruption.

- b. Minimise the financial, legal and other risks arising from such disruptions
- c. Develop a consistent framework for BCPs of insurance companies.

So far, seven insurance companies have forwarded their BCPs to the Board and the rest have requested time until 31st March 2008 to submit their BCPs.

Workshops

Regional Workshop On Micro-insurance Sector Development

In Sri Lanka only a minority of persons in the working age group are covered by formal insurance schemes. The main reason for this situation may be that private insurance companies are more concerned with providing insurance services to persons in the upper income groups and middle income groups. Regular commercially motivated policies are unaffordable to most of the people. The insurance industry is still quite small – with only 9.6% market penetration. An enormous potential remains to be explored. This means that vast majority of the low income group (mainly those who earn a living through casual and seasonal work and self-employment) are not covered by any formal system. The well-being of those people is threatened by risks arising from accidents, and injury to and death of breadwinners and family members. Additionally, natural disasters, damages caused by wild animals, and business risks can influence the course of their lives heavily. In many cases the above-mentioned risks involve not only costs directly caused by the event but also loss of income.

The Board with the intention of popularising and developing micro insurance in Sri Lanka, in conjunction with the Asian Development Bank (ADB), organised a “Regional Workshop on Micro Insurance Sector Development” at Hotel Renuka on 28th and 29th June 2007. Over 140 local and foreign insurance professionals and policymakers in the insurance sector participated in this workshop. A book titled “Protecting the Poor – A Micro Insurance Compendium”, received

Review of Operations in 2007 continued

from Munich Re Foundation, was distributed among the participants.

Workshop With the National Institute of Education (NIE) in Respect of Curriculum Revisions

The Board had discussions with the Deputy Director General and the Project Officers of the National Institute of Education (NIE), Maharagama, in order to introduce Insurance as a subject to the Business Studies stream from Grade 8 onwards. The discussions were successful as both the Board and NIE were able to introduce insurance to Grade 10 and Grade 12 of the Business Studies stream under “Supporting Services to Business”. The new curriculum with the syllabus changes will be introduced to the schools at the end of year 2008.

Micro Insurance Regulation

Consistent with the worldwide situation in general, there are no special regulatory provisions in Sri Lanka for micro insurance. As per the study conducted by the Asian Development Bank (ADB) on the micro insurance sector in Sri Lanka, there are today informal micro insurance schemes operating outside the present law governing the insurance industry. Increasingly tough requirements coupled with more regulatory and supervisory enforcement will ultimately close the door to these schemes.

The Board had several discussions with the Insurance Association of Sri Lanka and Micro Insurance practitioners in order to find a suitable way of regulating micro insurance schemes that are available, under the present regulatory framework. The participants brought forward a few suggestions regarding the above and a suitable method to regulate micro insurance. Several meetings have been scheduled during the year 2008 with the donors/reinsurers for micro insurance projects in Sri Lanka.

Insurance Agents’ Database

On a request made by the Board, all insurance companies agreed to maintain an updated database on a continuous basis on a separate web page in individual websites of the companies, giving agents’ information with access to the Board. Further, the

insurance companies agreed to inform the Board of such arrangements. This arrangement was made so that insurance companies will be in compliant with Section 78 (1) and 78 (2) of the Act. As at the end of the year 2007, seven insurance companies have designed web pages giving agents’ information with access to the Board.

Compliance with Directive #1 Promulgated Under Section 99 of the Regulation of Insurance Industry Act No.43 Of 2000

In terms of Directive # 1 promulgated under Section 99 of the Act No.43 of 2000, insurance companies are required to submit compliance certification to the Board. Accordingly, insurance companies submit the compliance certification to the Board, whenever they issue new advertisements to the media.

The Board perused recent advertisements issued by several insurance companies and found that some of these advertisements were misleading the public and unwarranted comparisons made with other insurers. Hence the Board held discussions with respective insurance companies regarding such advertisements and gave instructions in issuing advertisements. These insurance companies agreed to refrain from publishing advertisements in any form containing unwarranted references to any company or making any indications of such nature at meetings with the Board.

The Board issued a questionnaire to insurance companies which have offered the public special methods to settle motor insurance claims in order to ascertain the systems and procedures followed in the said processes. Accordingly, these insurance companies made comprehensive presentations regarding the processes followed in the said settlement options of claims. Considering the amount of resources allocated to the said processes, as explained in the presentations, it appeared that these settlement schemes are practical as they maintain an efficient network, which could handle the settlement system as pronounced by them.

Web

The revamped web site of the Board was launched on 1st January 2007. The Insurance Legislature together with information in respect of the insurance industry

in Sri Lanka can be obtained from the web site, which is very useful to those who are seeking information through the electronic media. Further the web site provides links to the web sites of Insurance Companies and several other organisations which are related to the field of insurance.

Other Activities

“Deyata Kirula” National Exhibition

The Board participated in the “Deyata Kirula” National Exhibition, which was held at the Bandaranaike Memorial International Conference Hall from 4th February to 9th February. The institutions and organizations falling under the Ministry of Finance jointly set up their stalls in a common location during this exhibition, which attracted a huge influx of people. The Board considered it as a great opportunity to educate the public on the responsibilities and functions of the Board.

Administrative and Financial Review Training

To enhance the technical skills of the staff, a number of local and overseas training opportunities were provided. Deepening Prudential Regulatory Capacity in Non-Life Insurance, Insurance Regulation and Supervision Course, FSI Regional Seminar on Capital Adequacy and Risk-based Supervision for Insurance Supervisors, Principles and Practices of Reinsurance, Commonwealth Third Country Training Programme in Insurance Regulation and Supervision, were some of the areas covered.

Staff Welfare

The annual get together was held at the Galle Face Hotel in December 2007. Staff and their families participated at this event.

Office Expansion

The floor area was increased during early 2007. In order to meet the required space with the addition of new staff, the Board will move to Level 11 of the World Trade Centre during early 2008.

Policy Holders Protection Fund

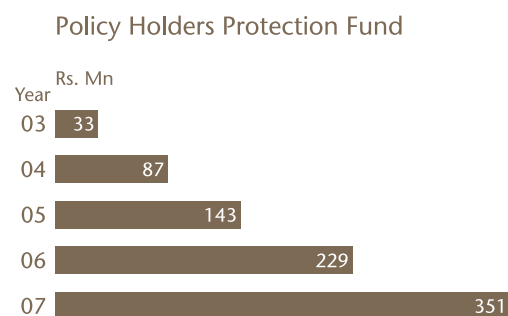
Section 103 of the Regulation of Insurance Industry Act No 43 of 2000 states that the Board shall establish a fund to be known as the “Policy Holders Protection Fund” to which shall be credited money realized from the Cess levied and charged under section 7, Cess is charged, levied and paid at such rates as may be determined by the Minister with the concurrence of the Board from time to time by order published in the Gazette.

In terms of the 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 a quarter.

The monies lying to the credit of the Fund shall be utilized for the general protection of policyholders and for any other specific purpose as may be determined by the Board, by rules made in that behalf.

The collection of Cess credited to the Policy Holders Protection Fund amounted to Rs. 113 Mn for the year under review in comparison to Rs. 93 million for the year 2006. The balance of the fund as at 31st December 2007 amounted to Rs 351 Million.

The growth of the fund during the period 2003 – 2007 is depicted below;



Review of Operations in 2007 continued

According to Section 103(3) of the Act, any money which is not immediately required for the purposes referred to in subsection (2), shall be invested by the Board in a prudent manner so as to maximise return on such investments. To achieve the said purpose the excess of the Policy Holders Protection Fund was invested in government securities and an additional income was earned as an interest income.

Financial Highlights

The overall income of the Board has grown by 37% compared to year 2006. The main reason for the increase is due to the increase in registration fees, renewal of registration fee of insurance intermediaries and interest income earned by investments in Treasury Bills.

Information Technology

During the year preparatory work was initiated to develop the Local Area Network System to be installed in a separate server room to be specially constructed for this purpose. This completed setup will help to increase the effectiveness and efficiency of the Board staff.

A plan has also been drawn up to set up a centralized database for the Legal division and Supervision division. Implementation of this module will help to maintain complete databases of Insurance companies and Insurance Brokers.

The website of the Board is updated to provide information about insurance companies, insurance brokers and information relating to the insurance industry.

The Members of the Audit Committee:

- Mr. Sumith Abeysinghe-Chairman
- Mr. Wilfred Wickramasinghe
- Mr. Graetian Gunawardhana

Meetings and Activities

The Committee met twice during the year under review and assisted the Board of Management in the oversight responsibilities by performing the following activities:

- i. Reviewed and approved the Audit Plan for the year 2007;
- ii. Reviewed and evaluated internal control systems for all activities of the entity;
- iii. Liased with external auditors and followed up on Auditor General's Management Letters;
- iv. Ascertained compliance with regulations, rules and circulars;
- v. Reviewed financial statements to ensure compliance with Accounting Standards;
- vi. Reviewed internal audit/external audit reports for remedial action.

The Committee also monitored the implementation of the recommendations made by the Committee to rectify deficiencies identified in financial management, general administration and human resources development.

Internal Audit

The Internal Audit function is outsourced to the Internal Audit and Investigation Division of the Ministry of Finance and Planning as there was no need to have full time Internal Auditor for the Insurance Board of Sri Lanka for the time being. In terms of the

provisions in Finance Act No. 38 of 1971 both Internal Audit Programmes and Internal Audit Reports were also made available to the External Auditors.



S.Abeysinghe

Chairman, Audit Committee

27 May 2008



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Balance Sheet

As at 31 December 2007	Notes	As at 31.12.07 Rs.	As at 31.12.06 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant & Equipment	1	12,519,775	13,885,486
Policy Holders Protection Fund-Deposits	2	7,417,440	2,731,440
CURRENT ASSETS			
Inventories	3	269,708	211,149
Policy Holders Protection Fund-Others		343,910,948	226,314,059
Other Current Assets	4	4,488,952	4,171,734
Investments in Government Securities		54,964,062	29,172,054
Cash & Cash Equivalents	5	6,785,639	4,509,639
TOTAL ASSETS		430,356,523	280,995,561
RESERVES AND LIABILITIES			
RESERVES			
Accumulated Fund	6	56,852,302	33,062,693
Policy Holders Protection Fund	7	351,328,388	229,045,499
LIABILITIES			
NON CURRENT LIABILITIES			
Grant	8	10,547,578	12,629,797
Retirement Benefit Obligation	9	440,188	151,428
Interest Bearing Borrowings	11	1,228,247	1,168,262
		12,216,013	13,949,487
CURRENT LIABILITIES			
Receipt in Advance		2,135,080	2,725,040
Other Current Liabilities	10	1,501,873	1,595,625
Current portion of Interest Bearing Borrowings	11	1,322,868	617,217
Payable to Financial Service Academy	18	5,000,000	-
		9,959,821	4,937,882
TOTAL RESERVES & LIABILITIES		430,356,523	280,995,561

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

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes appearing on pages 51 to 59.

For and on behalf of the Insurance Board of Sri Lanka



Gamini Wickramasinghe
Chairman



Lasinee Serasinhe
Director General

Colombo, Sri Lanka.
27th May 2008

Income & Expenditure Statement

For the year ended 31 December 2007	Notes	Year Ended 31.12.07 Rs	Year Ended 31.12.06 Rs
INCOME			
Revenue	12	25,628,677	21,872,882
Government Grants		-	-
Recognition of Grant	8	3,298,028	1,487,393
Interest Income		6,291,358	1,865,014
Other Income	13	197,363	640,992
		35,415,426	25,866,281
Less:			
EXPENDITURE			
Staff Costs	14	16,648,037	12,217,321
Professional Charges	15	1,575,345	2,225,108
Administration & Establishment Expenses	16	18,825,066	11,161,087
Contribution to set up a Financial Service Academy	18	5,000,000	-
Finance & Others	17	77,369	66,300
		42,125,818	25,669,816
TOTAL EXPENDITURE		42,125,818	25,669,816
Excess/ (Deficit) income over expenditure	16	(6,710,391)	196,465
Transfer from Policy Holders Protection Fund	7	30,500,000	17,049,988
Net Surplus/ (Deficit) for the period		23,789,609	17,246,453

The Accounting Policies and Notes appearing on pages from 51 to 59 an integral part of the Financial Statements.

Statement of Changes in Reserves

For the year ended 31 December 2007	Year Ended 31.12.07 Rs.	Year Ended 31.12.06 Rs.
ACCUMULATED FUND		
Balance at the beginning of the Year	33,062,693	15,816,240
Net Surplus/(Deficit) for the Year	23,789,609	17,246,453
Balance at the end of the Year	56,852,302	33,062,693

The Accounting Policies and Notes appearing on pages 51 to 59 form an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 December 2007	Notes	Year Ended 31.12.07 Rs	Year Ended 31.12.06 Rs
Cash Flows from Operating Activities			
Net Surplus/(Deficit) for the year		23,789,609	17,246,453
Adjustment for Depreciation		3,981,521	2,106,704
Provision for Retirement Benefit		288,760	151,428
Recognition of Grant		(3,298,028)	(1,487,393)
Interest Income		(6,177,787)	(1,840,039)
Net Surplus before Working Capital changes		<u>18,584,074</u>	<u>16,177,153</u>
Change of Working Capital			
(Increase)/Decrease in Inventories		(58,558)	(35,030)
(Increase)/Decrease in Receivables		(317,218)	9,276,339
(Increase)/Decrease in Advance & Prepayments		-	(1,415,589)
Increase/(Decrease) in Receipt in Advance		(589,960)	594,855
Increase/(Decrease) in Creditors & Accruals		4,906,248	287,992
Cash Flows from Operating Activities		<u>3,940,512</u>	<u>8,708,567</u>
Net Cash Flows from Operating Activities		22,524,586	24,885,720
Cash Flows from/ (used in) Investing Activities			
Investment in Government Securities		(25,792,007)	(29,172,054)
Interest Income		6,177,787	1,840,039
Acquisition of Property, Plant & Equipments		(2,066,362)	(7,359,643)
Net Cash used in Investing Activities		<u>(21,680,582)</u>	<u>(34,691,658)</u>
Cash Flows from Financing Activities			
Capital Transfer from Policy Holders Protection Fund		666,359	7,359,643
Increase/(Decrease) in Finance Lease		765,636	(523,825)
Net Cash Flows from Financing Activities		<u>1,431,995</u>	<u>6,835,818</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		2,275,999	(2,970,120)
Cash and Cash Equivalents at the beginning of the year		4,509,639	7,479,759
Cash and Cash Equivalents at the end of the year		<u>6,785,639</u>	<u>4,509,639</u>
Cash at Bank	5	<u>6,785,639</u>	<u>4,509,639</u>

The Accounting Policies and Notes appearing on pages 51 to 59 form an integral part of the Financial Statements.

Policy Holders Protection Fund Cash Flow Statement

For the year ended 31 December 2007	Note	Year Ended 31.12.07 Rs	Year Ended 31.12.06 Rs
Cash Flows from Operating Activities			
Net Increase of Policy Holders Protection Fund		122,282,889	85,898,864
Net Increase before Working Capital changes		122,282,889	85,898,864
Change of Working Capital			
(Increase)/Decrease in Interest Receivable on Government Securities		(1,824,737)	(4,803,286)
(Increase)/Decrease in Cess Receivable		17,749	(17,749)
(Increase)/Decrease in Rent Deposit		(4,686,000)	(994,200)
		(6,492,988)	(5,815,235)
Net Cash from Operating Activities		115,789,901	80,083,629
Cash Flows from/(used in) Investing Activities			
Investments in Government Securities		(116,776,956)	(78,623,365)
Net Cash used in Investing Activities		(116,776,956)	(78,623,365)
Net Increase/(Decrease) in Cash and Cash Equivalents		(987,056)	1,460,264
Cash and Cash Equivalents at the beginning of the year		4,251,820	2,791,556
Cash and Cash Equivalents at the end of the year		3,264,764	4,251,820
Cash at Bank	2	3,264,764	4,251,820

The Accounting Policies and Notes appearing on pages 51 to 59 form an integral part of the Financial Statements.

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 and prepared on the historical basis.

Where appropriate accounting policies are disclosed in succeeding notes.

1.2 STATEMENT OF COMPLIANCE

The Financial Statements of the Insurance Board of Sri Lanka have been prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

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 the changes in presentation in the current financial year.

1.5 TAXATION

The Board has requested the Ministry of Finance to consider exemption of its profits and income from Income Tax under Section 7 (b) of the Inland Revenue Act No. 10 of 2006 and expects that the request will be considered favorably. Accordingly, no tax on income has been provided in these Financial Statements.

1.6 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.

2. ASSETS & BASES OF THEIR VALUATION

2.1 PROPERTY, PLANT & EQUIPMENT

OWNED PROPERTY PLANT & EQUIPMENT

The Property, Plant & Equipment are stated at cost less accumulated depreciation.

The cost of Property, Plant and Equipment is the cost of acquisition with any expenses incurred in bringing the assets to their working condition for the intended use.

LEASE ASSETS

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. Assets acquired by way of finance lease are stated at their cash price less accumulated depreciation and the resulting lease obligations are included in creditors net of finance charges. 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.

DEPRECIATION

Depreciation is charged on a straight-line basis over their estimated useful lives of same applying the following rates.

	% Per Annum
Motor Vehicles	25
Furniture, Fixtures and Fittings	12.5
Office and EDP Equipment	25
Training Equipment	25

Depreciation is provided from the date of purchase of the asset. Depreciation is also provided up to the date of disposal.

Assets held under finance leases are depreciated over the shorter of lease term or the useful lives of equivalent owned assets.

2.3 INVESTMENTS

Investments in Government Securities and Repurchase Agreements are stated at cost and interest is accrued up to year-end.

Accounting Policies continued

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 cash flow statement, cash and cash equivalents consist of cash at banks and cash in hand.

3. LIABILITIES AND PROVISIONS

3.1 RETIREMENT BENEFITS

3.1.1 DEFINED BENEFIT PLANS - GRATUITY

Full provision has been made on account of gratuity from the first year of service of the employee in conformity with Sri Lanka Accounting Standard No 16 "Retiring Benefit Cost". However, according to the payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

3.1.2 DEFINED CONTRIBUTION PLANS – EPF AND ETF

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

3.2 LIABILITIES

Liabilities classified as current liabilities in the balance sheet are those, which fall due for payment on demand or within one year from the balance sheet date. The non-current liabilities are those balances that fall due for payment after one year from the balance sheet date.

All known liabilities have been accounted at cost in preparing these financial statements.

3.3 GRANT

Capital Expenditure transferred from Policy Holders Protection Fund and assets received from Micro Insurance Project are 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

No Government grants were received during the period under review.

4.2 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

	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
1 PROPERTY, PLANT & EQUIPMENT COST						
Balance as at 1 January 2007	5,425,000	4,290,037	4,915,595	141,450	2,500,000	17,272,082
Additions/(Disposals) during the Year	-	126,750	1,089,060	-	1,400,000	2,615,810
Balance as at 31 December 2007	5,425,000	4,416,787	6,004,655	141,450	3,900,000	19,887,892
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2007	-	765,808	1,335,425	35,363	1,250,000	3,386,596
Charge for the Year	1,356,250	541,333	1,365,082	35,363	683,493	3,981,521
Balance as at 31 December 2007	1,356,250	1,307,141	2,700,507	70,726	1,933,493	7,368,117
WRITTEN DOWN VALUE						
AS AT 31 DECEMBER 2007	4,068,750	3,109,646	3,304,148	70,724	1,966,507	12,519,775
WRITTEN DOWN VALUE						
AS AT 31 DECEMBER 2006	5,425,000	3,524,229	3,580,170	106,087	1,250,000	13,885,486
2 POLICY HOLDERS PROTECTION FUND INVESTMENTS AND OTHERS						
NON CURRENT ASSETS						
Rent Deposits				7,417,440		2,731,440
CURRENT ASSETS						
Investment in Government Securities				325,779,809		209,002,853
Interest Receivable on Government Securities				14,866,374		13,041,637
CESS Receivable				-		17,749
Balance at Bank				3,264,764		4,251,820
				343,910,948		226,314,059
Total Assets				351,328,388		229,045,499

Notes to the Financial Statements continued

	As at 31.12.07 Rs.	As at 31.12.06 Rs.
3 INVENTORIES		
Printing, Stationery & Computer Accessories	200,194	120,628
Publications	47,485	89,322
Stamps	22,029	1,199
	<u>269,708</u>	<u>211,149</u>
4 OTHER CURRENT ASSETS		
Annual Fee	-	598,340
Other Receivables	216,897	1,614
GST/VAT receivables	26,325	85,424
Interest receivable - Treasury Bills	1,641,446	1,246,680
Staff Loans *	2,214,882	665,625
Advance Payments	389,401	1,574,051
	<u>4,488,952</u>	<u>4,171,734</u>
*Loans granted to Staff		
Balance as at 1 January	665,625	-
Loans granted during the Year	1,910,000	778,125
	<u>2,575,625</u>	<u>778,125</u>
Repayments during the Year	(360,743)	(112,500)
Balance as at 31 December	<u>2,214,882</u>	<u>665,625</u>
5 CASH & CASH EQUIVALENTS		
Cash at Banks		
People's Bank	2,656,387	1,362,956
Bank of Ceylon 1877	3,207,165	3,033,768
Hong Kong & Shanghai Bank	907,087	102,915
Cash in Hand	15,000	10,000
	<u>6,785,639</u>	<u>4,509,639</u>

	As at 31.12.07 Rs.	As at 31.12.06 Rs.
6 ACCUMULATED FUND		
Balance as at the Beginning of the Year	33,062,693	15,816,240
Net Surplus/(Deficit) for the Year	23,789,609	17,246,453
Balance as at the End of the Year	<u>56,852,302</u>	<u>33,062,693</u>
7 POLICY HOLDERS PROTECTION FUND		
Opening Balance	229,045,499	143,146,635
Cess Received during the Year	113,375,453	92,594,543
Interest on Treasury Bill Investment	31,353,747	17,392,189
Interest on Repo	8,726,657	456,943
	<u>382,501,356</u>	<u>253,590,310</u>
Less:		
Transfers for Operational Expenses	30,500,000	17,049,988
Transfers for Capital Expenditures	666,359	7,359,643
Total	<u>31,166,359</u>	<u>24,409,631</u>
Debit Tax	-	131,243
Bank Charges	6,609	3,937
	<u>31,172,968</u>	<u>24,544,811</u>
Closing Balance	<u>351,328,388</u>	<u>229,045,499</u>
8 GRANT		
Balance at the Beginning of the Year	12,629,797	6,757,547
Transfer for Capital Expenditures from Policy Holders Protection Fund	666,359	7,359,643
Grant from Micro Insurance Project	549,450	-
Less: Amortised During the Year - Note	<u>(3,298,028)</u>	<u>(1,487,393)</u>
Balance at the End of the year	<u>10,547,578</u>	<u>12,629,797</u>

Note - Recognition of Grant

The above grants has been received in respect of fixed assets, and it has been accounted for in accordance with the SLAS 24 at the following rates.

Motor Vehicle	25%
Office Equipment - Others & EDP	25%
Furniture Fixtures & Fittings	12.50%

	Year Ended 31.12.07 Rs.	Year Ended 31.12.06 Rs.
14 STAFF COSTS		
Staff Salaries	8,756,724	5,450,119
EPF and ETF	1,246,018	768,347
Provision for Retiring Gratuity	288,760	151,428
Other Staff Costs	6,356,535	5,847,427
	<u>16,648,037</u>	<u>12,217,321</u>
15 PROFESSIONAL CHARGES		
Local Consultants	1,260,035	1,609,356
Foreign Consultants	315,310	615,752
	<u>1,575,345</u>	<u>2,225,108</u>
16 EXCESS/ (DEFICIT) INCOME OVER EXPENDITURE		
Deficit for the year is arrived at after charging all expenses including the following:		
Auditors Remuneration	50,000	25,000
Depreciation	3,981,521	2,106,704
Attendance Fee for Directors	51,000	51,000
Public Awareness	673,775	-
17 FINANCE & OTHERS		
Bank Charges	22,734	23,867
Debit Tax	54,635	42,433
	<u>77,369</u>	<u>66,300</u>

18. CONTRIBUTION TO SET UP A FINANCIAL SERVICES ACADEMY

The Financial Services Academy (FSA) has been incorporated under section 114 of the Trust Ordinance to develop educational and training programmes for the advancement of the capital markets and insurance industry and service providers regulated under the SEC Act and the RII Act utilising innovative methods. In terms of provisions in the Trust Deed, Insurance Board of Sri Lanka has allocated Rupees Five Million (Rs 5,000,000) for the establishment of FSA.

19. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2007.

20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2007.

Notes to the Financial Statements continued

21. EVENTS AFTER THE BALANCE SHEET DATE

Awarded the bid pertaining to interior designing including refurbishing of new floor to relocate the Board at the World Trade Center costing approximately Rs.10, 807,000/-. Other than that no material events have occurred after the Balance Sheet date necessitating any adjustments or disclosure in the Financial Statements.

22.

22.1 RELATED PARTY DISCLOSURES

The following table depicts the relationships held by the Members of the Board as at end of the year.

Name	Name of Institution	Position
Dr. Gamini Wickramasinghe	Informatics (Pvt) Ltd	Director
	Informatics Institute of Technology Ltd	Director
	Informatics Information Systems (Pvt) Ltd	Director
	Informatics Agrotech (Pvt) Ltd	Director
	Visual Computing Systems (Pvt) Ltd	Director
	Informatics International Ltd	Director
	Informatics Hospitality Systems Ltd	Director
	Informatics International Lanka (Pvt) Ltd	Director
	Informatics Holdings Ltd	Director
	Charles Exports (Pvt) Ltd	Director
	Industrial and Financial Systems Solutions Ltd	Director
	Systems Integrators (Private) Ltd	Director
	Informatics Trading (Private) Ltd	Director
	Industrial and Financial Systems Sri Lanka Ltd	Director
	Bank of Ceylon	Chairman (w.e.f. 23 May 2007)
	Property Development Ltd	Chairman (w.e.f. 09 July 2007)
	Merchant Bank of Sri Lanka	Chairman (09 July 2007 to 24 January 2008)
	Merchant Credit of Sri Lanka	Chairman (25 July 2007 to 24 January 2008)
	Ceylease Financial Services Ltd	Chairman (w.e.f. 14 August 2007)
	BOC Travels (Pvt) Ltd	Chairman (w.e.f. 09 July 2007)
	Mireka Capital Land (Pvt) Ltd	Director (w.e.f.,23 July 2007)
	Securities and Exchange Commission of Sri Lanka	Chairman
Settlement Guarantee Fund	Trustee	
Financial Service Academy	Trustee (w.e.f. 30 March 2007)	
Dr. Raneer Jayamaha	Securities & Exchange Commission of Sri Lanka	Ex officio Member
	Financial Stability Committee	Chairperson
	Credit Information Bureau	Chairperson
	National Payments Council	Chairperson
	Technical Committee on Regulation of Share Ownership in Banks	Chairperson
	Legal Forum	Chairperson
	Technical Committee of the Asian Clearing Union	Chairperson
	SAARC Payments Council	Chairperson
	Monetary Policy Committee	Member
	National Economic Council	Member

Name	Name of Institution	Position
Mr S Abeysinghe	Bank of Ceylon	Director (Treasury Nominee)
	Securities and Exchange Commission of Sri Lanka	Member (Treasury Nominee)
	De-La Rue Lanka currency Ltd and Security Print (Pvt) Ltd	Director (Treasury Nominee)
Mr Channa de Silva	Securities and Exchange Commission of Sri Lanka	Director General
	Public Enterprises Reforms Commission (PERC)	Board Member (Ex-Officio)
	Construction Guarantee Fund (CGF)	Board Member
	Sri Lanka Accounting & Auditing Standards Monitoring Board (SLAASMB)	Board Member (Ex-Officio)
	National Payment Council	Board Member
	Financial Service Academy	Trustee
Mr C P E Gunasigham	Settlement Guarantee Fund	Trustee
	Jaguar (Pvt) Ltd	Director
Mr Graetian Gunawardhana	Securities and Exchange Commission of Sri Lanka	Member of the Board
	Hands International (Pvt) Ltd	Chairman / Managing Director
Mr Wilfred Wickramasinghe	National Development Health Fund	Member of the Board of Trustee
	Chelsea Enamels (Pvt) Ltd	Managing Director
	Euro Asia Airfreight Ltd	Managing Director
	Peliyagoda Warehouse Complex Co.Ltd	Director

22.2 RELATED PARTY TRANSACTIONS

Institution	Name of Director/Relationship	Details of Transaction	Rs.
Security Exchange Commission of Sri Lanka	Dr.Gamini Wickramasinghe-Chairman	Remuneration for seconding staff from SEC from January –April 07	383,792.92
	Dr. Raneey Jayamaha - Member of the Board	Management Fee	92,000.00
	Mr. S. Abeysinghe - Member of the Board	Car Parking	21,056.50
	Mr. Channa de Silva - Member of the Board	Vehicle hire	12,408.25
	Mr. C. P. C. Gunasigham - Member of the Board	Total	<u>509,257.67</u>
Mr. Gretian Gunawardena - Member of the Board			
Bank of Ceylon	Dr.Gamini Wickramasinghe-Chairman	Investments in Treasury Bills and REPOs as at 31.12.2007 amounted to Rs.54,964,062/- and Rs.325,779,809/- by the Fund of the Board and CESS Fund respectively.	
		Board received Rs.4,305,857/- as Interest Income from the above Treasury Bills & REPOs during the year.	

Other than the transactions in the ordinary course of business at market rates and the above mentioned no transactions were recorded with the said institutions during the year.

Auditor General's Report



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

LP/F/IBSL/2008/01

ඔබේ අංකය
உமது இல
Your No.

දිනය
Date

7 May 2008

The Chairman,

Insurance Board of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka for the year ended 31 December 2007 in terms of Section 14(2)(c) of the Finance Act No.38 of 1971.

The audit of financial statements of the Insurance Board of Sri Lanka (IBSL) for the year ended 31 December 2007 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 Comments and 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 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting an applying appropriate accounting polices; and making accounting estimates that are reasonable in the circumstances.

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කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி
Telephone. } 2691151

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

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ஈ- மெயில்
E-mail. } oaggov@slt.net.lk

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub sections (3) and (4) of the Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Financial Statements

2:1. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Insurance Board of Sri Lanka had maintained proper accounting records for the year ended 31 December 2007 and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Insurance Board of Sri Lanka as at 31 December

2007 and the financial results of its operation and cash flows for the year then ended.

2:2. Emphasis of Matters

Without qualifying my opinion I draw attention to following matters.

- (a) Allowances, incentive and other financial benefits to the Board's employees had been paid without obtaining the Treasury approval.
- (b) All the complaints relating to settlement of claims in Both life and general insurance had been referred to the office for the Insurance Ombudsman Scheme which was set up to handle the complaints only from policy holders relating to general insurance. Hence, under the situation of expanding function of the Board with separate staff, it could not be satisfied in audit on the delegation of the responsibilities of the Board to an outside person, and depend on him in achieving objectives.
- (c) The amendments to the Regulation of Insurance Industry Act No. 43 of 2000 to meet the requirements of the changes in the industry had been delayed for over 4 years.
- (d) Service of the consultant who had been appointed since the inception of the IBSL in 2001 had been obtained continuously at a monthly honorarium of Rs. 70,000 even after relocating the Board with adequate staff in 2005. A sum of Rs. 840,000 had been spent as honorarium during the year under review in this regard, without considering the necessity of obtaining the service of this consultant continuously.

Auditor General's Report continued

- (e) IBSL together with the Securities and Exchange Commission of Sri Lanka had established the Financial Service Academy with a view to developing educational and training programmes aimed to develop the capital market and insurance industry . In this regard the Board had also agreed to grant Rs. 5 million for the establishment and the functioning of the Academy. Approval from the relevant Ministry and Cabinet of Ministers had not been obtained regarding this policy decision as per Section 2.2(a) and 2.2.4(b) of the public Enterprise Circular No PED/12 of 02 June 2003.



S. Swarnajothi
Auditor General

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

<p>(a) Allowances, incentive and other financial benefits to the Board's employees had been paid without obtaining the Treasury approval.</p>	<p>(a) The Insurance Board of Sri Lanka was attached to the Securities and Exchange Commission of Sri Lanka prior to 2005. In 2005 when the two institutions were separated, the Board decided to adopt the SEC Administration Manual for the IBSL too. Further the terms and conditions of employment of the staff of IBSL was based on the SEC scheme of employment.</p>
<p>(b) All the complaints relating to claim settlement in Both Life and General Insurance had been referred to the office for the Insurance Ombudsman Scheme which was set up to handle the complaints only from policy holders relating to general insurance. Hence, under the situation of expanding function of the Board with separate staff, it could not be satisfied in audit on the delegation of the responsibilities of the Board to an outside person and depend on his performance to achieve its objectives.</p>	<p>(b) This is a policy decision taken by the Board for better utilization of human resources in the Insurance Board of Sri Lanka. Ombudsman Scheme has been found to be effective. Further Ombudsman Scheme is in practice globally. Any policyholders not being satisfied with the ombudsman decisions could appeal to the Insurance Board.</p>
<p>(c) The amendments to the Regulation of Insurance Industry Act No. 43 of 2000 to meet the requirement of the changes in the industry had been delayed for over 5 years.</p>	<p>(c) Amendments to the Regulation of Insurance Industry Act No. 43 of 2000 have been approved by the Cabinet of Ministers and pending submission to the Parliament.</p>
<p>(d) Service of the consultant who had been appointed since the beginning of the IBSL in 2001 had been obtained continuously at a monthly honorarium of Rs. 70,000/- even after relocating the Board with adequate staff in 2005. A sum of Rs. 840,000 had been spent as honorarium during the year under review on this regard. Accordingly necessity of obtaining the service of this consultant continuously to be reconsidered.</p>	<p>(d) The Board appointed the consultant in terms of section 10 of the RII Act, as his service was necessary for its work. IBSL placed several advertisements for recruitment to its approved cadre but was not successful due to unsatisfactory salary scales it offered comparing to industry standards. Further there were several resignations in order to take up employment with better prospects.</p>

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

(e) IBSL together with the Securities and Exchange Commission of Sri Lanka had established the Financial Service Academy with a view to developing educational and training programmes aimed to develop the capital market and insurance industry. In this regard the Board had also agreed to grant Rs. 5Mn for the establishment and the functioning of the Academy as per the incorporated Act, Board itself could have conducted training activities to achieve its objective. Further, approval from the relevant Ministry and Cabinet of Ministers have not been obtained regarding this policy decision as per Section 2.2(a) and 2.2.4(b) of the Public Enterprise Circular No PED 12 of 02 June 2003.

(e) The object and responsibility of IBSL as specified in the Regulation of Insurance Industry Act No. 43 of 2000 is 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 policyholders and potential policyholders. To achieve the said object of the IBSL, education and training of all categories of stakeholders in the insurance industry is indispensable.

Accordingly, under the powers vested in it, the IBSL together with the Securities and Exchange Commission of Sri Lanka has established the Financial Services Academy with a view to developing educational and training programmes aimed to develop the capital market and insurance industry and to provide for matters connected to and incidental thereto. In this regard, the IBSL has also agreed to grant Rs. 5Mn for the establishment and due functioning of the academy.

Insurance Companies Registered Under the RII Act for the Year Ended 31st December 2007

ABC Insurance Company Ltd.
Allianz Insurance Company Ltd.
Amana Takaful PLC
Asian Alliance Insurance PLC
Ceylinco Insurance PLC
Ceylinco Takaful Ltd.
Cooperative Insurance Company Ltd.
Eagle Insurance PLC
Hayles AIG Insurance Company Ltd.
HNB Assurance PLC
Janashakthi Insurance Company Ltd.
Life Insurance Corporation (Lanka) Ltd.
Seemasahitha Sanasa Rakshana Samagama
Sri Lanka Insurance Corporation Ltd.
Union Assurance PLC

Appendix 2

Insurance Brokers Registered Under the RII Act during the year 2007

1	A. M. W. Insurance Brokers (Pvt) Ltd.	29	Lanka ORIX INSURANCE Brokers (Pvt) Ltd.
2	ADZ Insurance Brokers (Pvt) Ltd.	30	Mackwoods Insurance Brokers (Pvt) Ltd.
3	Alfinco Insurance Brokers (Pvt) Ltd.	31	Mark Lloyd & Co. (Pvt) Ltd.
4	Allion Insurance Brokers (Pvt) Ltd	32	Maxwell Enterprises Ltd.
5	Amity Insurance Brokers (Pvt) Ltd.	33	Micro Insurance Brokers (Pvt) Ltd.
6	Arcadia Insurance Brokers (Pvt) Ltd.	34	Nations Insurance Brokers (Ltd)
7	Austasia Insurance Brokers (Pvt) Ltd.	35	Placid Insurance Brokers (Pvt) Ltd
8	Brilliance Insurance Brokers (Pvt) Ltd.	36	Pragathi Insurance Brokers (Pvt) Ltd.
9	C.F.L. Insurance Brokers (Pvt) Ltd.	37	Procure Insurance Brokers (Pvt) Ltd.
10	Cee Lanka Insurance Brokers (Pvt) Ltd.	38	Protection & Assurance Insurance Brokers (Pvt) Ltd.
11	Ceyexxe Insurance Brokers Ltd.	39	Protection & Utmost Insurance Brokers (Pvt) Ltd.
12	Ceylan Insurance Brokers (Pvt) Ltd.	40	Reliance Insurance Brokers (Pvt) Ltd
13	CF Insurance Brokers (Pvt) Ltd.	41	RO-PA Insurance Brokers (Pvt) Ltd.
14	Commercial Insurance Brokers (Pvt) Ltd.	42	Senaratne Associates Ltd.
15	Delmage Insurance Brokers (Pvt) Ltd.	43	Steuart Insurance Brokers (Pvt) Ltd
16	DP Insurance Brokers Ltd.	44	Strategic Solutions International (Pvt) Ltd.
17	Equity Insurance Brokers (Pvt.) Ltd.	45	Sunshine Insurance Brokers (Pvt) Ltd
18	Essajee Carimjee & Co. (Pvt) Ltd.	46	United Insurance Brokers (Pvt) Ltd
19	Finlay Insurance (Brokers) Ltd.	47	United Life & General Assurance Brokers (Pvt) Ltd.
20	Indcom Industrial Insurance Brokers (Pvt) Ltd.	48	Vanik Insurance Brokers (Pvt) Ltd.
21	Industrial & Commercial Insurance Brokers (Pvt) Ltd.	49	Veracity Insurance Brokers (Pte) Ltd.
22	Insurex Insurance Brokers Co. (Pvt) Ltd.	50	Vertec Insurance Brokers (Pvt) Ltd
23	Interbroker (Pvt) Ltd.	51	Victor Emmanuel Insurance Brokers (Pvt) Ltd.
24	Jay Insurance Consultants (Pvt) Ltd.	52	Visionwide Insurance Broking & Financial Services (Pvt) Ltd.
25	JF Insurance Brokers (Pvt) Ltd.	53	Volanka Insurance Services (Pvt) Ltd.
26	Koshiba Insurance Brokers (Pvt) Ltd.	54	Zenith Insurance Brokers (Pvt) Ltd.
27	L. M. & A. Insurance Brokers & Consultants (Pvt) Ltd.		
28	Lak Insurance Brokers (Pvt.) Ltd.		

Accumulation

The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Acquisition expenses

All expenses which vary with, and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts e.g. commissions.

Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investments, financial management and demography.

Administrative expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made under the Regulation of Insurance Industry Act No.43 of 2000.

Annuity

A life insurance product that pays periodic income benefits for a specific period of time or over the course of the annuitant's lifetime. There are two basic types of annuities: deferred and immediate. Deferred annuities allow assets to grow tax-deferred overtime before converted to payments to the annuitant. Immediate annuities allow payments to begin within about a year of purchase.

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the extent of the policyholder's death.

Cedent

Client of a reinsurance company (primary insurance company).

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event: such as the destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured, maturity of an endowment policy, the attainment of pensionable age, the amount payable on the surrender of a policy.

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period.

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but have not yet been reported to the insurer.

Claims Outstanding Reserve – general insurance business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the balance sheet date, including incurred but not reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims.

Co-insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportion at a specified premium.

Commission

A payment made to a broker or an insurance agent in return for selling and servicing an insurer's products.

Deferred Acquisition Cost – general insurance business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried from one accounting period to subsequent accounting periods.

Glossary continued

Earned Premiums

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

General Insurance Business

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

Gross Written Premium

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

Insurance risk

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurer

A company incorporated as a public company under the Companies Act No. 7 of 2007 and registered as an insurer under the Regulation of Insurance Industry Act No. 43 of 2000.

Long Term Insurance Business

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

Maturity

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

Net Claims Ratio or Net Loss Ratio

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

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

Net Combined Ratio - Non-Life

This indicates the profitability of the insurer's operations by combining the net loss ratio with net expense ratio. The combined ratio does not take account of investment income.

$$\frac{\text{Net Claims Incurred}}{\text{Net Earned Premium}} \times 100 + \frac{\text{Expenses} \times 100}{\text{Net Earned Premium}}$$

Net Earned Premium (General Insurance Business)

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

Net Expense Ratio- Non-Life

A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).

Non- participating policy – life insurance business

Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Participating Policy

Life insurance business where policyholders are contractually entitled to share in the surplus of the relevant life fund.

Policy

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

Policy Holder

The person who for the time being is the legal holder of the policy for securing the contract with the insurer.

Policy Loan

A loan from the insurer to a policyholder on the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premium

The consideration payable by an insured for an insurance.

Primary insurer

Insurance companies that assume risks in return for an insurance premium and have direct contractual relationship with the holder of the insurance policy (private individual, firm or organization)

Operating Profit

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

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent- the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance commission

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

Reinsurance inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance outwards

The placing of risks under contract of reinsurance.

Reinsurance profit commission

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

Retention

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

Solvency Margin - Life

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on Long Term Insurance Business as defined in Solvency Margin (Long Term Insurance) Rules,2002 made under section 26 of the Regulation of Insurance Industry Act No.43 of 2000.

Solvency Margin - Non-Life (General Insurance)

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on General Insurance Business as defined in Solvency Margin (General Insurance) Rules,2004 made under section 26 of the Regulation of Insurance Industry Act No.43 of 2000.

Surrender value

The amount payable by an insurer to a policyholder in respect of life insurance on termination of an insurance policy before the expiry of its terms. In order to attain a surrender value, the policy should have been in force continuously for a period of at least three years.

Underwriting Profit

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

Unearned Premium

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve

A fund kept by a general insurer to provide for claims that may arise in the future under the insurance policies that still in force.

Unexpired risk reserve

The excess of estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).



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