

# Growth through Regulation

## 'Growth through Regulation'

Our challenge is to strike a balance between improving regulation to safeguard the interests of insurance consumers and facilitating the growth of the insurance industry under demanding conditions.

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# 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 1st March 2001 by Government Gazette Notification No. 1172/27 dated 23rd February 2001.

## Objective & Responsibility

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

## Accounting Year

31<sup>st</sup> December

## Auditors

The Auditor General

## Bankers

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

## Audit Committee

Mr. U. S. Abeyratne - *Chairman*  
Mr. Wilfred Wickramasinghe  
Dr. R. H. S. Samaratunga

## Members of the Board



Pictured here is Chairman of IBSL Mr. Udayasri Kariyawasam (fourth from left) with the Members (left to right) Mr. U. S. Abeyratne, Mr. Channa de Silva, Dr. (Mrs.) Ranee Jayamaha and Mr. Graetian Gunawardhana. Not in picture are Dr. R. H. S. Samaratinga and Mr. Wilfred Wickramasinghe.

## Chairman's Statement



We have followed a worldwide trend involving a shift in emphasis from compliance-based supervision, to a new paradigm of risk-based supervision.

We faced up well to the complex task of improving regulation during the year, while facilitating the growth of the insurance industry under challenging conditions. One of our goals was promoting a wider usage of insurance to cover the diverse risks faced by individuals and organisations, thus providing long-term funds needed for our economic growth. At the same time, we focused on strengthening the regulatory framework to safeguard insurance consumers by ensuring the solvency of all insurance organisations we regulate. To achieve our goals in a responsive, efficient and cost-effective manner, we have developed and implemented many innovative solutions to our nation's complex insurance problems.

This annual report outlines the strategies and operational activities we have used to protect consumers while maintaining a solvent and competitive insurance industry in Sri Lanka. By using adequate solvency standards, rigorous accounting rules and public interest as our guidelines, we have responded well to numerous challenges that arose in the insurance industry over the year. We promoted fairness, transparency, orderly conduct, competence and financial viability among all organisations we regulate in the insurance industry. While helping them to survive

and grow in an increasingly volatile economic environment, we have taken remedial action whenever their compliance with specified standards has been inadequate.

We have provided an open forum for discussing issues and interests related to the insurance industry. We have promoted industry cooperation on regulatory policies with the aim of protecting insurance consumers and maintaining the financial stability of the insurance industry. Since regulatory reforms alone cannot maintain market confidence, we are working together with the industry and fostering an environment that strengthens consumer confidence in insurance.

Quarterly meetings were held with the CEOs of insurance companies and the Sri Lanka Insurance Brokers Association (SLIBA) to identify core issues and discuss steps to improve insurance market penetration. These meetings facilitated interaction and provided feedback for strengthening the self-regulatory mechanism of the industry.

We have followed a worldwide trend involving a shift in emphasis from compliance-based supervision to a new paradigm of risk-based supervision. Risk-based supervision supplements sound regulation with a focus on the volatile nature of the insurance business that can affect solvency and the ability to meet contingencies. Based on risk-based supervision, we focused on assessing the risk profiles of insurance companies, which enabled us to take timely action and intervene promptly whenever there were regulatory concerns. Where particular risk areas were identified, special analyses were carried out followed by special inspections.

As soon as we receive parliamentary approval, we will be able to implement several decisions that will ensure the stability and solvency of our insurance industry:

The paid up share capital for each class of insurance business will be raised from Rs.100 million to Rs.250 million immediately, and to Rs.500 million by the end of 2010 on a staggered basis. We have also requested all insurance companies to voluntarily obtain a rating of Insurers Financial Strength (IFS) from a rating agency acceptable to the Board, as an indication of their ability to pay claims.

The paid up share capital of insurance brokers will be raised from Rs.1 million to Rs.2.5 million immediately. We will also increase their existing professional indemnity cover of Rs.5 million to a sum equal to three times their brokerage for the last financial year prior to the inception or renewal of the policy, subject to a maximum limit of liability of Rs.10 million.

We have drafted a new set of quarterly reporting formats for insurance brokers, for gathering the information needed to facilitate prompt intervention when necessary. These new formats are expected to be gazetted in due course.

Since ensuring solvency requires that liabilities should be reported at fair value, every insurance company must be able to state what they are expecting to payout to their policyholders. They should also hold an explicit additional

risk-capital margin to address specific contingencies to an agreed level. Consequently, we requested all Long Term Insurers to submit annual actuarial reports to ensure that their long term insurance funds are adequate to meet all current and contingent liabilities of policyholders. We also requested General Insurers to voluntarily submit an actuarial certification of Incurred But Not Reported (IBNR) claims reserves.

Revisions to the solvency margin rules were made after extensive consultations with the industry. The revisions were made to broaden the investment framework by introducing new instruments for investment such as asset-backed securities, deposits with licensed finance companies, gold etc. Our regulatory policies will help the insurance companies to manage their assets in a prudent and profitable way, since the raising of additional capital is difficult in the current economic climate driven by risk aversion. Following requests made by industry participants, we agreed to temporarily consider for solvency margin rules leasehold property and asset-backed securities guaranteed by licensed commercial or specialised banks.

Supervision of service providers in the insurance industry is a core prerequisite to the achievement of our regulatory objectives. In our supervisory capacity, we have worked closely with insurance companies and brokers to support adequate management of risk under challenging market conditions. We conducted risk assessments and took corrective action where we found weaknesses.

To bring the unregulated micro insurance sector into the mainstream, we initiated the preparation of a regulatory framework for the micro insurance sector in Sri Lanka. For this purpose, we examined the current operation of the local micro insurance sector as well as international trends in micro insurance regulation.

We are in the process of examining registration requirements of other countries in order to identify and formulate registration requirements relating to Institutional Agents and Loss Adjustors. This is being done to accommodate Institutional Agents and Loss Adjustors in the forthcoming amendments to the Act.

With the slowdown in economic growth, personal disposable incomes will be lower and will negatively affect savings and investment as well as the life insurance business. The slowdown in industry and lower investments in the private corporate sector leads to lower asset formation. This, together with lower merchandise trade, is bound to affect the general insurance market.

In the recent past, insurance companies have expanded their branch network and added technical manpower. Since the associated costs are high, companies may find it difficult to sustain high costs with the low premiums needed for market growth. With the slump in the stock market and the downward trend in interest rates, investment income for insurance companies would also come down and negatively affect profits, since investment income has been typically offsetting the underwriting losses of the insurers.

Recent events have weakened consumer confidence in finance companies, which in turn has negatively impacted the insurance business. The realities of today's complex and volatile financial environment demand that we, as Sri Lanka's insurance regulator, remain more nimble than ever before. Changes in the marketplace often demand regulatory responses to ensure the stability of our insurance industry while protecting insurance consumers. Above all, we have to ensure the solvency and proper conduct of our insurance and insurance broking companies.

Our decision to introduce a more risk-sensitive regime underlines the importance and urgency we attach to modernizing insurance regulation in Sri Lanka. We have used a three-pillar risk-responsive approach comprising Capital requirements, Supervisory review, and Disclosures. Our aim is to provide a stable foundation that can respond better to future market developments and risks. I am confident that the new direction will result in a more robust insurance industry whose collective financial health is capable of withstanding the shocks and strains which inevitably arise in this sector. Increasing our nation's insurance knowledge and usage is another responsibility that rests on us.

This current scenario summarised above shows the increasing importance of policyholder engagement. Insurance consumers have a critical part to play in ensuring that they understand the role of insurance in covering the diverse risks they face. Our work on consumer education and awareness will help bring about the much needed improvement in consumers' awareness and usage of insurance.

During the year, we have hired more staff, moved into spacious new premises, enhanced our IT capability, and provided a number of local and overseas training opportunities to our staff. Our achievements over the past year can be attributed to the exceptional service provided by them to the insurance industry and consumers. New legislative concepts, new levels of expertise in data collection and delivery, and a commitment to even greater technological capability have moved us forward in our role as an efficient and proactive regulatory organisation.

I would like to thank the Members of the Board, the Direct General and all members of our staff for their dedication and continuing commitment to protecting the interests of insurance consumers, while creating a competitive marketplace for the sustainable and orderly growth of the insurance industry for the benefit of everyone in Sri Lanka.



**Udayasri Kariyawasam**  
Chairman

19 June 2009  
Colombo

## Director General's Review



the Central Depository System of the Central Bank and confirm their compliance.

We continuously monitored the balance assets of the Technical Reserves and Long Term Insurance Funds of insurers to ensure that these are invested in instruments that meet our determinations. Investments of insurance companies in government securities were valued to assess their market liquidity position.

Reinsurance Arrangements and Cover Notes submitted by insurance companies were reviewed to ensure that the interests of policyholders and insurers were adequately safeguarded through reinsurance cover from recognised reinsurers.

## While the worldwide insurance industry had a difficult year, the insurance industry in Sri Lanka was able to achieve a growth of 12.11% in 2008.

Over the past year, our efforts were focused on developing the insurance industry while improving the quality of insurance regulation to protect the interests of insurance consumers. We resolved some major issues in order to make the insurance industry stronger in the years to come. These include measures to strengthen the financial stability and long-term viability of insurance companies and insurance brokers.

### Supervision

While ensuring that all insurance companies and brokers submit their statutory returns in a timely manner, we scrutinised these for accuracy and compliance with the Regulation of Insurance Industry Act. We drafted a set of guidelines for the Auditors of insurance companies to be included in their audit reports, directing them to focus on areas which demand special attention under the terms of the Act.

We requested all Long Term Insurers to submit annual Actuarial Reports to ensure that their long term insurance funds are adequate to meet all current and contingent liabilities of policyholders. We also requested General Insurers to voluntarily submit an actuarial certification of Incurred But Not Reported (IBNR) claims reserves.

Although all insurance companies were complying with the minimum paid up share capital requirement, we noted that the shareholders equity of certain companies had deteriorated. We requested all insurers to voluntarily maintain their shareholders equity equal to the regulatory paid up capital at all times. We also monitored the insurers to ensure that they comply with the life insurance and general insurance solvency margins of each insurer in accordance with stipulated rules and regulations.

Since, it is a statutory requirement in terms of the Act that insurers invest not less than 20% of the assets maintained for general insurance and not less than 30% of the assets for long term insurance to be in government securities, we directed insurance companies to lodge all their government securities in

Audited financial statements of insurance brokers were examined to ensure that the interests of policyholders were protected and the regulatory minimum capital maintained. We also verified that the premiums collected by insurance brokers on behalf of insurance companies were remitted within the specified time frame.

We recommended the renewal of registration of insurance brokers based on their financial stability as indicated in their audited financial statements and quarterly returns. New broking firms were registered after successful evaluation of their business plans in terms of financial projections and their ability to meet the expectations of policyholders and insurers.

Following the shift in regulatory emphasis from compliance-based to risk-based supervision, we conducted three onsite inspections based on the CAMELS framework for assessing and rating the risk profiles of insurance companies in the key areas of Capital (C), Assets (A), Reinsurance (R), Actuarial liabilities (A), Management (M), Earnings (E), Liquidity (L), and Subsidiaries (S).

### Regulation

Following our request to insurance companies to maintain an up-to-date database of insurance agents, 13 insurance companies designed separate web pages in their individual websites, and agreed to maintain them in compliance with the Act.

Following the mandatory requirement for insurers and brokers to submit compliance certification for all new advertisements, 6 insurance companies submitted certification for 14 advertising campaigns. The Insurance Association of Sri Lanka (IASL) has also issued a Code of Ethics on advertising by insurance companies.

We granted registration to one new company wishing to conduct long term insurance business, and to four new insurance broking companies. We also renew the registration of 36 existing insurance broking companies.



Regulatory Reforms undertaken during the past year include the following:

- We effected some changes to the amendments to the Solvency Margin Rules received from the Legal Draftsman's Department, and informed the IASL prior to publication in the Gazette.
- Rules pertaining to brokers' quarterly returns were revised for better regulation and sent to Legal Draftsman's Department for review.
- We coordinated with the Financial Intelligence Unit (FIU) of the Central Bank to educate Compliance Officers on their responsibilities under the Financial Transactions Reporting Act, which requires all insurance companies to submit monthly reports on all doubtful transactions.
- In order to draw up a regulatory framework for the currently unregulated micro insurance sector, we examined the local micro insurance sector and international trends in regulating micro insurance.
- We are in the process of examining registration requirements of other countries to identify and formulate registration requirements for Institutional Agents and Loss Adjustors.

Proposed amendments to the Act were halted due to industry representatives having concerns over a few amendments. We also suggested further amendments that will empower us to obtain information from any person or any place for enforcing provisions in the Act.

### Enforcement

We issued warnings to 2 insurance companies and 16 broking companies, and issued directions to 3 insurance companies for non-compliance with certain provisions in the Act. We suspended the registration granted to an insurance company, and subsequently removed the suspension after necessary corrective action was taken. We also suspended the registration of 3 insurance broking companies that failed to submit returns within the stipulated time period, and cancelled the registration of a broking company that had furnished false information. 45 complaints were received during the year from policyholders on non-settlement of insurance claims by insurance companies. As decided by the Board in 2006, complaints relating to insurance claims were referred to the Insurance Ombudsman for amicable settlement between policyholders and insurers.

### Market Development

We used many media releases and a press conference to educate the public on the importance of insurance, help consumers select the right products, and launch the higher national and postgraduate diplomas in insurance. In addition to newspaper articles and informative press notices, we published free information leaflets, booklets, books and brochures on life and general insurance.

We conducted several awareness programmes among university and technical college students, schoolchildren, business community and the general public in Colombo and outstation towns. We explained how insurance can mitigate numerous risks they encounter in their day-to-day life.

With the support of the insurance industry, we facilitated a Postgraduate Diploma in Actuarial Science and a Higher

National Diploma in Insurance for employees and prospective employees including school leavers.

Our participation in national and educational exhibitions gave us the opportunity to explain our pivotal role in the insurance industry to the general public, and to inform students on insurance courses that are available.

### Administration

Our Secretariat moved to the 11th floor of World Trade Centre to provide adequate office accommodation for the additional staff we recruited during the year. We are also giving insurance cover for the spouses and children of our staff. We provided a number of local and overseas training opportunities to help our staff to strengthen and develop their professional skills.

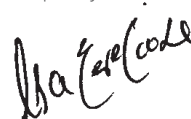
We invested the excess of the Policy Holder Protection Fund collected from the Cess in a prudent manner in government securities, and earned a healthy interest income during the year.

A Local Area Network with mail server facilities was installed and all staff members provided with email addresses with the domain name of ibsl.gov.lk. We also introduced a centralized automated accounting process and payroll to improve information management in our Finance Division. Our IT system was upgraded and security strengthened via a disaster recovery plan. Our website was updated to provide information on insurance companies and brokers, awareness programs, and news items. We will be upgrading it to provide information about the insurance industry of Sri Lanka, with facilities such as e-library, e-newsletter, e-data collection forms, etc.

### Conclusion

While the worldwide insurance industry has had a difficult year, I am happy to note that the insurance industry in Sri Lanka was able to achieve a growth, even though the rate of overall growth in gross written premium has slowed down from 20.56% in 2007 to 12.11% in 2008. These growth figures exclude premium income from motor insurance covers provided to government institutions by National Insurance Trust Fund, micro insurance among lower-income groups, Agriculture insurance provided by Agriculture and Agrarian Insurance Board and Insurance covers provided to exporters by Sri Lanka Export Credit Insurance Corporation as they do not come under the purview of Insurance Board of Sri Lanka.

Our theme for the past year, Growth through Regulation, reflects our focus on the delivery of results rather than compliance with rules, and the proactive nature of our responsibilities towards the entire insurance industry in Sri Lanka. I wish to thank the Chairman and the Members of the Board for their co-operation and guidance, and all our staff for their dedicated support in helping us achieve our goals during the past year.



**Lasinee Seresinhe**  
Director General

19 June 2009  
Colombo

# 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.

Sixteen insurance companies were in operation at the end of the year, including Allinaz Life Insurance Lanka Ltd which was registered during the year. Out of which, 11 companies were engaged in composite insurance, carrying on both long term insurance business and general insurance business, while out of the rest, 2 companies were engaged in long term insurance business and 3 companies were engaged in general insurance business.

In terms of the new Companies Act No. 7 of 2007, all companies registered under the repealed Companies Act No. 17 of 1982 were required to reregister as new companies under the new Act. All insurance companies complied with this requirement by submitting to the Board copies of the certificates of re-registration and all relevant documents issued by the Registrar General of Companies.

#### 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 No. 7 of 2007 and obtain a registration as an insurance broker under the Act after having fulfilled other statutory requirements.

Over the year, there were 54 companies engaged in insurance broking business in Sri Lanka. During their renewal of registration for the year 2009, the Board ensured that all insurance broking companies incorporated and registered under the repealed Companies Act No. 17 of 1982 were re-registered under the new Companies Act No 7 of 2007, and copies of their certificates of re-registration and all relevant documents issued by the Registrar General of Companies submitted along with their applications for renewal of registration.

#### 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.

In term of Section 78(4) of the Act, the Board 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 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, has 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 12 October 2005.

Furthermore, during the year 2007, the Board decided to increase the paid up share capital in respect of each class of insurance business to Rs.250 million by the end of December 2008, and to Rs.500 million by the end of December 2010. As the proposed amendment to the Act to increase the paid up share capital of existing insurance companies has not been brought before Parliament, this Board decision could not be implemented.

The Board also decided to request all insurance companies to obtain, on a voluntary basis, a rating of Insurers' Financial Strength (IFS) indicating their ability to pay claims from a rating agency acceptable to the Board. Accordingly, Sri Lanka Insurance Corporation Ltd, HNB Assurance PLC, Asian Alliance Insurance PLC and Janashakthi Insurance PLC have got their companies rated by local rating agencies.

Seven insurance companies are listed on the Colombo Stock Exchange: Ceylinco Insurance PLC, Eagle Insurance PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC and Janashakthi Insurance PLC.

Foreign equity participation in insurance companies has been permitted up to 100% in terms of the Gazette Notification No. 1232/14 published by the Controller of Exchange on 19 April 2002. Out of the 16 insurance companies, 6 have foreign collaborations: Allianz Insurance Lanka Ltd and Allianz Life Insurance Lanka Ltd are wholly owned subsidiaries of Allianz Group of Germany; majority shareholdings of Eagle Insurance PLC, Hayleys AIG Insurance Company Ltd and Life Insurance Corporation (Lanka) Ltd., are held respectively by Aviva Company, American International Group and Life Insurance Corporation of India; Takaful Malaysia has 15% equity participation in Amana Takaful PLC.

#### 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 29 September 2005.

The Board decided to increase the paid up share capital of insurance brokers to Rs. 2.5 million by the end of 2008. As the

proposed amendment to the Act to increase the paid up share capital of existing insurance broking companies has not been brought before Parliament, this Board decision could not be implemented.

### Levy of a Cess from Insurance Companies

In terms of Section 7 of the Act, an order was made by the Hon. Minister of Finance for the levy of a Cess for the creation of a Policyholders Protection Fund, and Gazette Notification No. 1244/5 on 9 July 2002 specified 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business. The collection of the Cess from insurers commenced with effect from January 2003 and the amount of Cess collected for the year 2008 was Rs.133 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 amount lying to the credit of the Policy Holders Protection Fund is invested in Treasury Bills. The accumulated amount in the Fund as at 31 December 2008 was Rs.545 million.

### Insurance Tariff

There are no tariffs at present on any class of general insurance business. Tariffs which existed for motor insurance, fire insurance and Workmen's Compensation Insurance (WCI) were de-tariffed with effect from 1 January 2002, 2005 and 2007 respectively.

### Overseas Insurance - Travel, Health and Liability Insurance

In terms of Section 101 of the Act, the Board has approved any person to place directly or indirectly health and travel insurance, and directors' and employees 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 Act do not apply to: 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 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 Hon. 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

### National Insurance Trust Fund (NITF)

The National Insurance Trust Fund was established under the National Insurance Trust Fund Act No. 28 of 2006 and comes under the purview of the Ministry of Finance and Planning.

In terms of the provisions of the above Act, NITF absorbed the Strike, Riot, Civil Commotion and Terrorism Fund maintained by the Ministry of Finance and Planning. Insurance companies providing insurance covers against strike, riot, civil commotion and terrorism risks on behalf of the NITF, remit the collected premiums to the NITF.

The NITF Act further 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 to NITF with effect from 1 January 2008.

In terms of the NITF Act, the Director General of the Insurance Board serves as an ex-officio member of the NITF Board.

### National Council for Road Safety (NCRS)

The National Council for Road Safety established under the Motor Traffic Act is under the purview of the Ministry of Transport. Every insurer providing motor insurance cover is required to contribute 1% of third-party insurance premiums to the Road Safety Fund. The Insurance Board is represented on the NCRS.

### Inter Regulatory Institutions Council (IRIC)

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

### 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 such institutions on a consolidated basis, and to propose a legal framework for the regulation and supervision of financial conglomerates. The Board is represented on this Group.

### Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka was established in 1989 and every insurance company registered under the Act is eligible for membership of the Association. All insurance companies are members of this Association. The Association maintains a close working relationship with the Board.

## General Review Contd.

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

### Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association is the only association of insurance brokers that has been approved by the Board. In terms of Section 79 of the Act, it is mandatory for all registered insurance brokers to be members of this Association, and all applicants seeking registration as insurance brokers are required to obtain the membership of this Association prior to submitting an application to the Board. The members are subject to a code of conduct formulated by the Association. SLIBA maintains a very cordial relationship with the Board.

### Sri Lanka Insurance Institute (SLII)

The Sri Lanka Insurance Institute which was established in 1982 is a non-profit making organization whose main objective is to develop the skills and knowledge of persons who are in the insurance business. Funding for the Institute is through contributions made by the insurance companies and annual subscriptions from its members.

The Institute is affiliated to the Chartered Insurance Institute of London and administers the examinations of professional bodies such as the Chartered Insurance Institute in 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 for conducting the pre-recruitment test for persons who wish to be appointed as insurance agents. The Institute continues to conduct pre-recruitment tests in respect of both classes of insurance business. After 23 September 2002, the date on which Insurance Agents Rules made by Board under the Act were published by Gazette notification No. 1255/3, all insurance agents who were appointed by insurers and/or insurance brokers for procuring general insurance business were required to pass the pre-recruitment test conducted by the Institute on or before 31 December 2008.

### South Asian Insurance Regulators' Forum (SAIRF)

India, Nepal, Bhutan, Pakistan, Maldives, Bangladesh and Sri Lanka are members of this Forum which was established in 2001. During the year, Mr. Sonam Wangchuk from the Royal Monetary Authority of Bhutan was the Chairman of SAIRF, while the Vice-Chairpersons were 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 Seresinhe from the Insurance Board of Sri Lanka.

The objectives of the Forum are to promote co-operation among South Asian Insurance Regulators in order to facilitate regulatory activities, to share information and experiences, and to harmonize legislative approaches and financial reporting systems, as far as possible.

### Association of Insurance Supervisory Authorities of Developing Countries (AISADC)

The Insurance Board of Sri Lanka is a member of the Association of Insurance Supervisory Authorities of Developing Countries. The AISADC conducts an Insurance Congress once every two years with the participation of regulatory authorities, insurer, reinsurers, reinsurance brokers and other insurance professionals from the developing countries.

### International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors, the Board regularly receives publications, guidelines such as insurance core principles, and information on the activities of IAIS. Some of the core principles recommended by the IAIS are adopted by the Board for effective supervision and monitoring of the insurance industry in Sri Lanka.

### Inauguration of the Postgraduate Diploma in Actuarial Science, and Higher National Diploma in Insurance

The Board facilitated the introduction of the Postgraduate Diploma in Actuarial Science at the Uva-Wellessa University and the Higher National Diploma in Insurance at the National Institute of Business Management (NIBM).

## Statistical Review of 2007/2008

### Premium Income

The overall gross written premium from long term and general insurance businesses added up to Rs.58,166 million showing an annual growth of 12.11%, when compared with previous year's total of Rs.51,885 million and an annual growth of 20.56%. The decline in the premium income growth during the year has resulted in a lower GDP contribution of 1.32% when compared with the previous three years.

General insurance business with a gross written premium of Rs.34,553 million (2007: Rs.31,156 million) accounted for

59.40% (2007: 60.05%) of the total gross written premium, while long term insurance business with a premium income of Rs.23,613 million (2007: Rs.20,729 million) represents 40.60% (2007:39.95%). Though the contribution from general insurance continued to be higher than from long term insurance business, it can be seen that long term insurance business is gradually increasing its contribution each year towards the total premium income.

**Table 1**

Premium Income

	2002	2003	2004	2005	2006	2007	2008
Long Term Insurance (in million Rs.)	8,682	10,613	12,518	14,814	17,104	20,729	23,613
General Insurance (in million Rs.)	11,599	13,534	17,037	22,410	25,931	31,156	34,553
Total Premium Income (in million Rs.)	20,281	24,147	29,555	37,224	43,035	51,885	58,166
Gross Domestic Product (in billion Rs.)*		1,822	2,091	2,453	2,939	3,578	4,411
Total Premium as % of GDP	1.28	1.33	1.41	1.52	1.46	1.45	1.32
Growth Rate (%)	20.29	19.06	22.39	25.94	15.61	20.56	12.11

\*Source: CBSL Annual Report - 2008

### Total Shareholders' Funds of Insurance Companies

Total Shareholders' Funds as at December 2008 amounted to Rs.25,055 million, showing a 28.34% increase when compared with the previous year's total of Rs.19,521 million. Company-

wise analysis of Shareholders' Funds for 2007 and 2008 is shown in Table 2, and the company-wise distribution of Shareholder's Fund for the year 2008 is shown in Chart 1.

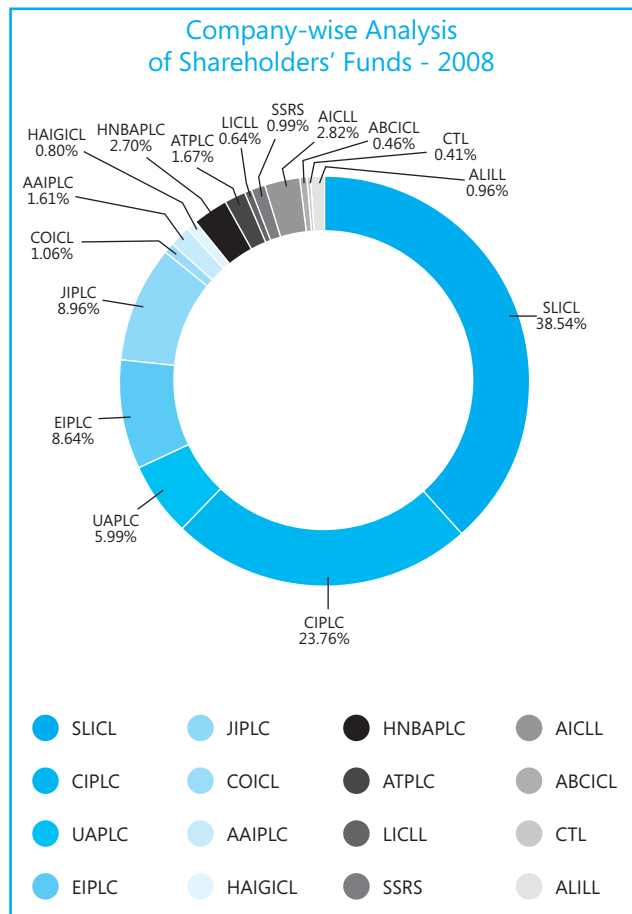
**Table 2**

Total Shareholder's Funds of Insurance Companies

Insurer	2007		2008					
	Total Shareholder's Fund Rs.'000	%	Paid-up Capital Rs.'000	General Reserves Rs.'000	Retained Earnings/ (Loss) Rs.'000	Other Reserves Rs.'000	Total Shareholder's Fund Rs.'000	%
SLICL	8,194,871	41.98	6,000,000	1,478,664	2,177,430	-	9,656,094	38.54
CIPLC	4,481,357	22.96	966,070	2,693,642	2,293,140	-	5,952,852	23.76
UAPLC	1,153,185	5.91	388,432	-	1,112,120	-	1,500,552	5.99
EIPLC	1,985,028	10.17	300,000	-	1,534,751	328,916	2,163,667	8.64
JIPLC	1,395,128	7.15	1,496,000	-	748,048	-	2,244,048	8.96
COICL	170,005	0.87	224,362	-	40,859	-	265,221	1.06
AAIPLC	268,655	1.38	250,000	-	154,060	-	404,060	1.61
HAIGICL	172,476	0.88	449,469	-	(249,790)	-	199,679	0.80
HNBPPLC	549,143	2.80	375,000	-	301,115	-	676,115	2.70
ATPLC	478,136	2.45	500,000	-	(80,544)	-	419,456	1.67
LICLL	96,002	0.49	362,500	-	(202,359)	-	160,141	0.64
SSRS	248,064	1.27	153,800	94,900	-	-	248,700	0.99
AICLL	100,582	0.52	188,634	-	109,820	406,867	705,321	2.82
ABCICL	151,680	0.78	356,487	-	(241,061)	-	115,426	0.46
CTL	77,091	0.39	137,000	-	(33,934)	-	103,066	0.41
ALILL	-	-	249,999	-	(9,651)	-	240,348	0.96
<b>Total</b>	<b>19,521,403</b>	<b>100.00</b>	<b>12,147,754</b>	<b>4,267,206</b>	<b>7,663,655</b>	<b>735,783</b>	<b>25,054,746</b>	<b>100.00</b>

# Statistical Review of 2007/2008 Contd.

Chart 1



## Total Assets of Insurance Companies

Total assets of insurance companies as at 31 December 2008 was Rs.155,994 million, which shows an increase of 15.7% when compared with the previous year's total of Rs.134,876 million.

Assets of long term insurance business amounting to Rs.97,730 million (2007: Rs.84,822 million) represents 62.65% (2007:62.89%) of the total, whereas assets of general insurance business amounting to Rs.58,264 million (2007: Rs.50,054 million) represents 37.35% (2007: 37.11%) of the total assets of insurers, as shown in Table 3 and Chart 2.

## Abbreviations

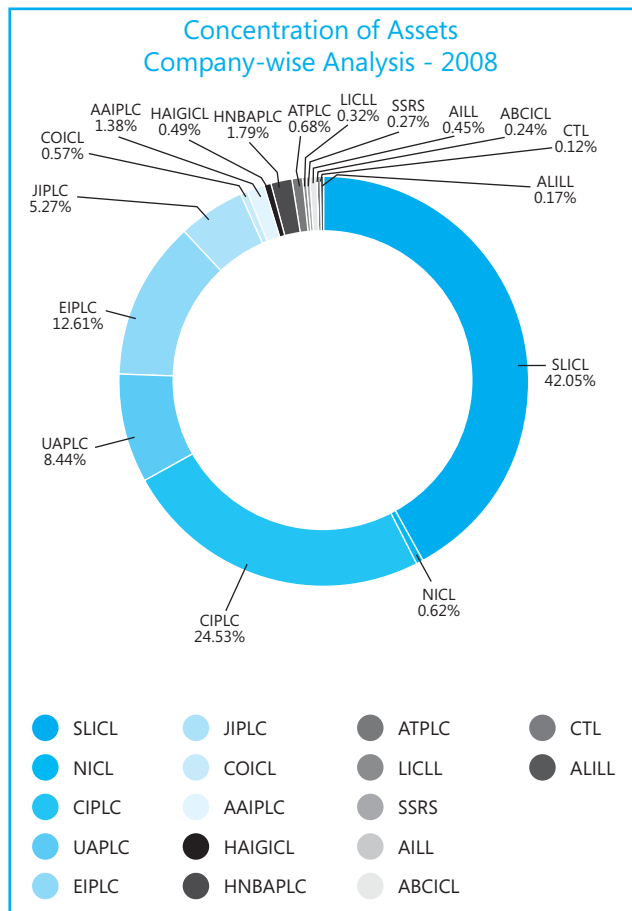
- SLICL : Sri Lanka Insurance Corporation Ltd.
- NICL : National Insurance Corporation Ltd.
- CIPLC : Ceylinco Insurance PLC.
- UAPLC : Union Assurance PLC.
- EIPLC : Eagle Insurance PLC.
- JIPLC : Janashakthi Insurance PLC.
- COICL : Co-operative Insurance Company Ltd.
- AAIPLC : Asian Alliance Insurance PLC.
- HAIGICL : Hayleys AIG Insurance Company Ltd.
- HNBAPLC : HNB Assurance PLC.
- ATPLC : Amana Takaful PLC
- LICLL : Life Insurance Corporation (Lanka) Ltd.
- SSRS : Seemasahitha Sanasa Rakshama Samgama
- AICLL : Allianz Insurance Lanka Ltd.
- ABCICL : ABC Insurance Company Ltd.
- CTL : Ceylinco Takaful Ltd.
- ALILL : Allianz Life Insurance Lanka Ltd.

Table 3

Total Assets of Insurance Companies

Insurer	Distribution of Assets							
	2007				2008			
	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	37,415,528	21,167,009	58,582,537	43.43	42,120,604	23,478,136	65,598,740	42.05
NICL	1,097,146	-	1,097,146	0.81	972,551	-	972,551	0.62
CIPLC	19,385,321	11,665,014	31,050,335	23.02	24,149,139	14,123,322	38,272,461	24.53
UAPLC	7,951,945	4,017,020	11,968,965	8.87	8,566,751	4,596,408	13,163,159	8.44
EIPLC	13,034,225	3,884,486	16,918,711	12.54	15,057,772	4,611,581	19,669,353	12.61
JIPLC	2,638,168	4,933,631	7,571,799	5.61	2,345,719	5,878,104	8,223,823	5.27
COICL	209,217	365,492	574,709	0.43	276,614	604,935	881,549	0.57
AAIPLC	1,102,067	855,052	1,957,119	1.45	1,403,663	742,017	2,145,680	1.38
HAIGICL	-	577,572	577,572	0.43	-	771,222	771,222	0.49
HNBAPLC	1,091,705	917,174	2,008,879	1.49	1,582,210	1,217,261	2,799,471	1.79
ATPLC	239,027	625,937	864,964	0.64	313,868	739,342	1,053,210	0.68
LICLL	447,435	-	447,435	0.33	498,669	-	498,669	0.32
SSRS	85,244	247,064	332,308	0.25	121,400	299,600	421,000	0.27
AICLL	62,409	377,998	440,407	0.33	-	705,321	705,321	0.45
ABCICL	62,409	301,068	363,477	0.27	61,499	309,222	370,721	0.24
CTL	-	119,858	119,858	0.09	-	187,002	187,002	0.12
ALILL	-	-	-	-	259,745	-	259,745	0.17
Total	84,821,846	50,054,375	134,876,221	100.00	97,730,204	58,263,473	155,993,677	100.00

Chart 2



### Concentration of Assets of Long Term Insurance Business of Insurance Companies

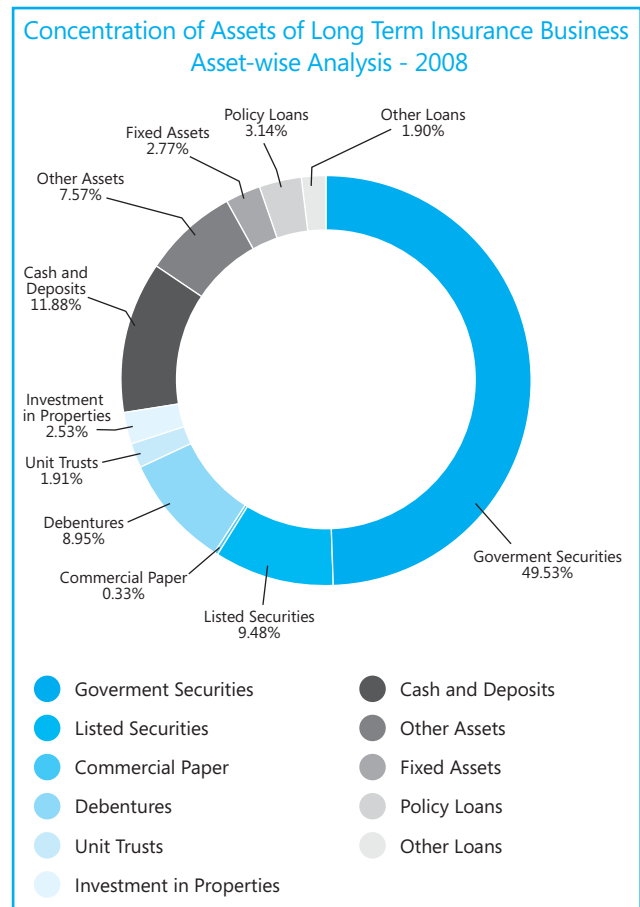
The distribution of the assets of long term insurance business is shown in Table 4 and Chart 3. Investments in government securities amounting to Rs.48,405 million (2007: Rs.41,901 million) represents 49.53% (2007:49.61% ) of the total assets of Rs.97,730 million (2007: Rs.84,822 million) of long term insurance business. This shows that insurance companies have invested in government securities exceeding the statutory minimum investment of 30% as required under the Act. Insurance companies held their remaining assets in admissible investments as required under the solvency margin rules, and all companies satisfied the solvency margin requirement. There has been an increase of 15.22% in total assets of long term insurance business during 2008, when compared with 2007.

Table 4

Concentration of Assets of Long Term Insurance Business - 2008

Type of investment	Rs.'000	%
Fixed Assets	2,707,809	2.77
Policy Loans	3,073,142	3.14
Others Loans	1,857,128	1.90
Government Securities	48,405,115	49.53
Listed Securities	9,260,552	9.48
Commercial Paper	323,022	0.33
Debentures	8,750,108	8.95
Unit Trusts	1,867,230	1.91
Investment in Properties	2,475,531	2.53
Cash and Deposits	11,611,885	11.88
Other Assets	7,398,682	7.57
<b>Total</b>	<b>97,730,204</b>	<b>100.00</b>

Chart 3



# Statistical Review of 2007/2008 Contd.

## Concentration of Assets of General Insurance Business of Insurance Companies

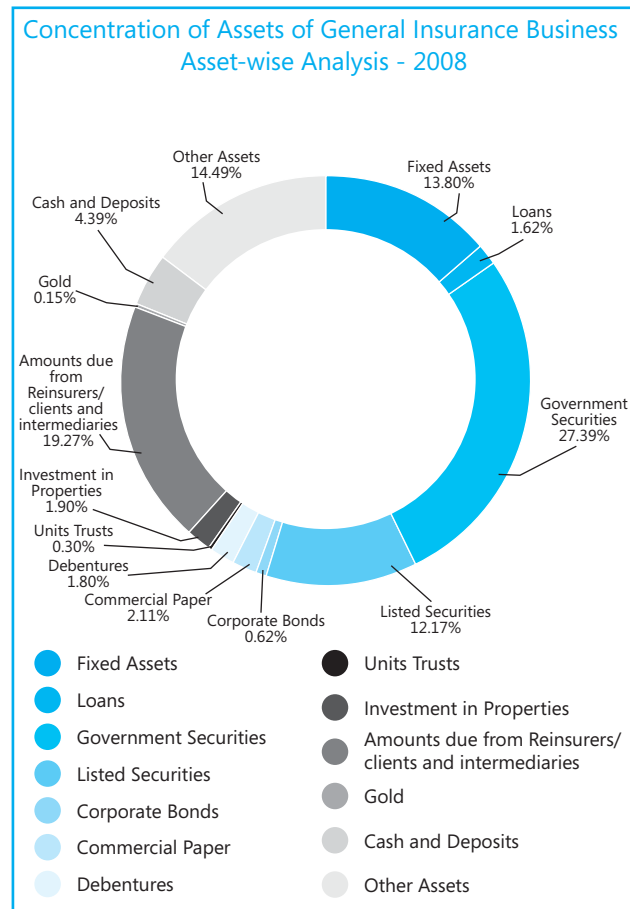
Total assets of general insurance business for 2008 amounted to Rs.58,263 million (2007: Rs.50,054 million). Investment in government securities amounting to Rs.15,956 million (2007: Rs.11,494 million) represents 27.39% (2007:22.96%) of the total assets of general insurance business, which exceeds the minimum of 20% required under the Act. Table 5 and Chart 4 show the distribution of assets of general insurance business. There has been a 16.40% increase in the assets of general insurance business in 2008, when compared with 2007.

**Table 5**

Concentration of Assets of General Insurance Business - 2008

Type of investment	Rs.'000	%
Fixed Assets	8,042,067	13.80
Loans	943,878	1.62
Government Securities	15,955,553	27.39
Listed Securities	7,091,484	12.17
Corporate Bonds	358,820	0.62
Commercial Paper	1,227,939	2.11
Debentures	1,045,920	1.80
Unit Trusts	177,185	0.30
Investment in Properties	1,104,424	1.90
Amounts due from reinsurers / clients and intermediaries	11,228,972	19.27
Gold	86,450	0.15
Cash and Deposits	2,556,542	4.39
Other Assets	8,444,239	14.49
<b>Total</b>	<b>58,263,473</b>	<b>100.00</b>

**Chart 4**



## Distribution of Total Assets of Major Financial Institutions

Total Assets of major Financial Institutions amounted to Rs. 4,790.8 billion (2007: Rs. 4,311.1 billion), and the insurance sector accounted for 3.2% (2007:3.1%), with total assets of 155.1 billion (2007: 134.9 billion) which was almost 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 2008, and the distribution of Assets for the year 2008 is indicated in chart 5.

**Table 6**

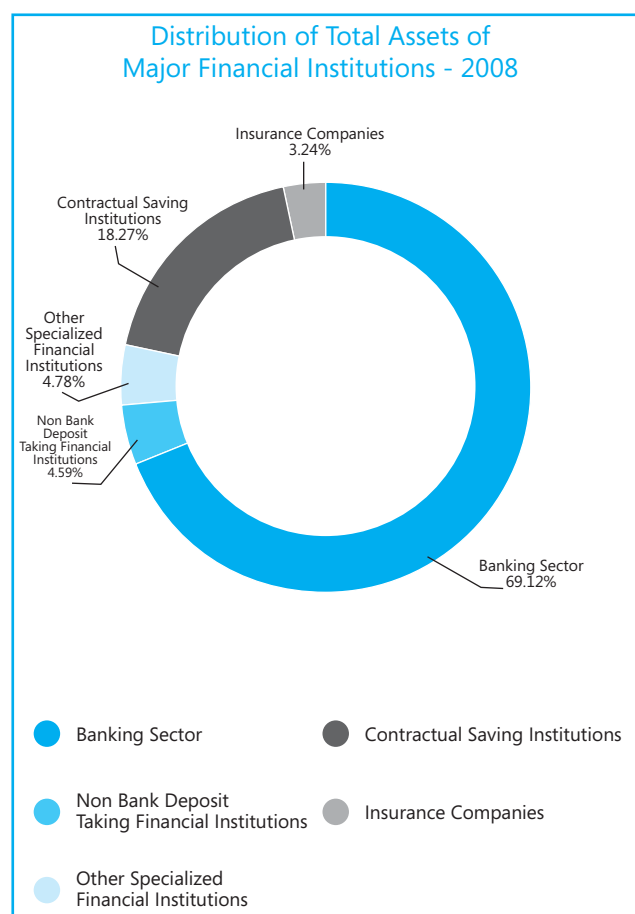
Distribution of Total Assets of Major Financial Institutions

*Financial Sector	Distribution of Assets							
	2005		2006		2007		2008	
	Rs. bn.	%	Rs. bn.	%	Rs. bn.	%	Rs. bn.	%
Banking Sector	2,208.4	70.1	2,635.0	70.6	3,065.6	71.1	3,311.3	69.1
Non-bank Deposit Taking Financial Institutions	119.2	3.8	140.9	3.8	175.3	4.1	220.1	4.6
Other Specialised Financial Institutions	129.3	4.1	170.8	4.6	180.8	4.2	229.2	4.8
Contractual Saving Institutions	588.8	18.7	669.2	17.9	754.5	17.5	875.1	18.3
Insurance Companies	105.2	3.3	117.6	3.1	134.9	3.1	155.1	3.2
<b>Total</b>	<b>3,150.9</b>	<b>100.0</b>	<b>3,733.5</b>	<b>100.0</b>	<b>4,311.1</b>	<b>100.0</b>	<b>4,790.80</b>	<b>100.0</b>

\*Source: CBSL Annual Report -2008



Chart 5



## Long Term Insurance Business

### Gross Written Premium

Long term insurance business with a gross written premium of Rs.23,613 million (2007: Rs.20,729 million) shows a lower growth of 13.9% (2007: 21.2%) when compared with the previous years, as shown in Table 7 and Chart 6.

Table 7

Company	Company-wise Market Share of Gross Written Premium Long Term Insurance Business									
	2004		2005		2006		2007		2008	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
SLICL	3,331,583	26.62	3,602,639	24.32	3,885,022	22.71	4,477,537	21.60	4,498,257	19.05
NICL	136,128	1.09	123,489	0.83	111,500	0.65	97,881	0.47	87,119	0.37
CIPLC	3,961,390	31.65	4,793,650	32.36	5,717,887	33.43	6,847,185	33.03	8,257,279	34.97
UAPLC	1,209,534	9.66	1,456,576	9.83	1,672,744	9.78	2,163,480	10.44	2,503,888	10.60
EIPLC	2,500,131	19.97	2,832,541	19.12	3,150,042	18.42	3,788,103	18.27	4,342,218	18.39
JIPLC	532,643	4.26	691,199	4.67	912,658	5.34	1,108,152	5.35	1,339,041	5.67
COICL	51,610	0.41	61,897	0.42	73,695	0.43	100,393	0.48	131,003	0.55
AAIPLC	421,280	3.37	577,693	3.90	747,934	4.37	890,794	4.30	970,077	4.11
HAIGICL	19,342	0.15	8,681	0.06	-	-	-	-	-	-
HNBAPLC	205,883	1.64	354,181	2.39	503,322	2.94	767,576	3.70	914,170	3.87
ATPLC	60,658	0.48	86,272	0.58	90,895	0.53	130,986	0.63	188,406	0.80
LICLL	82,127	0.66	204,618	1.38	186,770	1.09	254,238	1.23	255,099	1.08
SSRS	5,245	0.04	18,737	0.13	27,826	0.16	55,548	0.27	69,617	0.29
ABCICL	-	-	2,055	0.01	23,891	0.14	47,438	0.23	52,747	0.22
AILL	-	-	-	-	-	-	-	-	4,013	0.02
<b>Total</b>	<b>12,517,554</b>	<b>100.00</b>	<b>14,814,228</b>	<b>100.00</b>	<b>17,104,186</b>	<b>100.00</b>	<b>20,729,311</b>	<b>100.00</b>	<b>23,612,934</b>	<b>100.00</b>
Growth Rate (%)	<b>17.9</b>		<b>18.3</b>		<b>15.5</b>		<b>21.2</b>		<b>13.9</b>	

# Statistical Review of 2007/2008 Contd.

## Analysis of Data in Table 7

Ceylinco Insurance PLC with a premium income of Rs.8,257 million (2007: Rs.6,847 million) accounted for 34.97% (2007: 33.03%) market share which was 1.94% more than that for the previous year. Sri Lanka Insurance Corporation Ltd with a premium income of Rs.4,498 million (2007: Rs.4,478 million) and a market share of 19.05% (2007:21.61%) showed a decline of 2.56% in its market share. Eagle Insurance PLC with a premium income of Rs.4,342 million (2007: Rs.3,788 million) and a market share of 18.39% (2007:18.27% ) maintained its market share at about the same level as in the previous year. Union Assurance PLC with a premium income of Rs.2,503 million (2007: Rs.2,163 million) and a market share of 10.60% (2007:10.44% ), Janashakthi Insurance PLC with a premium income of Rs.1,339 million (2007: Rs.1,108 million) and market share of 5.67% (2007: 5.35%), and HNB Assurance PLC with a premium income of Rs.914 million (2007: Rs.767 million) and a market share of 3.87% (2007: 3.70%) showed marginal increases in their market shares during the year. Asian Alliance Insurance PLC with a premium income of Rs.970 million (2007: Rs.890 million) and a market share of 4.11% (2007:4.30%), and Life Insurance Corporation with a premium income of Rs.255 million (2007:Rs.254 million) and market share of 1.08% (2007: 1.23%) showed a marginally lower growth in premium income when compared with the previous year. Insurance companies with a market share of less than 1% were not included in the analysis.

## 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 from 2002 to 2008. The data given in Table 8 shows that the 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 10.4% and 27.8% in 2008 respectively. The 555,886 new life insurance policies issued during the year showed an increase of only 5.40% when compared with the previous year's increase of 28.65%. Factors that may have contributed to the decline in growth during 2008 include a slowdown in economic growth, the sharp rise in fuel and commodity prices resulting in lower personal disposable incomes, and weakened consumer confidence in finance as well as long term insurance companies.

Chart 6

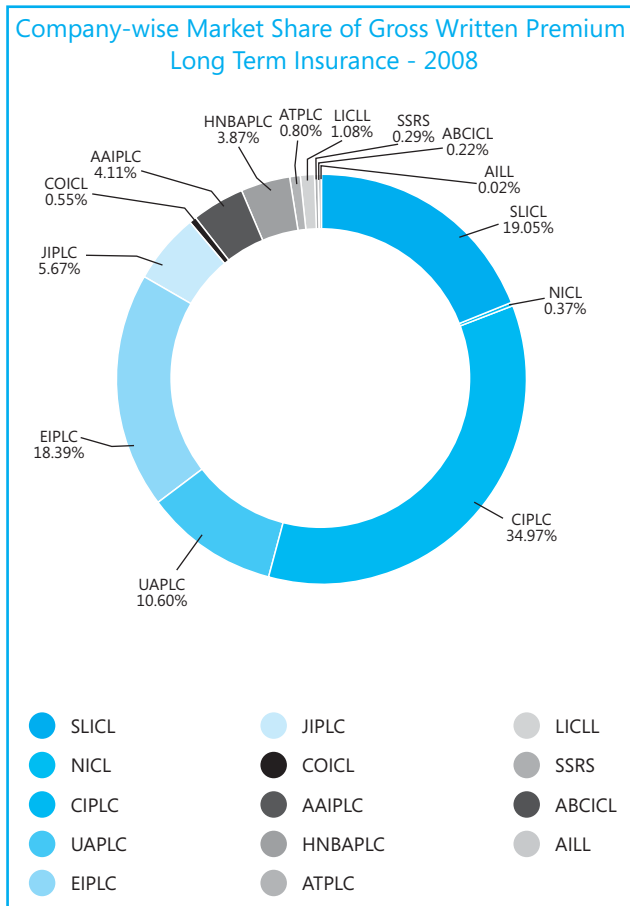


Table 8

	2002	2003	2004	2005	2006	2007	2008
No. of New Life Policies Issued	241,412	305,092	304,639	366,132	409,933	527,385	555,886
No. of Life Policies in Force	1,200,763	1,359,536	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809
Total Population (in '000)*	19,007	19,252	19,462	19,668	19,886	20,010	20,217
Total Labour Force (in '000)*	7,150	7,654	8,061	7,312	7,599	7,489	7,569
Penetration as % of the Total Population	6.3	7.1	7.7	8.3	8.8	9.6	10.4
Penetration as % of the Labour Force	16.8	19	20.8	22.8	24.3	25.3	27.8

\* Source: Central Bank of Sri Lanka Annual Report – 2008

## General Insurance Business

### Gross Written Premium

General insurance business with a gross written premium income of Rs.34,553 million showed a growth of 10.9% during the year when compared with the previous year's growth of 20.2% and a premium income of Rs.31,156 million. Number

of factors such as the reduction in premium rates charged by insurance companies due to aggressive competition, and the global financial crisis may have contributed to the decline in growth during 2008.

Table 9

Company	Gross Written Premium – General Insurance Company-wise Market Share									
	2004		2005		2006		2007		2008	
	Premium Rs. '000	%	Premium Rs. '000	%	Premium Rs. '000	%	Premium Rs. '000	%	Premium Rs. '000	%
SLICL	5,303,104	31.13	6,680,703	29.81	6,640,055	25.60	8,848,192	28.40	9,140,845	26.45
NICL	40,200	0.24	1,956	0.01	2,124	0.01	-	-	-	-
CIPLC	5,580,643	32.76	8,033,195	35.85	9,561,249	36.90	10,350,684	33.22	11,287,233	32.67
UAPLC	1,302,894	7.65	1,720,783	7.68	2,384,909	9.20	2,814,651	9.03	3,182,236	9.21
EIPLC	1,058,025	6.21	1,210,939	5.4	1,468,420	5.66	1,867,142	5.99	2,064,423	5.97
JIPLC	2,443,808	14.34	2,851,792	12.73	3,099,955	12.00	3,678,224	11.81	3,937,284	11.39
COICL	157,741	0.93	180,433	0.81	207,490	0.80	289,688	0.93	522,449	1.51
AAIPLC	310,400	1.82	354,167	1.58	417,680	1.61	383,590	1.23	459,771	1.33
HAIGICL	318,254	1.87	396,681	1.77	443,997	1.71	681,148	2.19	908,651	2.63
HNBAPLC	338,708	1.99	469,929	2.1	618,502	2.39	704,578	2.26	924,709	2.68
ATLPLC	183,581	1.08	383,425	1.71	589,067	2.27	678,013	2.18	835,188	2.42
SSRS	-	-	39,985	0.18	110,855	0.43	178,764	0.57	216,000	0.63
AICLL	-	-	75,399	0.34	300,949	1.16	414,015	1.33	601,100	1.74
ABCICL	-	-	10,769	0.05	70,418	0.27	230,431	0.74	294,316	0.85
CTL	-	-	-	-	14,849	0.06	36,931	0.12	178,734	0.52
<b>Total</b>	<b>17,037,358</b>	<b>100.00</b>	<b>22,410,156</b>	<b>100.00</b>	<b>25,930,519</b>	<b>100.00</b>	<b>31,156,051</b>	<b>100.00</b>	<b>34,552,939</b>	<b>100.00</b>
<b>Growth Rate (%)</b>	<b>25.9</b>		<b>31.5</b>		<b>15.7</b>		<b>20.2</b>		<b>10.9</b>	

# Statistical Review of 2007/2008 Contd.

## Analysis of Data in Table 9

The following insurance companies showed marginal increases in their market shares during 2008:

Union Assurance PLC with a premium income of Rs.3,182 million (2007:Rs.2,815 million) and a market share of 9.21% (2007:9.03%), Asian Alliance Insurance PLC with a premium income of Rs.459 million (2007: Rs.384 million) and market share of 1.33% (2007:1.23%), Hayleys AIG Insurance Company Ltd with a premium income of Rs.909 million (2007:Rs.681 million) and a market share of 2.63% (2007: 2.19%), HNB Assurance PLC with a premium income of Rs.925 million (2007: Rs.705 million) and a market share of 2.68% (2007:2.26%), Amana Takaful PLC with a premium income of Rs.835 million (2007:Rs.678 million) and a market share of 2.42% (2007:2.18%), and Allianz Insurance Lanka Ltd with a premium income of Rs.601 million (2007:Rs.414 million) and a market share of 1.74% (2007:1.33 %).

Co-operative Insurance Company Ltd with a premium income of Rs.522 million (2007:Rs.289 million) and a market share of 1.51% (2007:0.93%) showed a substantial growth of around 80.6% in its premium income during 2008 when compared with 2007.

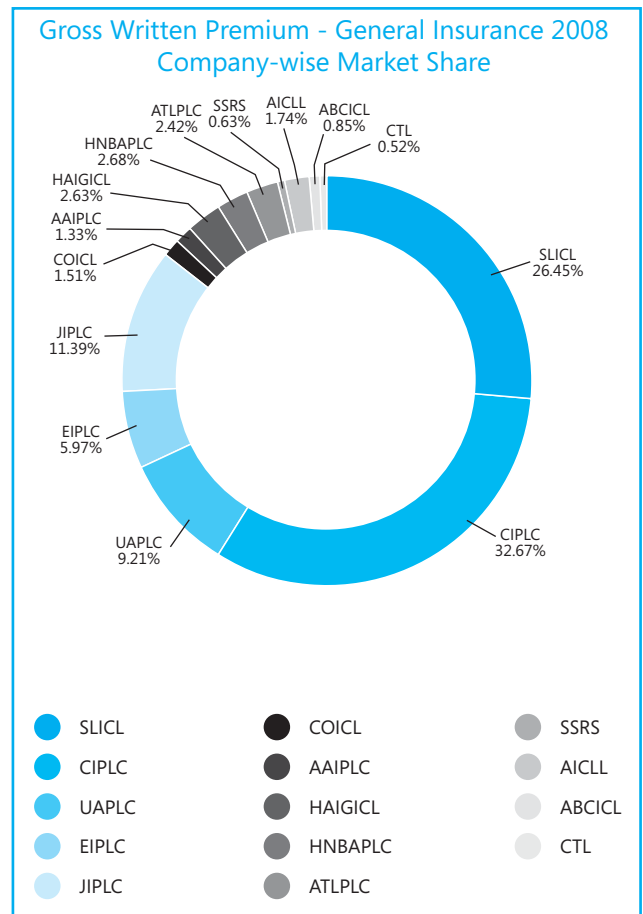
Eagle insurance PLC with a premium income of Rs.2,064 million (2007:Rs.1,867 million) and a market share of 5.97% (2007:5.99%) maintained its market share at the same level as in the previous year.

The following insurance companies showed marginally lower market shares in 2008:

Ceylinco Insurance PLC with a premium income of Rs.11,287 million (2007:Rs.10,350 million) and a market share of 32.67% (2007:33.22%), Sri Lanka Insurance Corporation Ltd with a premium income of Rs.9,140 million (2007:Rs.8,848 million) and a market share of 26.45% (2007:28.40%), and Janashakthi Insurance PLC with a premium income of Rs.3,937 million (2007:Rs.3,678 million) and a market share of 11.39% (2007: 11.81%).

Companies with less than 1% market share were not analyzed.

Chart 7



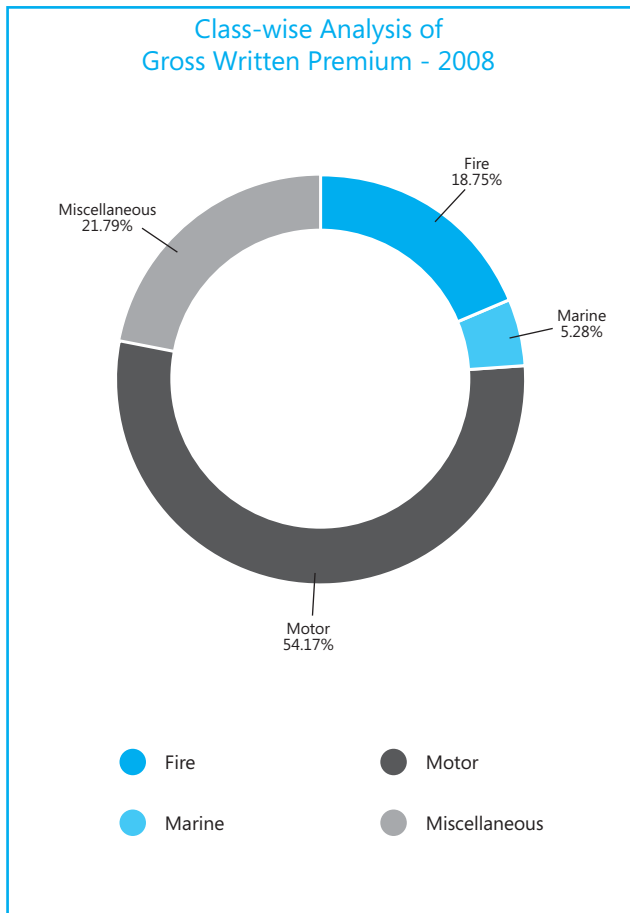
## Gross Written Premium – General Insurance Class-wise Analysis

As in the previous years, highest contribution of 54.17% (2007:54.76%) was from motor insurance, with a premium income of Rs.18,717 million (2007:Rs.17,060 million) showing a lower growth of 9.71% when compared with the previous year's growth of 21.81%.



# Statistical Review of 2007/2008 Contd.

Chart 8



## General Insurance – Claims Ratio

During the year, the overall claims ratio of 64.92% (2007: 64.95%) remained at the same level as in the previous year.

During 2008, marine insurance showed a low claims ratio of 28.39% when compared with 35.56% during the previous year. Fire insurance with a claims ratio of 73.20% showed an improvement during the year when compared with the previous year’s claims ratio of 84.79%. Motor insurance with a claims ratio of 64.07% showed a marginal improvement when compared with the previous year’s claims ratio of 65.15%. Miscellaneous insurance with a claims ratio of 71.85% showed an adverse trend during the year when compared with the previous year’s claims ratio of 63.94%.

Ref: Table 11

Table 11

Earned Premium, Claims Incurred and Claims Ratio

Class	Earned Premium (Rs. '000)					
	2003	2004	2005	2006	2007	2008
Fire	425,942	687,351	1,033,804	757,066	962,204	901,075
Marine	390,171	474,776	545,962	667,135	606,908	752,825
Motor	4,993,288	6,920,787	9,153,642	11,920,208	14,518,179	16,942,690
Miscellaneous	2,223,099	2,267,407	3,316,000	3,584,231	4,095,975	4,996,599
<b>Total</b>	<b>8,032,500</b>	<b>10,350,321</b>	<b>14,049,408</b>	<b>16,928,640</b>	<b>20,183,266</b>	<b>23,593,189</b>

Class	Claims Incurred (Rs. '000)					
	2003	2004	2005	2006	2007	2008
Fire	203,143	851,804	486,354	520,944	815,821	659,542
Marine	112,796	150,590	122,131	202,379	215,824	213,740
Motor	3,117,013	4,421,530	5,810,762	7,204,754	9,459,168	10,854,607
Miscellaneous	1,684,102	1,894,192	2,338,487	2,337,018	2,618,869	3,589,902
<b>Total</b>	<b>5,117,054</b>	<b>7,318,116</b>	<b>8,757,734</b>	<b>10,265,095</b>	<b>13,109,871</b>	<b>15,317,791</b>

Table 11 Contd.

Class	Claims Ratio (%)					
	2003	2004	2005	2006	2007	2008
Fire	47.69	123.93	47.05	68.81	84.79	73.20
Marine	28.91	31.72	22.37	30.34	35.56	28.39
Motor	62.42	63.89	63.48	60.44	65.15	64.07
Miscellaneous	75.75	83.54	70.52	65.20	63.94	71.85
Overall	63.70	70.70	62.34	60.64	64.95	64.92

### Retention of Gross Written Premium and Reinsurance

Motor insurance continued to maintain the highest retention of 95.03% (2007: 94.61%) when compared with the other classes. Miscellaneous insurance with a retention of 67.62%, and Marine insurance with a retention of 36.13%, showed marginal decreases in retention levels when compared with the previous year's retentions of 70.46% and 39.73% respectively.

Fire insurance with 12.64% retention showed a significant decrease when compared with the previous year's retention of 24.06%.

The overall retention of 70.49% (2007: 73.54%) showed that premium retention by insurance companies in 2008 was lower than in the previous year.

Table 12

Gross Written Premium, Reinsurance Premium, and Retention by Insurer

Class	Gross Written Premium (Rs.'000)					
	2003	2004	2005	2006	2007	2008
Fire	2,724,800	2,978,979	4,140,458	4,627,075	5,724,377	6,480,344
Marine	956,900	1,172,810	1,358,033	1,554,560	1,637,019	1,825,782
Motor	6,224,332	8,367,447	11,102,737	14,005,560	17,060,829	18,717,667
Miscellaneous	3,627,976	4,518,122	5,808,928	5,743,624	6,733,828	7,529,146
<b>Total Gross Written Premium</b>	<b>13,534,008</b>	<b>17,037,358</b>	<b>22,410,156</b>	<b>25,930,819</b>	<b>31,156,053</b>	<b>34,552,939</b>

Class	Reinsurance Premium (Rs.'000)					
	2003	2004	2005	2006	2007	2008
Fire	2,246,092	2,425,875	3,260,854	3,904,755	4,346,992	5,661,372
Marine	554,160	666,292	656,340	915,086	986,706	1,166,168
Motor	272,217	341,072	539,951	623,688	919,537	930,588
Miscellaneous	1,756,857	1,281,222	1,484,923	1,644,675	1,989,109	2,437,905
<b>Total Reinsurance Premium</b>	<b>4,829,326</b>	<b>4,714,461</b>	<b>5,942,068</b>	<b>7,088,204</b>	<b>8,242,344</b>	<b>10,196,033</b>

Class	Retention (Rs.'000)					
	2003	2004	2005	2006	2007	2008
Fire	478,708	553,104	879,604	722,320	1,377,385	818,972
Marine	402,740	506,518	701,693	639,474	650,313	659,614
Motor	5,952,115	8,026,375	10,562,786	13,381,872	16,141,292	17,787,079
Miscellaneous	1,871,119	3,236,900	4,324,005	4,098,949	4,744,719	5,091,241
<b>Total Net Written Premium</b>	<b>8,704,682</b>	<b>12,322,897</b>	<b>16,468,088</b>	<b>18,842,615</b>	<b>22,913,709</b>	<b>24,356,906</b>

## Statistical Review of 2007/2008 Contd.

Table 12 Contd.

Class	Retention as a percentage of the Gross Written Premium					
	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %
Fire	17.57	18.57	21.24	15.61	24.06	12.64
Marine	42.09	43.19	51.67	41.14	39.73	36.13
Motor	95.63	95.92	95.14	95.55	94.61	95.03
Miscellaneous	51.57	71.64	74.44	71.37	70.46	67.62
<b>Overall Retention</b>	<b>64.32</b>	<b>72.33</b>	<b>73.48</b>	<b>72.66</b>	<b>73.54</b>	<b>70.49</b>

### Performance of Insurance Brokers

As in the previous year, 54 insurance brokers operated during 2008, concentrating mainly on general insurance business. Their premium contribution of Rs.8,781 million (2007:Rs.7,393 million) accounted for 25.4% (2007:23.7%) of the total gross written premium of Rs.34,553 million (2007:Rs.31,156 million) for general insurance, which was 1.7% higher than in the previous year.

Insurance brokers' contribution towards the long term insurance business continued to be low as in the previous years. Their premium contribution of Rs. 195 million (2007:Rs.158 million)

represented only 0.83% (2007:0.76%) of total premium income of Rs.23,613 million (2007:Rs.20,729 million) for the long term insurance business, and showed a marginal increase.

Nineteen insurance brokers, whose gross written premium income through insurance business procured by them was more than Rs.100 million each, are represented in Table 13 below. They accounted for a total of 91.74% (2007:92.17%) of the total gross written premium of Rs.8,975 million (2007:Rs.7,551 million) collected as gross written premium by all insurance brokers for both classes of insurance.

Table 13

Gross Written Premium Income through Insurance Brokers

Name of Insurance Brokers		Gross Written Premium (Rs.'000)		
		Long Term	General	Total
1	ADZ Insurance Brokers (Pvt) Limited	3,869	186,848	190,717
2	Aitken Spence Insurance Brokers (Pvt) Limited	16	225,539	225,555
3	Alfinco Insurance Brokers (Pvt) Limited	-	241,141	241,141
4	CF Insurance Brokers (Pvt) Limited	33	1,139,035	1,139,068
5	Commercial Insurance Brokers (Pvt) Limited	44,797	817,662	862,459
6	Delmege Insurance Brokers (Pvt) Limited	7,711	1,101,142	1,108,853
7	DP Insurance Brokers Limited	-	292,530	292,530
8	Essajee Carimjee & Co. (Pvt) Limited	1,753	202,942	204,695
9	Finlay Insurance (Brokers) Limited	5,169	482,240	487,409
10	Industrial & Commercial Insurance Brokers (Pvt) Limited	26,852	492,710	519,562
11	Insurex Insurance Brokers Co.(Pvt) Limited	290	169,616	169,906
12	Lanka ORIX Insurance Brokers Limited	7,568	914,586	922,154
13	Nations Insurance Brokers Limited	5,482	335,639	341,121
14	Procure Insurance Brokers (Pvt) Limited	766	108,220	108,986
15	Protection & Assurance Insurance Brokers (Pvt) Limited	532	576,817	577,349
16	Reliance Insurance Brokers (Pvt) Limited	1,620	151,919	153,539
17	Senarantne Associates Limited	8,218	347,881	356,099
18	Volanka Insurance Services (Pvt) Limited	6,057	188,610	194,667
19	Zenith Insurance Brokers (Pvt) Limited	3,911	134,616	138,527
	Sub-total	124,644	8,109,693	8,234,337
	Other Insurance Brokers (35)	70,101	671,216	741,317
	<b>Grand Total</b>	<b>194,745</b>	<b>8,780,909</b>	<b>8,975,654</b>



# Review of Operations in 2008

## Supervisory Review

### Insurance Companies

#### 1. Review of Returns submitted to the Board

##### Annual Statutory Returns, Audited Financial Statements and Actuarial Reports

The Audited Accounts, Annual Statutory Returns and Actuarial Reports are required to be submitted to the Board within six months following the end of the financial year.

All insurance companies engaged in long term insurance business are required to submit an actuarial report and an abstract, in terms of the provisions of the Act. These should show that the reserves (long term insurance fund) of the insurer are adequate to meet all current and contingent liabilities of its policyholders solvency margin, and also determine the surplus and recommend the quantum of bonus that may be paid to policyholders and the amounts available for transferring to the shareholders of the insurer. In order to review these Actuarial Reports, the Board obtained technical support from an independent consultant actuary.

Furthermore, the Board requested all general insurers to submit on a voluntary basis an actuarial certification of Incurred But Not Reported (IBNR) Claims Reserves for general insurance, by an actuary with qualifications and experience acceptable to the Board. Most of the insurers responded to this request and submitted actuarial certifications.

While ensuring that the statutory returns are submitted in a timely manner, the Board scrutinised them for accuracy and for compliance with relevant rules and regulations of the Act. Where discrepancies were observed in the annual returns, the companies concerned were asked to take corrective action within given timelines. Areas of concern, detected from the submitted annual statutory returns, audited accounts and actuarial reports, which required further examination were addressed at meetings and/or during onsite inspections, and necessary guidance for corrective action were provided to the insurance companies. There was a progressive escalation of actions or remedial measures taken by the Board, depending on each situation.

#### Quarterly Returns

The Act requires all insurance companies to submit their quarterly returns within 45 days of the end of each quarter. The Board scrutinised the quarterly returns submitted by insurance companies for all four quarters of 2008, and ensured their timeliness and accuracy.

The details in the quarterly returns pertaining to premium income, reinsurance and other costs and investments were scrutinized in order to obtain a general overview of the performance of each insurance company and to ascertain the class-wise and company-wise performance within the industry, based on premium incomes.

#### 2. Monitoring Capital Requirements

In terms of the regulations issued under the provisions of the Act, all insurance companies registered after 12 October 2005 are required to have a minimum paid up share capital of Rs.100 million for each class of insurance business.

Although all insurance companies were complying with the minimum paid up share capital requirement, it was noted that the Shareholders Equity of certain companies had deteriorated because of start up costs and operating losses.

Even though the companies were reported to be solvent, in order to protect policyholders from undue losses and to absorb any losses which are not explicitly identified, the Board considered it prudent to guard against the risk of insurers' shareholders equity falling down. Consequently, the Board requested all insurance companies to voluntarily maintain their shareholders equity equivalent to the regulatory paid up capital at all times.

Any company whose shareholders equity was below the stipulated paid up capital, was requested to voluntarily submit capital or business plans elaborating the manner in which their capital will be increased. This was monitored during the year, based on the returns submitted by such companies.

Furthermore, the Board is exploring the development of a Risk-based Capital Model for Sri Lanka with the assistance of international experts who have wide experience in structuring and implementing such models in other jurisdictions, through international funding available via the First Initiative.

#### 3. Monitoring Compliance with Solvency Margin Rules

During the year, the Board closely monitored the Life Insurance Solvency Margin as well as the General Insurance Solvency Margin, which came into effect during the year 2007, as per the General Insurance Solvency Margin rules of 2004.

Each insurer was required to submit their solvency margin calculations along with their quarterly returns. These computations were scrutinised to ensure that the calculations were in accordance with the prescribed rules of 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 the stipulated rules and regulations of the Board.

It was noted that a few companies were unable to satisfy the required solvency margin levels in some instances. All such Companies were instructed to make necessary arrangements to meet the required solvency margin within a stipulated period of time. Furthermore, actions were taken against the non-compliant Companies in accordance with the powers vested in the Board by the Act.

## Review of Operations in 2008 Contd.

### 4. Monitoring Compliance with Investment Specifications Investments in Government Securities

In terms of the Act, not less than 20% of the assets of Technical Reserves for General Insurance business, and not less than 30% of the assets of the Long Term Insurance Fund for long term insurance business, should be in the form of government securities. The Board demanded all insurers to comply with these requirements, with a view to mitigating risks and the potential impact on technical provisions and solvency, which could arise from investment-related risks of the insurers.

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

Details relating to their investments in government securities were scrutinised by the Board and where discrepancies were detected, such companies were instructed to rectify the situation and demonstrate compliance with the relevant provisions of the Act, and to adhere to the guidelines issued by the Central Bank of Sri Lanka for investments in government securities.

### Valuation of Investments in Government Securities

In order to assess the market liquidity position of insurance companies, their investments in government securities were market-valued, based on information contained in their quarterly returns, Statement of Holding issued by the Central Bank, and relevant interest rates. This exercise enabled the Board to get an overview of the liquidity position on investments in government securities.

### Other Investments as per Specified Determinations

The balance assets of the Technical Reserves and Long Term Insurance Fund of an insurer should be invested in the form of investments as per the determinations promulgated under the Act. The Board continuously monitored each insurer's investments to ensure that the balance Technical Reserves and Long Term Insurance Fund are invested in accordance with the maximum percentages permitted under the determinations of the Board. Where discrepancies were observed, such companies were instructed to take remedial actions and to demonstrate compliance with the determinations, rules and regulations of the Board.

### 5. Risk-based Supervision

The Board conducted 3 onsite inspections based on the CAMELS framework, focusing on assessing and rating the risk profiles of these insurance companies in the specified areas of Capital (C), Assets (A), Reinsurance (R), Actuarial Liabilities (A), Management (M), Earnings (E), Liquidity (L) and Subsidiaries (S).

One of the main trends in insurance regulatory practice is a major shift from compliance-based supervision to a new paradigm of risk-based supervision. This process of risk-based supervision does not ignore the need for assessing compliance by insurance companies with statutory requirements; it merely 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 the ability to meet contractual obligations.

Subsequent to risk-based onsite inspections, the Board focused on assessing the risk profiles of the insurance companies, which in turn enables timely action and prompt intervention in cases with regulatory concerns. Furthermore, where particular risk areas were identified, special analyses were carried out followed by special inspections.

### 6. Guidelines for Auditors

The Board drafted a set of guidelines for the Auditors of insurance Companies to be followed in their Audit Reports of such companies, to cover areas of regulatory concern.

These guidelines direct the Auditors of insurance companies to focus on areas which need special attention in terms of the Act and to include them in their Audit Reports.

### 7. Review of Reinsurance Arrangements

Statements of Reinsurance Arrangements and Cover Notes submitted by insurance companies were reviewed to ensure that the interests of policyholders and insurers were adequately safeguarded through reinsurance covers obtained from reinsurers who satisfied the guidelines issued by the Board under Section 31(1) of the Act.

## Insurance Broking Companies

### 8. Monitoring Premium Collection

In terms of the Act, premium payments collected by Insurance Brokers on behalf of insurance companies should be remitted within two weeks of collection. Information contained in the quarterly returns submitted by broking firms was used to conduct off-site monitoring of premium collection by them, which helped to identify noncompliant brokers.

Such noncompliant broking companies were instructed to take remedial action to rectify the situation and to demonstrate compliance. Authenticity of the information reported in the quarterly returns was verified when on-site inspections were carried out by the supervision division of the Board. Necessary action was taken against noncompliant broking firms, in terms of the Act.

### 9. Review of Quarterly Returns

One of the main objectives of the off-site supervision process is to review the quarterly returns submitted by insurance brokers as specified by the Board. Quarterly returns of all the insurance brokers submitted during the past year were scrutinised to

detect discrepancies such as: incomplete sections, prescribed formats not followed, classification errors, discrepancies in the insurance broking account and revenue account, premium outstanding without bank guarantees, and net commission not properly computed, etc.

Such brokers were informed of these weaknesses and explanations were called for the discrepancies detected. In certain instances, broking companies were requested to resubmit their quarterly returns with accurate information. The results of the reviews of quarterly returns were used to prioritise on-site inspections of broking companies to identify risk areas that may need special attention.

#### 10. Quarterly Financial Reporting formats

The Board has drafted a new set of quarterly reporting formats for insurance brokers to provide information that will facilitate prompt corrective action. These new formats are expected to be gazetted in due course.

#### 11. Evaluation of Audited Financial Statements

In terms of the Act, audited financial statements of insurance broking companies must be submitted to the Board within six months after the end of each year. These audited financial statements were evaluated and analysed to determine whether interests of policyholders were protected and the regulatory capital of broking companies maintained. In this exercise, much reliance was placed on the external Auditors' Report, supported by the financial statements of the company.

Where there were concerns regarding the financial transactions of a broking company, further information was called for and/or action taken to ensure that the company operates within the insurance regulations.

#### 12. Renewing Licences and Granting New Licences

The Board reviewed the annual applications for renewals of registration by existing insurance broking companies, based on their financial stability as shown in their audited financial statements and quarterly returns. The supervision division of the Board recommended the renewal of registration of brokers who met all necessary requirements. Where there were areas of concern, recommendations were given subject to certain conditions being fulfilled by such broking companies.

Companies desiring registration as insurance brokers are required to submit a business plan with their application. Such business plans must include financial projection statements that elaborate the manner in which the projections are to be achieved. A key evaluation criterion is whether or not the information provided is realistic enough to justify operation as a broking company which will meet the expectations of policyholders and insurers.

### Regulatory Review

#### Registration of Insurance Companies

The Board received two applications seeking registration as insurance companies. One application was from a newly incorporated company seeking registration to carry on Long Term Insurance Business. Since the suitability of the applicant was found to be satisfactory, the Board granted registration as an insurance company.

The other application was from an existing insurance company carrying on general insurance business. They sought approval to obtain registration to carry on Long Term Insurance Business. The Board evaluated the information provided in the application and specified further requirements to be fulfilled in order to consider them for registration.

The Board also examined the Draft Articles of Association of a company intending to seek registration as an insurance company.

#### Registration of New Insurance Broking Companies and Renewals of Registration

The Board granted registration to 4 new insurance broking companies during the year. Applications from 5 other companies seeking registration as insurance brokers are pending due to insufficient information provided by such companies.

Applications from 44 insurance broking companies were received for renewal of registration for the year 2009. Out of these applicants, 36 companies were granted renewal of registration. 8 applications are pending due to insufficient information provided or not having fulfilled the necessary requirements for renewal. These 8 companies were required to refrain from acting or holding themselves out as insurance brokers with effect from 1 January 2009, until they are duly registered.

Registrations of 5 insurance broking companies lapsed since they did not submit their renewal applications for the year 2009. Two companies informed the Board that they do not intend renewing their registration. The Board prohibited all such companies from acting or holding themselves out as insurance brokers with effect from 1 January 2009.

The Board also examined applications of 5 insurance broking companies for renewal of registration during the year 2008. These renewals fell within the year 2008 in view of it being their first year of operation as insurance brokers.

### Enforcement Action

#### Insurance Companies

##### Warnings

The Board, having made inquiries pertaining to certain transactions of 2 insurance companies, issued them warnings for non-compliance with Section 29 of the Act. Section 29 of the Act, among other things, requires an insurance company to obtain the prior approval of the Board before granting loans to related parties.

## Review of Operations in 2008 Contd.

### Suspensions

The Board suspended the registration granted to an insurance company for failure to meet the solvency margin rules of the Board for general insurance business. Suspension was removed after the company demonstrated compliance.

### Directions

The Board issued directions to 3 insurance companies under Section 57 of the Act. One was requiring compliance with solvency margin rules. The second direction required an insurance company to furnish to the Board returns on a monthly basis to monitor compliance with solvency margin rules. The third direction required an insurance company to dispose of one of its investments in order to be compliant with the related party exposure limits set out in the Determinations issued by the Board.

### Insurance Broking Companies

#### Warnings

The Board issued letters of warning in terms of Section 84(1)(d) of the Act to 16 insurance broking companies due to the following non-compliances:

Section 89 of the Act, which requires insurance brokers to remit insurance premiums collected by them on behalf of insurance companies within two weeks of collection.

Section 86 of the Act, which requires insurance brokers to furnish to the Board their audited accounts within 6 months from the end of the accounting period, and quarterly returns within 45 days from the end of each quarter.

Section 84(1)(d) of the Act empowers the Board to suspend, cancel or refuse to renew registration granted to an insurance broker if the Board has issued warnings on at least 3 separate occasions.

#### Suspensions

The Board suspended the registration of 3 insurance broking companies in terms of Section 84(1)(d) of the Act for having failed to submit the required returns to the Board within the stipulated time period. These 3 broking companies were suspended since they were warned on 3 separate occasions by the Board previously for failing to comply with the provisions of the Act. During the suspension period, these 3 companies were prohibited from acting or holding themselves out as insurance brokers. The Board also required all insurance companies to refrain from accepting insurance business from these 3 broking companies, in terms of Section 34 of the Act which prohibits an insurance company from accepting insurance business from a company which is not duly registered as an insurance broker.

#### Cancellation of Registration

After carrying out an extensive investigation into the transactions of an insurance broking company, the Board observed that the company had furnished false information to the Board in reply to enquiries on certain violations of the

Act, detected through an on-site inspection. After giving the delinquent company an opportunity to show cause as to why its registration should not be cancelled, the Board was not satisfied with the response provided, cancelled the registration in terms of Section 84(1)(e) of the Act.

Section 84(1)(e) of the Act empowers the Board to suspend, cancel or refuse to renew registration granted to an insurance broker, if any statement in any application, account, written information or document submitted to the Board is found to be false or misleading.

### Regulatory/Advisory Measures

1. After examining an inward money exchange operation associated with an insurance company, the Board required the company to discontinue such operation with immediate effect, since the company was in violation of Section 12(4) of the Act. Section 12(4) of the Act prohibits an insurance company from carrying on any form of business other than insurance business. However, with the approval of the Board, an insurance company may carry on any financial services business which is ancillary to or associated with insurance business.
2. Having examined a request for approval of an insurance company to invest in a condominium property from their Life Fund, the Board decided that such an investment cannot be permitted in view of the company not obtaining title to the property at the time of investment.
3. After reviewing a request made by an insurance company to invest assets of their Life Fund in various instruments issued by foreign entities, the Board requested additional details of such investments in order to consider the request. The Board also informed the insurance company that such investments will not be considered under the present solvency margin rules.
4. Having examined the operations envisaged under a MoU between an insurance company and a Bank, the Board required the insurer to refrain from sourcing leads for the bank by their staff, since the insurance company would be contravening Section 12(4) of the Act.
5. The Board required an insurance company to refrain from appointing institutional agents in contravention of Section 78(1) of the Act, which requires only individuals to be appointed as insurance agents. Having taken due recognition of the instructions of the Board, the company has given an undertaking to comply with the Act.
6. After considering a request made by an insurance company to set up a subsidiary company to provide Technical Advice on the operation of Takaful Insurance to prospective clients in foreign countries, the Board issued no objection since such an operation does not come within the scope of the Act.
7. Having observed the fronting arrangements of an insurance company between a foreign insurer and a local policyholder, the Board issued no objection subject to a disclaimer being attached thereto stating that no liability

will attach to the local insurance company since the policy is not issued by the local insurance company.

8. After inquiring into the details of a request made by an insurance company to invest in debt instruments issued by certain selected licensed finance/leasing companies, the Board advised the company that it could do so subject to the conditions set out in the Determinations issued by the Board and the Solvency Margin Rules.
9. Having considered a request made by an insurance company regarding investments in a rights issue of a foreign company, the Board granted permission in terms of Section 25(3) of the Act and Regulations No. 4(1) (a),(b) and 4(2) of the statutory Regulations published in Gazette Extraordinary No. 1414/19 of 12 October 2005 subject to the company complying with conditions stipulated in the aforesaid Gazette.

### Regulatory Reforms

#### Amendments to the Act

Amendments to the Act, which were almost complete for finalisation, had to be halted in view of industry players having concerns over a few amendments including the proposal to segregate composite insurance companies. The Board had to re-examine the amendments and notify the Ministry of Finance of the desired changes.

The Board also suggested further amendments to the Act, mainly to empower the Board to obtain information from any person and to enter any place to obtain information necessary with a view to enforcing the provisions of the Act.

#### Amendments to Solvency Margin Rules

The amendments to the Solvency Margin Rules for general insurance business were received from the Legal Draftsman's Department. After carefully examining these, the Board effected certain changes and brought them to the notice of the IASL prior to initiating the publication in the Gazette. The amendments for long term insurance business will be effected concurrently with those for general insurance.

Revisions to solvency margin rules were made after extensive consultations with insurance industry participants. They were made with the objective of broadening the investment framework by allowing new investment instruments such as asset-backed securities, deposits with licensed finance companies, gold etc.

#### Amendments to Insurance Broking Company Rules

Rules pertaining to insurance brokers' Quarterly Returns have been revised for better regulation. The draft rules have been sent to the Legal Draftsman's department for review.

#### Rules on Financial Transactions Reporting Act No. 6 of 2006

Rules on Financial Transactions Reporting Act have been finalised and issued by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka. All insurance companies are

required to report on a monthly basis all financial transactions above the limits specified in the rules, and any suspicious transactions.

The Board coordinated with the FIU to educate Compliance Officers of insurance companies on their responsibilities under the above Act.

#### Insurance Agent Qualification Rules

The Board sought from the Department of Examinations confirmation of the current grading equivalent to the ordinary pass in Mathematics or Arithmetic in the old syllabus required by insurance agents to be registered as an insurance agent of an insurance company or insurance broker.

#### New Applications for Registration of Insurers

The Board revised the application form which was formulated few years ago, having considered the additional information needed to consider an application for registration as an insurance company.

#### Insurance Company Investments in Government Securities

The Board conveyed to all insurance companies the notice issued by the Central Bank of Sri Lanka (CBSL) regarding the necessity of recording all transactions in government securities in scripless form in the Central Depository System (LankaSecure) of CBSL, in order to obtain legal ownership of such securities.

Accordingly, the Board informed insurance companies that it will not consider investments in government securities for the purposes of minimum statutory requirement and minimum solvency margin requirement, if such securities have not been lodged with Central Depository System (LankaSecure) of the CBSL.

#### Regulating the Micro Insurance Sector

With a view to regulating and bringing the unregulated micro insurance sector into the mainstream, the Board initiated the drawing up of a regulatory framework for the micro insurance sector in Sri Lanka. For this purpose, the Board examined current operations of the local micro insurance sector, and the international trend in regulating micro insurance.

#### Registration of Institutional Agents and Loss Adjusters

Section 78(1) of the Act requires only individuals to be appointed as insurance agents. To identify and formulate registration requirements for Institutional Agents and Loss Adjusters, the Board is in the process of examining registration requirements of other countries. This is being done to accommodate Institutional Agents and Loss Adjusters, once the amendments to the Act became operational.

## Review of Operations in 2008 Contd.

### Complaints

The Board received 16 complaints during the year. Out of these, 13 complaints have been advised on actions to be taken and completed, while 3 complaints are pending inquiry.

Complainant	Other Party Involved	No. of Complaints
Policyholder	Insurance Company	11
Policyholder	Insurance Agent	1
Policyholder	Other	1
Insurance Company	Insurance Agent	1
Non-policyholder	Insurance Company	1
Insurance Broker	Insurance Company	1

### Investigations

During the year, 45 complaints were received from policyholders relating to non-settlement of insurance claims by insurance companies. There has been a reduction in the number of such complaints received by the Board, when compared to the previous year.

As per the decision taken by the Board in 2006, all complaints relating to insurance claims are referred to the Insurance Ombudsman for dispute resolution. The objective of the Ombudsman Scheme is to resolve policyholders' complaints amicably with the concurrence of policyholders and their insurers. The Ombudsman is supported by competent insurance experts from the insurance industry.

However, the Board continued to deal with appeals where the policyholders are not satisfied with the decision of the Ombudsman, and with any other type of complaint on matters such as policy wordings, ethical issues, etc.

### The 45 complaints received by the Board are summarised below:

Non-payment of Motor Insurance Claims.	8
Non-payment of a Miscellaneous Insurance Claim.	1
Non-payment of Hospitalization Claims.	6
Non-settlement of Advance Payment Bonds.	2
Non-settlement of a Performance Bond.	1
Life Insurance Policy Claims.	7
Lapsed policies.	3
Non-payment of Fire Insurance Claims.	5
Banker's Indemnity Policy.	1
Non-payment for a Shop Insurance Claim.	1
Cancellations of policy.	3
Flood Insurance Claims.	2
Non-payment of Theft Insurance Claims.	2
Non-settlement of a Burglary and Housebreaking Claim.	1
Non-settlement of Maturity Benefits.	1
Investment Insurance Account.	1

### Market Development Review

#### Meetings with the Industry

Quarterly meetings were held with the CEOs of insurance companies and the Sri Lanka Insurance Brokers Association (SLIBA) to identify issues confronting them and to discuss steps that could be taken to improve insurance market penetration. These meetings also provided interaction and feedback for strengthening the self-regulatory mechanism of the insurance industry.

#### Publications

The Board initiated diverse publications to educate the public on using insurance to cover the risks they face and to help them obtain the right insurance products for their needs, thereby improving market penetration in the insurance industry.

#### Newspaper Articles

An article was published in the Financial Review section of The Island newspaper, highlighting recent regulatory and market developments:

- Protection of the interests of policyholders and potential policyholders.
- Payment of insurance premium to a third party.
- Premium Payment Warranty.
- Risk-based Supervisory System.
- Off-Site Supervisory Processes.
- Investment Criteria for insurance companies.
- Quarterly meetings with the insurance companies.
- Disclosing correct facts in the proposal forms to obtain insurance policies.
- Understanding the Policy Document/Insurance Policy.

The Daily News newspaper offered to allocate one page free of charge once a month for publishing articles on the insurance/financial sector. The Board informed the insurance industry of this facility, and requested them to contribute articles. As a result, the following articles were published in the Daily News:

'Are you planning on buying an insurance policy?' was an article in a simple form to highlight the facts to be considered when buying an insurance policy.

'The importance of life insurance' was an article submitted by Ceylinco Insurance PLC to highlight how people can benefit from life insurance.

#### Press Notices

The Board published 2 press notices for the benefit of the public:

- List of registered insurance brokers in 2008.
- Payment of premium to third parties: to explain that premiums should be paid only to registered insurers, insurance broking companies and insurance agents.

### Booklets

Following booklets were published for the benefit of the public:

#### Life Assurance

This booklet, emphasizing the importance of having a life insurance product, was translated into Sinhala and Tamil and printed for free distribution during awareness programmes.

#### Know more about insurance

This introductory guide was published by the Board last year, and translated into Sinhala and Tamil to provide a basic guide to insurance.

### Brochures

#### IBSL Brochure

This provided information on diverse topics that are useful to potential policyholders when dealing with matters relating to insurance: the establishment of the Insurance Board of Sri Lanka; constitution of the Board; the mission and functions of the Board; an explanation of insurance; obtaining an insurance policy; regulation of insurance agents & brokers; complaint-handling mechanism; a list of registered insurance companies; contact details of institutions related to insurance, etc. This

brochure was updated during the year and also translated into Sinhala and Tamil for free distribution among the public during the awareness & training programmes to be conducted by the Board.

#### Leaflet on Life and General Insurance Policies (to be enclosed with proposal forms)

With the concurrence of the industry, the Board prepared a leaflet for the public on various aspects of insurance such as: understanding the policy; when to pay the premium and to whom; options available for making a complaint prior to seeking legal action, etc. It has been agreed with the industry to enclose this leaflet with the proposal forms for Life and General Insurance.

#### Training and Awareness Programmes

During the year under review, several awareness programmes were conducted among schoolchildren, university and technical college students, business community, and the general public. The Board conducted these awareness and training programmes to enhance their knowledge about the benefits of having insurance to mitigate the risks they encounter in their daily lives.

### Awareness Programmes for Schoolchildren, University & Technical College Students, Business Community and General Public

Date	Topic	Target Group	Place
24 January 2008	Importance of Insurance	Students of Technical College, Badulla	Technical College, Badulla
12 March 2008	Importance of Insurance	Students of Technical College, Warakapola	Technical College, Warakapola
24 April 2008	Importance of Insurance	Students of Technical College, Nuwara Eliya	Technical College, Nuwara Eliya
20 June 2008	Importance of Insurance, Third Party Insurance and Concepts of Insurance	Students of Monaragala Education Zone	Mahanama Central College, Monaragala
25 July 2008	Importance of Insurance	Students of Technical College, Dehiattakandiya	Technical College, Dehiattakandiya
14 August 2008	Importance of Insurance	Students of Technical College, Gampaha	Technical College, Gampaha
12 September 2008	Importance of Insurance	Students of Technical College, Beliatta	Technical College, Beliatta
17 October 2008	Importance of Insurance	Students of Technical College, Wariyapola	Technical College, Wariyapola

Interactive sessions were held with the participants of these programmes on matters pertaining to Insurance. The participants showed a keen interest in enhancing their knowledge of insurance. Books, brochures and notes published by the Board were distributed among the participants.

#### Awareness Programme for University Students

A lecture on 'Insurance and its Contemporary Application in the Insurance Market in Sri Lanka' was conducted for the final

year undergraduates in the Economics (Special) Stream on 9 September 2008 on a request made by the Department of Economics of the Arts Faculty in the University of Colombo.

#### Awareness Programmes for the Business Community

Mr. Phillip Tan, Director of EQ Insurance Company Limited of Singapore, made a presentation on 'Implementation of Risk-based Capital' for the insurance industry and the members of the Board on 4 April 2008. This programme was sponsored

## Review of Operations in 2008 Contd.

by Toa Re of Singapore, on a request made by the Board. The presentation addressed topics such as: What is RBC? What is the benefit of RBC? Some highlights of the technical aspects of RBC; Obstacles to RBC; How the Monetary Authority of Singapore implemented RBC with the co-operation of the industry and professional accountants; What IBSL can do to implement RBC.

The Board conducted an explanatory briefing on 'Premium Payment Warranty and Other Regulatory Aspects on Insurance' to the clients of Protection & Assurance Insurance Brokers (Private) Limited during its annual get together on 5 September 2008 on an invitation extended to IBSL by the Broker.

### Media Conference

The Board organized a media conference on 23 September 2008 at Hotel Holiday Inn, to raise public awareness of the role played by Insurance Board of Sri Lanka as the regulator of the insurance industry, and to present the performance of the insurance industry during the past few years. More than 20 journalists representing newspapers and radio & television channels were present at the event, which was a great success. Documents explaining the functions of IBSL together with insurance statistics were distributed among all participants to help them convey the benefits of insurance to the public through their articles and programmes.

### Postgraduate Diploma in Actuarial Science from the Uva Wellassa University

Subsequent to several discussions and meetings the Board had with the Vice Chancellor and Academics of the Uva Wellassa University of Sri Lanka (UWUSL) and representatives from the insurance industry, the UWUSL has commenced a Postgraduate Diploma Course in Actuarial Science, aimed at giving basic technical knowledge in Actuarial Science to practitioners in the insurance industry.

The launching ceremony for this Postgraduate Course was held on 26 November 2008 at the Bandaranaike Memorial International Conference Hall (BMICH), which was organised by the Board with the concurrence of the Uva Wellassa University.

### Higher National Diploma in Insurance from the National Institute of Business Management (NIBM)

During a meeting on the Postgraduate Diploma in Actuarial Science, both the academics and the insurance industry representatives emphasised the need to develop a diploma-level programme for the employees and prospective employees of the insurance industry. Consequently, the Board met representatives from the Sri Lanka Insurance Institute, National Institute of Business Management, Insurance Association of Sri Lanka, Sri Lanka Insurance Brokers' Association, and the Insurance Ombudsman to discuss the course contents, assessment criteria, eligibility, course fee, faculty members, etc.

As a result, the National Institute of Business Management (NIBM) designed and commenced offering a Higher National Diploma in Insurance (HNDI) to enhance the basic technical

knowledge of insurance among practitioners and new entrants to the insurance industry including school leavers. This diploma course was also ceremonially launched along with the Postgraduate Diploma in Actuarial Science at the BMICH on 26 November 2008.

### Paper Supplement on the inauguration of Postgraduate Diploma in Actuarial Science and Higher National Diploma in Insurance

In order to raise public awareness of the Post Graduate Diploma in Actuarial Science offered by the Uva Wellassa University, and the Higher National Diploma in Insurance offered by the National Institute of Business Management, the Board published a one-page newspaper supplement also on 26 November 2008 in the daily Lankadeepa, Thinakaran, Daily News and Daily Mirror, in Sinhala, Tamil and English.

Following a request made by the Board, insurance companies sponsored the inauguration activities jointly with the Board.

### Workshops

#### Workshop with the National Institute of Education on Curriculum Revisions

A Senior Executive of the Board was a resource person at a workshop organised by the Department of Business Studies of the National Institute of Education (NIE) on 31 March 2008. The workshop was on the amendments to the school curriculum of Grade 12 and Grade 13 of the 'Business Studies' stream under 'Supporting Services to Business', in order to expand the coverage of insurance which is to be implemented in the year 2009.

### Regulatory Activities

#### Insurance Agents' Database

Following a request made by the Board to insurance companies, 13 companies are maintaining up-to-date agents' databases on a separate webpage in their individual websites accessible by the Board. Two insurance companies have requested more time. Another one that files the list of agents periodically has informed the Board that they are not in a position to provide an exact date of completion of the required webpage since webpage developments are carried out through their regional office. All the insurance companies have agreed to maintain agents' databases in compliance with Section 78(1) and 78(2) of the Act.

#### Compliance Certification for New Advertisements

In terms of Directive #1 issued by the Board under Section 99 of the Act, insurers and insurance brokers are required to submit compliance certification to the Board whenever they display new advertisements.

During the year, 6 insurance companies submitted compliance certification for 14 advertising campaigns, and the Board reviewed the advertisements submitted. One insurance company was asked to withdraw a particular campaign for one of its products, since it was misleading to the public as well as making a comparison with a product of another insurer. That



company was requested to adhere to the Code of Ethics on Advertising issued to insurance companies by the Insurance Association of Sri Lanka (IASL).

### Other Activities

#### 'Deyata Kirula' Exhibition

The Board participated in the 'Deyata Kirula' National Exhibition held at the Bandaranaike Memorial International Conference Hall (BMICH) from 7 to 10 February 2008. All the institutions and organizations coming under the purview of the Ministry of Finance jointly set up their stalls in one location. Large crowds of people visiting the stalls provided a great opportunity to educate the public on the responsibilities and functions of the Board.

#### 'Future Minds' Exhibition

The Board participated in the 'Future Minds' exhibition organised by the Junior Old Boys Association of Nalanda College at the Bandaranaike Memorial International Conference Hall (BMICH) from 27 to 29 June 2008. The aim of the exhibition was to prepare Sri Lankan youth for future employment in a rapidly evolving employment environment. The Board provided information to visiting students on the examinations that are available in the field of insurance.

#### Inquiries, Letters and Complaints received from the Public

During the year, the Board responded to a number of inquiries received from insurance consumers and other stakeholders relating to topics such as: procedures involved in registering as an insurance broker; commissions payable to insurance agents; agency termination by insurance companies; pre-recruitment tests & qualifications for agents; motor insurance; life insurance; issue of identity cards to the agents; insurance related booklets & brochures etc. Complaints received by the Board from policyholders for non-settlement of insurance claims were referred to the Insurance Ombudsman as per an earlier decision taken by the Board.

#### Distribution of books among schools

During the year, the Board continued distributing Mr. Nimal Perera's book on Insurance in Sinhala and Tamil among schools having a Commerce stream for Advanced Level classes.

### Administrative and Financial Review

#### Training and Development

The achievement of the Board's goals and objectives depends on the skills and capabilities of the human resources of the organization. Therefore, the Board recognizes that its staff should be provided with training opportunities on a continuous basis to develop their professional skills.

During the year, the Board provided a number of local and overseas training opportunities to its staff. Some of the areas covered under overseas training opportunities were: Risk Management, Reinsurance, Evolving risk-based frameworks, and Valuation methods for the insurance industry. Local training opportunities were also provided including the annual

residential training programme covering 'Organizational behaviour' and 'New competencies to succeed in an increasingly chaotic world'.

#### Staff Welfare

The annual get together for the staff of the Board was held in December 2008 with the participation of their spouses and children. Indoor and outdoor medical schemes, and personal accident insurance cover are being provided as a benefit to the staff and their spouses and children.

#### Office Expansion

Additional staff were recruited during the year to fill vacant positions. As the space in the previous location was inadequate to accommodate all the staff, the Secretariat of the Board was relocated in March 2008 to the 11th floor in the East Tower of the World Trade Centre in Colombo.

#### Staff details as at December 2008

Post	Approved Cadre	In Employment
Director General	1	1
Directors	3	2
Assistant Directors	4	2
Executives	24	14
Non Executives	7	7
<b>TOTAL</b>	<b>39</b>	<b>26</b>

#### Policy Holders Protection Fund

In terms of Section 103 of the Act, the Board is required to establish a 'Policy Holders Protection Fund' with all money received from the Cess levy at such rates as may be determined by the Minister with the concurrence of the Board from time to time and published in the Gazette as provided under Section 7 of the Act.

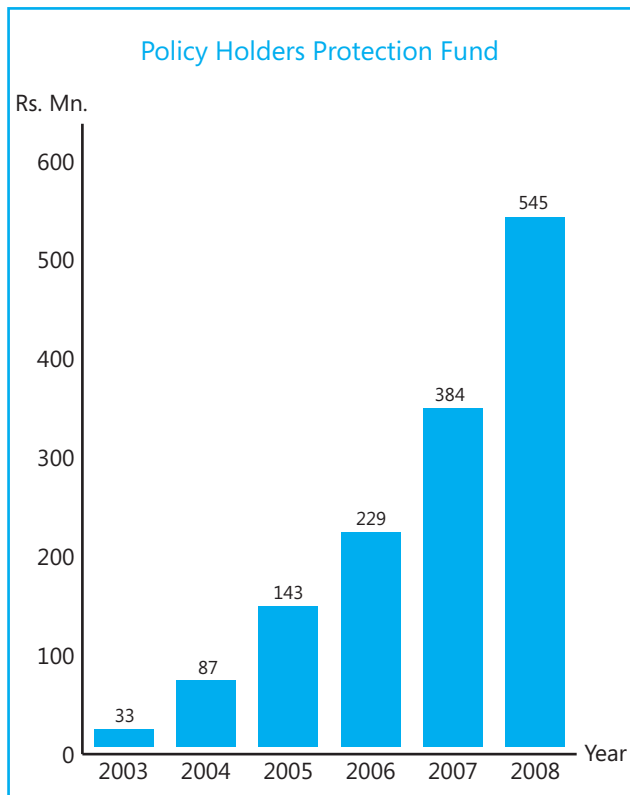
Accordingly, an order was published by Gazette Notification No. 1244/5 on 9 July 2002 for the levy of Cess at the rate of 0.2% of the annual net written premium for long term insurance business, and 0.4% of the annual net written premium for general insurance business. The Cess is received on a quarterly 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 general protection of policy holders 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 during the year amounted to Rs.133 million, in comparison to Rs.121 million in 2007. The total accumulated amount in the Fund as at 31 December 2008 was Rs.545 million.

## Review of Operations in 2008 Contd.

Growth of the Fund during the period 2003 – 2008 is depicted below;



According to Section 103(3) of the Act, any money which is not immediately required for any of the purposes referred to in subsection (2), shall be invested by the Board in a prudent manner to yield a good return. The excess of the Policy Holders Protection Fund was invested in government securities and an additional income of Rs. 70.2 million earned as interest income during the year.

### Fund of the Board

The overall income of the Board is derived from the annual fee levied from insurance companies, registration fees charged for the registration of insurers and insurance brokers, fees charged annually for the renewal of registration of insurance brokers, and interest income earned by investing the surplus fund of the Board. Total accumulated amount credited in the fund of the Board as at 31 December 2008 was Rs.67.8 million.

### Information Technology Review

The information technology infrastructure was improved and brought up to a state-of-the-art level during the year, to help the Board, to achieve its objectives more efficiently. A Local Area Network was installed to provide mail server facilities. All staff members of the Board were provided with individual email addresses with the domain name of ibsl.gov.lk. Centralized automated accounting and payroll systems were also introduced to improve information management in the Finance Division.

Information security was further strengthened with the introduction and implementation of a disaster recovery plan, under which, the Board maintains backups of important documents on a continuous basis.

The website of the Board was updated to provide information for insurance companies and insurance brokers, and details of awareness programs, insurance news, press releases, etc. The Board intends upgrading and developing its website to provide information about the insurance industry of Sri Lanka, including facilities such as e-library, e-newsletter, e-data collection forms, etc.

# Financial Information

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# Balance Sheet

As at 31 December	Note	2008 Rs.	2007 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant & Equipment	1	29,096,860	12,519,775
Policy Holders Protection Fund-Deposits	2	7,417,440	7,417,440
<b>CURRENT ASSETS</b>			
Inventories	3	286,378	269,708
Policy Holders Protection Fund-Others	2	537,930,020	377,000,695
Other Current Assets	4	8,689,086	4,488,952
Investments in Government Securities		60,789,346	54,964,062
Cash & Cash Equivalents	5	4,168,779	6,785,639
<b>TOTAL ASSETS</b>		<b>648,377,909</b>	<b>463,446,271</b>
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES</b>			
Accumulated Fund	6	67,828,254	56,852,302
Policy Holders Protection Fund	7	545,347,461	384,418,135
<b>LIABILITIES</b>			
<b>NON CURRENT LIABILITIES</b>			
Grant	8	27,471,268	10,547,578
Retirement Benefit Obligation	9	793,126	440,188
Interest Bearing Borrowings	11	1,795,781	1,228,247
		30,060,175	12,216,013
<b>CURRENT LIABILITIES</b>			
Receipt in Advance		1,743,750	2,135,080
Other Current Liabilities	10	2,346,504	1,501,873
Payable to Financial Service Academy		-	5,000,000
Current portion of Interest Bearing Borrowings	11	1,051,765	1,322,868
		5,142,019	9,959,821
<b>TOTAL RESERVES &amp; LIABILITIES</b>		<b>648,377,909</b>	<b>463,446,271</b>

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 39 to 45.

For and on behalf of the Insurance Board of Sri Lanka



**Udayasri Kariyawasam**  
Chairman



**Lasinee Seresinhe**  
Director General

19 June 2009  
Colombo

# Income & Expenditure Statement

For the Year Ended 31 December	Note	2008 Rs.	2007 Rs.
<b>INCOME</b>			
Revenue	12	28,663,356	25,628,677
Government Grants	-	-	-
Recognition of Grant	8	5,501,913	3,298,028
Interest Income		9,712,154	6,291,358
Other Income	13	5,411,297	197,363
<b>TOTAL INCOME</b>		<b>49,288,720</b>	<b>35,415,426</b>
Less:			
<b>EXPENDITURE</b>			
Staff Costs	14	22,924,628	16,648,037
Professional Charges	15	1,796,433	1,575,345
Administration & Establishment Expenses	16	33,453,847	18,825,066
Contribution to set up a Financial Service Academy	13	-	5,000,000
Finance & Others	17	124,213	77,369
<b>TOTAL EXPENDITURE</b>		<b>58,299,121</b>	<b>42,152,818</b>
Excess / (Deficit) Income Over Expenditure Before Tax	16	(9,010,401)	(6,710,391)
Taxation	18	-	-
Excess / (Deficit) Income Over Expenditure After Tax		(9,010,401)	(6,710,391)
Transfer from Policy Holders Protection Fund	7	19,986,353	30,500,000
<b>Net Surplus for the Year</b>		<b>10,975,952</b>	<b>23,789,609</b>

The Accounting Policies and Notes appearing on pages from 39 to 45 form an integral part of the Financial Statements.

## Statement of Changes in Reserves

<b>For the Year Ended 31 December</b>	<b>2008 Rs.</b>	<b>2007 Rs.</b>
Accumulated Fund		
Balance at the beginning of the Year	56,852,302	33,062,693
Net Surplus for the Year	10,975,952	23,789,609
Balance at the end of the Year	67,828,254	56,852,302

The Accounting Policies and Notes appearing on pages 39 to 45 form an integral part of the Financial Statements.

# Cash Flow Statement

For the Year Ended 31 December	Note	2008 Rs.	2007 Rs.
<b>Cash Flows from/(used in) Operating Activities</b>			
Net surplus/(Deficit) for the Year		10,975,952	23,789,609
<b>Adjustment for;</b>			
Depreciation		6,556,502	3,981,521
Provision for Retirement Benefit		352,939	288,760
Provision for Taxation		-	-
Recognition of Grant		(5,501,913)	(3,298,028)
Interest Income		(9,712,154)	(6,291,358)
Net surplus before Working Capital changes		<u>2,671,326</u>	<u>18,470,503</u>
Change of Working Capital			
(Increase)/Decrease in Inventories		(16,669)	(58,558)
(Increase)/Decrease in Other Current Assets		(4,200,134)	(317,218)
Increase/(Decrease) in Receipt in Advance		(391,330)	(589,960)
Increase/(Decrease) in Creditors & Accruals		(4,155,369)	4,906,248
Cash Flows from/(used in) Operating Activities		<u>(8,763,502)</u>	<u>3,940,512</u>
Net Cash Flows from / (used in) Operating Activities		(6,092,176)	22,411,015
<b>Cash Flows from/(used in) Investing Activities</b>			
Investment in Government Securities		(5,825,283)	(25,792,007)
Interest Income		9,712,154	6,291,358
Proceeds from sale of Property, Plant & Equipment		25,654	-
Acquisition of Property, Plant & Equipments		(23,159,244)	(2,066,362)
Net Cash Flows used in Investing Activities		<u>(19,246,719)</u>	<u>(21,567,011)</u>
<b>Cash Flows from Financing Activities</b>			
Capital Transfer from Policy Holders Protection Fund		22,425,603	666,359
Increase in Finance Lease		296,431	765,636
Net Cash Flows from Financing Activities		<u>22,722,034</u>	<u>1,431,995</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		(2,616,861)	2,276,000
Cash and Cash Equivalents at the beginning of the Year		6,785,639	4,509,639
Cash and Cash Equivalents at the end of the Year (Note A)		<u>4,168,779</u>	<u>6,785,639</u>
<b>Note A</b>			
Cash at Bank	5	4,153,779	6,770,639
Cash in Hand		15,000	15,000
		<u>4,168,779</u>	<u>6,785,639</u>

The Accounting Policies and Notes appearing on pages 39 to 45 form an integral part of the Financial Statements.

## Policy Holders Protection Fund - Cash Flow Statement

For the Year Ended 31 December	Note	2008 Rs.	2007 Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase of Policy Holders Protection Fund		160,929,326	122,282,889
Net increase before Working Capital changes		160,929,326	122,282,889
Change of Working Capital			
(Increase)/Decrease in Interest Receivable on Government Securities		(2,466,926)	(1,824,737)
(Increase)/Decrease in Cess Receivable		(1,547,516)	17,749
(Increase)/Decrease in Rent Deposit		-	(4,686,000)
		(4,014,442)	(6,492,988)
Net Cash from Operating Activities		156,914,884	115,789,901
<b>Cash Flows used in Investing Activities</b>			
Investments in Government Securities		(156,853,318)	(116,776,956)
Net Cash used in Investing Activities		(156,853,318)	(116,776,956)
Net Increase/(Decrease) in Cash and Cash Equivalents		61,566	(987,056)
Cash and Cash Equivalents at the beginning of the Year		3,264,764	4,251,820
Cash and Cash Equivalents at the end of the Year		3,326,330	3,264,764
Cash at Bank	2	3,326,330	3,264,764

The Accounting Policies and Notes appearing on pages 39 to 45 form an integral part of the Financial Statements.



# Accounting Policies

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 BASIS OF PREPARATION

The Financial Statements of the Board are presented in Sri Lankan Rupees rounded to the nearest Rupee 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 provision for income tax has been computed in accordance with the provision of the Inland Revenue Act No.10 of 2006.

Further 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.

### 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.

As part of the remuneration package the managerial staff is entitled to a vehicle under the contributory lease scheme. Whilst the Board pays the lease rental, the staff concerned contributes towards the lease rental. In addition, the staff should bear all the expenditure in full pertaining to comprehensive insurance, licenses and maintenance. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period, i.e. after 48 months or upon settlement of the lease liability by the staff concerned in full.

#### *DEPRECIATION*

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

	<b>% Per Annum</b>
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.

### 2.2 INVESTMENTS

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

### 2.3 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.

### 2.4 RECEIVABLES

Receivables are stated at estimated realizable value.

### 2.5 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.

## Accounting Policies Contd.

### 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.

### 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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>1 PROPERTY, PLANT &amp; EQUIPMENT COST</b>						
Balance as at 1 January 2008	5,425,000	4,416,787	6,004,655	141,450	3,900,000	19,887,892
Additions	4,048,243	8,266,786	9,444,215	-	1,400,000	23,159,244
Disposals	-	(45,226)	-	-	-	(45,226)
Balance as at 31 December 2008	9,473,243	12,638,347	15,448,870	141,450	5,300,000	43,001,910
<b>ACCUMULATED DEPRECIATION</b>						
Balance as at 1 January 2008	1,356,250	1,307,141	2,700,507	70,726	1,933,493	7,368,117
Charge for the Year	1,617,674	1,328,835	2,520,041	35,363	1,054,589	6,556,502
Disposals	-	(19,569)	-	-	-	(19,569)
Balance as at 31 December 2008	2,973,924	2,616,407	5,220,548	106,089	2,988,082	13,905,050
<b>WRITTEN DOWN VALUE AS AT 31 DECEMBER 2008</b>						
	6,499,319	10,021,939	10,228,322	35,361	2,311,918	29,096,860
<b>WRITTEN DOWN VALUE AS AT 31 DECEMBER 2007</b>						
	4,068,750	3,109,646	3,304,148	70,724	1,966,507	12,519,775

	Note	As at 31.12.08 Rs.	As at 31.12.07 Rs.
<b>2 POLICY HOLDERS PROTECTION FUND INVESTMENTS AND OTHERS</b>			
<b>NON CURRENT ASSETS</b>			
Rent Deposits		7,417,440	7,417,440
<b>CURRENT ASSETS</b>			
Investment in Government Securities		482,633,126	325,779,810
Interest Receivable on Government Securities		17,333,300	14,866,374
Cess Receivable	7.1	34,637,263	33,089,747
Balance at Bank		3,326,330	3,264,764
		537,930,020	377,000,694
Total Assets		545,347,460	384,418,135
<b>3 INVENTORIES</b>			
Printing, Stationery & Computer Accessories		227,508	200,194
Publications		34,200	47,485
Stamps		24,670	22,029
		286,378	269,708

## Notes to the Financial Statements Contd.

	Note	As at 31.12.08 Rs.	As at 31.12.07 Rs.
<b>4 OTHER CURRENT ASSETS</b>			
Deposits		103,000	-
Annual Fee Receivables		215,391	-
Other Receivables		45,107	216,897
WHT Receivables		971,215	-
VAT Receivables		80,291	26,325
Interest receivables - Treasury Bills & Repo		4,536,958	1,641,446
Staff Loans *		2,355,407	2,214,882
Advance Payments		381,718	389,401
		<u>8,689,086</u>	<u>4,488,951</u>
*Loans granted to Staff			
Balance as at 1 January		2,214,882	665,625
Loans granted during the Year		890,100	1,910,000
		<u>3,104,982</u>	<u>2,575,625</u>
Repayments during the Year		(749,575)	(360,743)
Balance as at 31 December		<u>2,355,407</u>	<u>2,214,882</u>
<b>5 CASH &amp; CASH EQUIVALENTS</b>			
<b>Cash at Banks</b>			
People's Bank		2,686,152	2,656,387
Bank of Ceylon 1877		815,385	3,207,165
Hongkong & Shanghai Banking Corporation Ltd.		652,243	907,087
Cash in Hand		15,000	15,000
		<u>4,168,779</u>	<u>6,785,639</u>
<b>6 ACCUMULATED FUND</b>			
Balance as at beginning of the Year		56,852,302	33,062,693
Net Surplus for the Year		10,975,952	23,789,609
Balance as at end of the Year		<u>67,828,254</u>	<u>56,852,302</u>
<b>7 POLICY HOLDERS PROTECTION FUND</b>			
Opening Balance		384,418,135	254,654,137
Cess Received during the Year	7.1	133,081,659	120,856,562
Interest on Treasury Bill Investment		50,845,037	31,353,747
Interest on Repo		19,420,049	8,726,657
		<u>587,764,880</u>	<u>415,591,103</u>
Less:			
Transfers for Operational Expenses		19,986,302	30,500,000
Transfers for Capital Expenditures		22,425,603	666,359
Total Transfers		<u>42,411,905</u>	<u>31,166,359</u>
Bank Charges		5,514	6,609
		<u>42,417,419</u>	<u>31,172,968</u>
Closing Balance		<u>545,347,461</u>	<u>384,418,135</u>

- 7.1 During the year 2008 Insurance Board of Sri Lanka changed its accounting policy with respect to the revenue recognition of Cess income in order to give more relevant information about the financial position, performance and cash flows of the Board. Cess income now is recognised on accrual basis rather than on cash basis. This change in accounting policy has been accounted for retrospectively. The comparative statements for 2007 have been restated to conform to the changed policy. The effect of the change is an increase in Cess income Rs.2,213,824 (2008) and Rs.7,481,109 (2007) and Cess Receivables Rs.34,637,747 (2008) and Rs.33,089,747 (2007). Opening Balance of Policy Holders Protection Fund for 2007 have been increased by Rs.25,608,638 which is the amount of the adjustment relating to periods prior to 2007.

	<b>As at 31.12.08 Rs.</b>	<b>As at 31.12.07 Rs.</b>
<b>8 GRANT</b>		
Balance at the Beginning of the Year	10,547,578	12,629,797
Capital Expenditure from Policy Holders Protection Fund	22,425,603	666,359
Assets from Micro Insurance Project	-	549,450
Less: Amortised during the Year	(5,501,913)	(3,298,028)
Balance at the End of the Year	<u>27,471,268</u>	<u>10,547,578</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	12.5%

	<b>As at 31.12.08 Rs.</b>	<b>As at 31.12.07 Rs.</b>
<b>9 RETIREMENT BENEFIT OBLIGATIONS</b>		
Balance at the Beginning of the Year	440,187	151,428
Provision made during the Year	352,939	288,760
Balance at the End of the Year	<u>793,126</u>	<u>440,188</u>
<b>10 OTHER CURRENT LIABILITIES</b>		
VAT payable	-	83,679
Others	2,346,504	1,418,194
	<u>2,346,504</u>	<u>1,501,873</u>
<b>11 INTEREST BEARING BORROWINGS</b>		
<b>Finance Lease Liability</b>		
Lease Creditor	3,844,769	3,167,332
Less: Interest in Suspense	(997,223)	(616,217)
	<u>2,847,546</u>	<u>2,551,115</u>
Current Portion of Finance Lease Liabilities	(1,051,765)	(1,322,868)
	<u>1,795,781</u>	<u>1,228,247</u>
	<b>Year Ended 31.12.08 Rs.</b>	<b>Year Ended 31.12.07 Rs.</b>
<b>12 REVENUE</b>		
Annual Fees from Insurance Companies	26,279,029	22,072,020
Registration & Renewal Fees	2,384,327	3,556,657
	<u>28,663,356</u>	<u>25,628,677</u>

## Notes to the Financial Statements Contd.

	Year Ended 31.12.08 Rs.	Year Ended 31.12.07 Rs.
<b>13 OTHER INCOME</b>		
Registration of Suppliers	60,480	81,240
Sale of Publications	66,080	57,821
Sundry Income (Note A)	5,284,737	58,302
	<u>5,411,297</u>	<u>197,363</u>

### Note A

Payable to Financial Service Academy amounting to Rs. 5,000,000 was written off since the Trust was dissolved in July 2008.

	Year Ended 31.12.08 Rs.	Year Ended 31.12.07 Rs.
<b>14 STAFF COSTS</b>		
Staff Salaries	11,029,812	8,756,724
EPF and ETF	1,655,476	1,246,018
Provision for Retiring Gratuity	352,939	288,760
Staff Training - Overseas	3,655,274	2,297,993
Other Costs	6,231,127	4,058,542
	<u>22,924,628</u>	<u>16,648,037</u>

### 15 PROFESSIONAL CHARGES

Local Consultants	1,105,000	1,260,035
Foreign Consultants	691,433	315,310
	<u>1,796,433</u>	<u>1,575,345</u>

### 16 EXCESS/ (DEFICIT) INCOME OVER EXPENDITURE

Deficit for the year is arrived at after charging all expenses including the following:

Auditors Remuneration	75,000	50,000
Depreciation	6,556,502	3,981,521
Chairman's Allowance	360,000	360,000
Attendance Fee for Directors	59,000	51,000
Public Awareness	1,963,741	673,775

### 17 FINANCE & OTHERS

Bank Charges	32,285	22,734
Debit Tax	91,928	54,635
	<u>124,213</u>	<u>77,369</u>

### 18. TAXATION

No provision has been made for taxation due to the tax losses available to be carried forward as at 31 December 2008.

#### 18.1 Notional credit for withholding tax on Government Securities on secondary market transactions.

In terms of the provisions of Section 137 of the Inland Revenue Act No 10 of 2006, the Board is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities provided such interest income which form part of the statutory income of the Board for that year of assessment.

Accordingly, the net income earned by the Board from the secondary market transactions in Government Securities had been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 971,215/- for the year 2008 has been recognized in the Financial Statements for the year ended 31 December 2008.

## 19. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2008.

## 20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2008.

## 21. EVENTS AFTER THE BALANCE SHEET DATE

No circumstances have arisen since balance sheet date, which would require adjustments to or disclosure in the Financial Statements.

## 22. RELATED PARTY DISCLOSURES

Mr Udayasri Kariyawasam was appointed as the Chairman of the Insurance Board of Sri Lanka on 21 July 2008 with the resignation of Dr. Gamini Wickramasinghe.

Mr Sumith Abeysinghe resigned as an Ex-officio Member of the Board along with his appointment as Secretary to the Ministry of Finance & Planning in September 2008.

In October 2008 Mr. Lalith R de Silva was appointed to the Board as Ex-Officio Member in place Mr. Sumith Abeysinghe.

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

Name	Name of Institution	Relationship
Mr Udayasri Kariyawasam	Lanka Hospitals Corporation Limited	Director
Dr. Rane Jayamaha	Securities and Exchange Commission of Sri Lanka Credit Information Bureau National Economic Council National Payments Council Technical Committee on Regulation of Share Ownership in Banks	Ex officio Member Chairperson Member (w. e. f July 2007) Chairperson Chairperson
Mr Lalith R de Silva	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting Services	Ex Officio Member Senior Member
Mr Channa de Silva	Securities and Exchange Commission of Sri Lanka Construction Guarantee Fund(CGF) Sri Lanka Accounting Auditing Standards Monitoring Board(SLAASMB) National Payments Council	Director General Member of the Board  Member of the Board Member of the Board
Mr C P E Gunasigham	Jaguar (Pvt) Ltd Securities and Exchange Commission of Sri Lanka	Director Board Member
Mr Graetian Gunawardhana	National Development Health Fund Securities and Exchange Commission of Sri Lanka Hands International (Pvt) Ltd	Member of the Board of Trustee Member of the Board Chairman / Managing Director
Mr Wilfred Wickramasinghe	Chelsea Enamels (Pvt) Ltd Euro Asia Airfreight Ltd Peliyagoda Warehouse Complex Co.Ltd Financial Service Academy	Managing Director Managing Director Director Trustee (1 January 2008 to 9 July 2008)

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

# Auditor General's Report



**විගණකාධිපති දෙපාර්තමේන්තුව**  
**கணக்காய்வாளர் தலைமை அறிப்பித் திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No. }

EF/I/2/2008/2

ඔබේ අංකය  
உமது இல  
Your No. }

දිනය  
திகதி  
Date }

19 June 2009

## Report of the Auditor General

The audit of financial statements of the Insurance Board of Sri Lanka ("Board") for the year ended 31 December 2008 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.

### 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 and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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.

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Telephone. }

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**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 2008, 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 Board as at 31 December 2008 and the financial results of its operation and cash flows for the year then ended.

**Report to the Parliament**

My report to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.



**S. Swarnajothi**  
*Auditor General*

# Appendix 1

## **Insurance Companies Registered Under the Regulation of Insurance Industry Act No.43 of 2000 for the Year Ended 31 December 2008**

Sri Lanka Insurance Corporation Ltd.

Union Assurance PLC

Ceylinco Insurance PLC

Eagle Insurance PLC

Janashakthi Insurance PLC

Cooperative Insurance Company Ltd.

Asian Alliance Insurance PLC

Hayleys AIG Insurance Company Ltd.

HNB Assurance PLC

Amana Takaful PLC

Life Insurance Corporation (Lanka) Ltd.

Seemasahitha Sanasa Rakshana Samagama

Allianz Insurance Lanka Ltd.

ABC Insurance Company Ltd.

Ceylinco Takaful Ltd.

Allianz Life Insurance Lanka Ltd.

## Appendix 2

### Insurance Brokers Registered Under the Regulation of Insurance Industry Act No.43 of 2000 for the Year Ended 31 December 2008

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

# Glossary

## 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, 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 over time 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.

## 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.

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.

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

### **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).

### **Net Loss Ratio - Non-Life**

A formula used by insurers to relate net claims incurred to net earned premium ( i.e. after deducting relevant reinsurances).

### **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

## Glossary Contd.

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).

## Glossary of Insurance Terms

### 1 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.

### 2 Net Combined Ratio - Non-Life

This indicates the profitability of the insurer's operations by combining the net loss ratio (No.4) with net expense ratio (No.3). The combined ratio does not take account of investment income.

### 3 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).

### 4 Net Loss Ratio - Non-Life

A formula used by insurers to relate net claims incurred to net earned premium ( i.e. after deducting relevant reinsurances).

### 5 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.

### 6 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.

### 7 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.

### 8 Underwriting Result

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





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