



The Myriad Colours of Our Enterprise



Vision

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

Mission

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

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Colour Crafting...

The masterpiece that is our industry is an eclectic mix of 'colours'... as varied as our business mix of service providers, practices, regulations, customers and so on. The artist must choose brush, canvas and palette... it is through the artist's hand, eye and heart that the 'landscape' of our industry takes shape.

Yet sole responsibility for our 'scene' does not lie with the artist. There are many who inspire and catalyse... many who critique objectively... many who are satiated by the end product. Many, like those we've mentioned at the beginning of this narrative.

The IBSL plays a mix of roles... protector... empowerer... developer... proactive regulator... for the benefit of both the industry and customer. The 'brush and canvas' of our trade produces the best 'picture' possible!

It's why we've chosen the medium of art to portray what we do.





The Value of a Good Canopy

The IBSL extends a protective canopy over the industry and the consumer... protecting all... allowing the required 'sunlight' and 'air flows' of opportunity and proactiveness to nurture a lush and verdant landscape of industry.



The Benefits of Solid Bedrock

Sometimes the 'rush and flow' of business could spell danger... an 'erosion' of values and ethics could threaten the 'embankments' of enterprise and endanger customer security and confidence.

From the solid bedrock that is the IBSL, and through our supervisory role, we can help the thrust of our industry to 'flow' smoothly...accomplishing through the 'steady flowing river' of ethical enterprise much more than one ever could from 'the gushing torrent' of unbridled gain.



All We Need to Flourish and Grow

The beauties of natural empowerment... of pristine environment and its natural attributes of sunlight, fertile soil and water... developing and nurturing the land to yield its rich abundance.

We at the IBSL can have no better painted 'template' to depict what we do in our role of developer of the insurance industry... that of confidence builder and empathetic regulator and monitor.

General Information

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Legal Form

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

The Object and Responsibility of the Board

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

Accounting Year

31 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*
Dr. R.H.S. Samaratunge
Mr. Graetian Gunawardhana

Chairman's Statement

An efficient, transparent, competitive and reliable insurance industry greatly contributes to the economic development of a country. An effective regulatory and supervisory framework is essential for the sustainable growth of the insurance industry in Sri Lanka. This has to be founded on developments taking place in the local and international insurance industry, as well as the rapid economic development taking place in post-war Sri Lanka.

To meet these challenges, we continued our efforts to strike the right balance between strengthening the regulatory framework of our insurance industry, while promoting the development of our industry for covering diverse risks faced by individuals and organizations and providing the long term funds needed for national development. One of our strategic goals, both from an economic and a social perspective, was to ensure that Sri Lanka's insurance market operates effectively, remains competitive, and retains the confidence of all stakeholders.

The risk-based approach we have adopted was applied constructively but firmly in 2009, to identify underlying weaknesses in the regulatory framework and to strengthen our supervisory functions. Insurers had to respond to the strategic, operational and regulatory implications of the actions that emerged from our risk-based approach, which is in line with international best practices.

Supervision

We embarked upon a revision process to our supervisory system, to help us achieve our mission of ensuring that the insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner to safeguard the interests of policyholders and potential policyholders.

Our former rules-based supervisory system was focused on establishing reasonable rules that scrutinize aspects such as the solvency margin, investments, minimum capital requirement, etc. However, this supervisory approach is considered to be insufficiently reflective of varying risk profiles of different insurers, inconsistent with a risk-based approach to management and supervision, and out of line with international best practices and emerging standards of the International Association of Insurance Supervisors (IAIS).

Therefore, we took a decision in 2009 to upgrade our supervisory system with the assistance of the World Bank, to a Risk Sensitive Capital Model for insurance industry supervision. The main objective was to develop a risk-sensitive



Chairman's Statement

minimum capital regime in consultation with our stakeholders, which is consistent with the risk profiles, practices and market dynamics of the insurance industry in Sri Lanka.

This new model, expected to be ready during 2010, will contribute to strengthening our risk management system of insurance companies, and provide a supervisory system in line with international standards which support risk-oriented management of insurers.

Regulation

Regulation is mainly a matter of judgment. The judgments we are called on to make are often difficult. Our risk assessment framework is designed to provide a sound basis on which the numerous judgments we have to make can be made. Our regulatory approach is designed to enable us to identify and take mitigating action in respect of significant risks judged in terms of both the probability of a risk crystallizing, and the impact if it were to crystallize. Our commitment is to strengthen the regulation of insurance, without stifling or placing undue burden on the development of our insurance industry.

With our risk-based approach, insurance firms faced a fundamental change in the way that they are regulated, including a more proactive and challenging regulatory relationship. With greater focus on a more comprehensive and accurate disclosure regime, some insurers started to notice increased intervention by our supervisors, at both senior management and working levels. This reflected the explicit responsibility we placed on senior management to ensure that their systems, controls and disclosures were adequate and accurate.

We used a range of tools, including on-site inspection to test the adequacy and accuracy of their disclosures. Whenever we found insurance firms that did not meet the required statutory standards, we have taken enforcement action. Some instances of non-compliance by a firm with our regulatory requirements were addressed satisfactorily by the firm without the need for formal disciplinary action. In more serious cases, however, we had to institute formal disciplinary action.

Compared to our previous system of regulation, this was a significant change in what we expected from insurance firms, and our regulatory relationship with them. Our aim was to ensure more openness within the industry and among consumers through the accuracy of their disclosures, increased responsibility and accountability for their senior management, and greater awareness of the impact of their actions on the industry and consumers.

All these initiatives were designed to strengthen the regulatory regime in which insurance firms operate. All insurance firms will now have to comply with more stringent requirements in areas of governance, management and operations.

Solvency

While both asset prices and liabilities can fluctuate widely even on a day-to-day basis, insurance firms' liabilities typically crystallize over the longer term. It is the responsibility of insurance firms to monitor their capital (excess of assets over liabilities) to ensure that they meet regulatory requirements, so they can meet their liabilities in both the short and long term.

The purpose of minimum solvency requirements was to provide some protection against possible losses, including falls in values of financial securities. We needed to develop a clearer understanding of the pressures on insurance firms' abilities to meet their policyholders' reasonable expectations under weaker economic and market conditions. In practice, insurance firms need to hold assets well in excess of best estimates of liabilities, in order to absorb unexpected losses and liabilities, and to support future new business.

Market Development

Life insurance products offered to consumers over the years have become increasingly complex and decreasingly informative. These factors, coupled with a population that generally has a fairly limited understanding of financial products, have meant that consumers - particularly those of moderate means - have not had easy access to good-value products suited to their needs.

Increased life expectancy, the growing shift in emphasis between state and private pension provision, and the move of investment risks from company pension schemes to individuals, bring risks as well as opportunities for the life insurance industry. Such risks include those arising from the sale of complex products to consumers who may not fully understand them, and the threat to a firm's solvency that potential mismanagement or mispricing of long term products could pose.

Even though increasing life expectancy has led to an increased need for savings products, the take-up is likely to be limited unless they are simplified and marketed effectively. This is how insurers can reach a greater number of consumers, lower down the income scale. Nevertheless, knowledgeable consumers can be expected to continue to buy more sophisticated products, some of which may carry higher charges.

Corporate customers are looking to secure appropriate and affordable protection for their businesses, their assets, their employees, their customers and other third parties. Insurance firms need to be able to pass on a proportion of the risks they have taken on themselves, where appropriate, through reinsurance.

In addition to being better informed and better served, consumers need to have confidence that their insurer is soundly managed and that its financial resources are adequate to pay out when required. Insurers will continue to remain responsible for the design and delivery of products, while advisers will be responsible for providing suitable advice based on information available to them. Advisers will continuously need to have an adequate understanding of the products they advise on, so that they can determine whether or not they are suitable for their clients.

Insurance consumers also have a critical part to play in market development by ensuring that they understand how insurance can cover the diverse risks they face. Consumer education on financial matters is vitally important for the growth of our insurance industry. Public understanding is thus one of our key objectives and we are taking a leading role in a range of consumer education initiatives. Our focus on education and training will help bring about the much needed improvement in the expertise of intermediaries, consumers' awareness, and the usage of insurance.

Industry Growth

The total premium income from long term and general insurance has shown a negative growth of 1.57% in 2009 when compared to a positive growth of 12.11% in the previous year. From 2008 to 2009, the premium income from general insurance has declined by 3%, while the premium income from long term insurance has grown only by 0.65%.

These results clearly show that our insurance industry, in both the life and general sectors, is facing significant challenges. In my view, the insurance industry has not implemented new strategies to break away from the low growth rates that have plagued our industry for years. They need new thinking, strategies and products to exploit the opportunities arising from the rapid economic growth in post-war Sri Lanka.

Long term insurance is a major means through which savings are channelled into national development and industrial investment. However, from 2008 to 2009, penetration of life insurance as a percentage of total population remains

unchanged at a low 10.4%, and penetration as a percentage of the labour force has increased just marginally from 27.8% to 28.0%.

The life insurance industry has had a history of complexity in product design. As a result, life products are complex to manage and difficult for the individual to understand in terms of risk protection being provided, and the price of such protection. Life insurance providers have therefore continued to focus on higher-income groups in urban areas. They need to simplify their products and make them cheaper in order to attract lower-income groups especially in the rural areas.

Looking Forward

This is clearly a challenging time for the insurance industry worldwide. We are ensuring that the regulatory regime here in Sri Lanka is sufficiently robust and flexible to cope with changing conditions. It is designed to be appropriate both in buoyant times we are currently facing, and difficult times that may arise in the future. The proactive identification and prioritization of risk and the resulting deployment of our resources will enable us to use our regulatory tools to respond to any major changes in the insurance industry and the economic environment.

Our insurance industry needs to respond not only to the market pressures and opportunities, but also to a changing regulatory environment. It is important that firms recognize that these regulatory developments require the modernization of their governance and risk management frameworks and their systems and controls. They have to support our efforts to improve market efficiency and discipline, through better and more accurate standards of disclosure, leading to greater transparency.

Our life insurance industry will be a key player in efforts to boost savings in Sri Lanka at a time of rapid economic growth. Insurers will need to develop flexible products and services to address the needs of consumers island-wide, while taking full account of their responsibilities for managing risks to consumers when creating and selling long term insurance products.

Conclusion

Our efforts to strengthen insurance regulation in Sri Lanka is a continuing one. Through smarter regulation, we will continue to secure a fair deal for consumers, strengthen our requirements for insurance firms to be soundly managed, ensure that they make adequate and accurate disclosures, and make sure they have adequate financial resources.

Chairman's Statement

During the past year, we have hired more staff, and provided a number of local and overseas training opportunities to our staff. Our achievements over the past year can be attributed to their expertise and the exceptional service provided by them to the insurance industry and consumers. New legislative concepts, new levels of expertise in supervision and regulation, and a commitment to improving our regulatory and supervisory framework have moved us closer to our goal of becoming a highly efficient and proactive regulatory organization.

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



UDAYASRI KARIYAWASAM
Chairman

4 May 2010

Members of the Board



1. Mr. Udayasri Kariyawasam 2. Mr. U.S. Abeyaratna 3. Mr. Kamal Goonesinghe
4. Mr. G. Gunawardhana 5. Mr. P.D.J. Fernando 6. Mrs. Sujatha Cooray 7. Mr. Channa de Silva

Senior Management Team



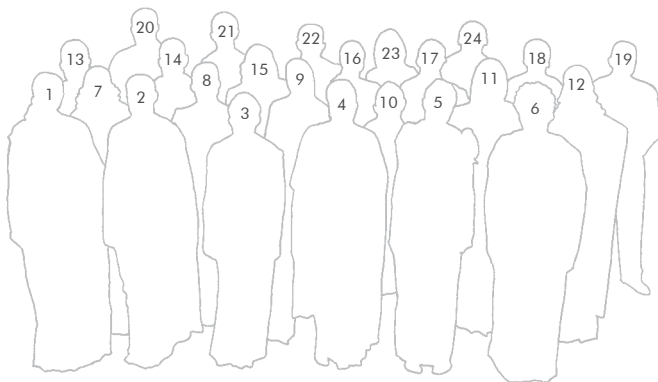
Standing Left to Right:

1. Damitha Narangoda - Director Supervision
2. Damayanthi Fernando - Director Legal
3. Renuka Liyanaratne - Director Finance and Administration
4. Chamari Ekanayake - Asst. Director Supervision

Staff



1. Decika Rathnayake 2. Upendra Senevirathna 3. Priyangi de Silva 4. Chathuri Bandara 5. P.T. Antoney 6. Merina Dias 7. Shyamalie Attanayake
8. Ruvini Liyanage 9. Hiranya Perera 10. S.S. Supulee 11. Nipuni Egodage 12. Chamelika Peter 13. H.P. Asanka 14. Bimsara Wijesinghe
15. G.P. Chatumadhusha Guruge 16. Lasanthi Thothahewa 17. Sarika Wattuhewa 18. R.A. Sujeewa Priyangani 19. D.S.K. Senadeera 20. Udayanga Gange
21. Kapila Thilakarathne 22. Luxman Wijesinghe 23. T. Eshanthi Mendis 24. E. Srikanthan 25. Harshana Wanniarachchi (Not in the picture)



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.

Regulation 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 obtain registration as an insurer under the Act after having fulfilled other statutory requirements.

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 re-register under the new Companies 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.

Eighteen insurance companies were in operation at the end of the year, including People's Insurance Limited and Continental Insurance Lanka Limited which were registered during the year (Refer Appendix I on page 59). The following diagram (Figure 1.1) depicts the classes of insurance business the companies were engaged in during the year 2009:

Insurance Companies (18)

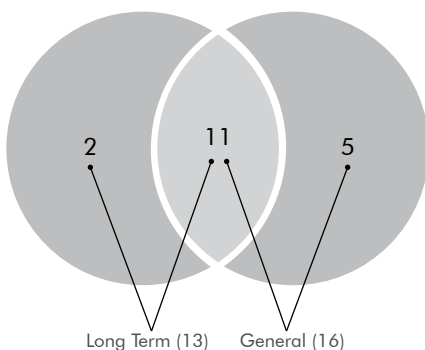


Figure 1.1 - Classes of insurance business carried out by insurers

Insurance Broking Companies

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 registration as an insurance broker under the Act after having fulfilled other statutory requirements.

Over the year, there were 48 companies engaged in insurance broking business in Sri Lanka. However, at the end of the year only 43 insurance broking companies remained to operate (Refer Appendix II on page 60). The following diagram (Figure 1.2) depicts the classes of insurance business brokers were engaged in during the year:

Insurance Broking Companies (48)

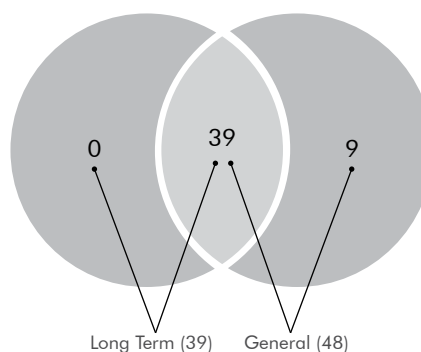


Figure 1.2 - Classes of insurance business carried out by the brokers

Insurance Agents

Insurance agents are individuals appointed and registered by insurers and insurance broking companies and they play a key role in marketing life insurance products. In Sri Lanka there are approximately 37,000 insurance agents.

In terms of Section 78(4) of the Act, the Board has issued rules specifying the minimum educational qualifications and other entry requirements to appoint individuals as insurance agents.

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

The following diagram (Figure 1.3) depicts the changes proposed to the 'minimum paid up share capital' by the Board which is an increase from the current status. However, in order to implement this decision, the proposed amendment to the Act to increase the paid up share capital of existing insurance companies should be enacted.

Proposed Changes to the "Minimum Paid-up Share Capital" (Rs. million)

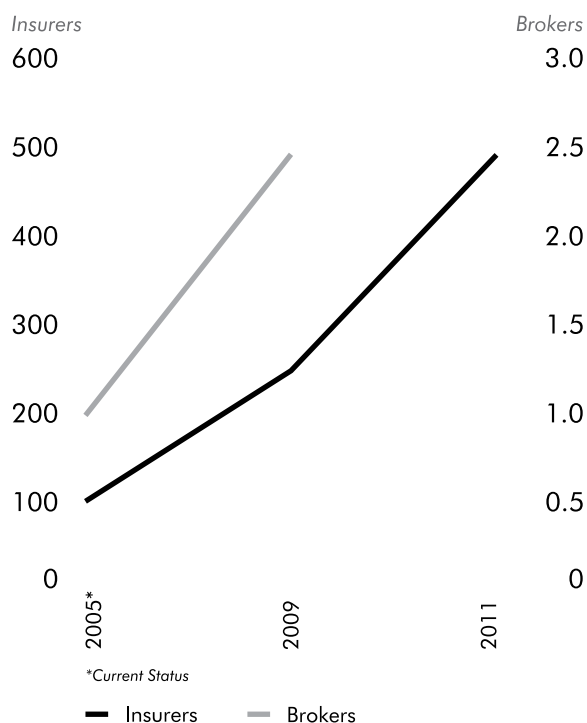


Figure 1.3 - Proposed changes to the 'Minimum Paid Up Share Capital'

The Board has also requested all insurance companies to obtain a rating of Insurer's Financial Strength (IFS) indicating their ability to pay claims from a rating agency acceptable to the Board. Accordingly, HNB Assurance PLC (HNB), Janashakthi Insurance PLC (JIC), Asian Alliance Insurance PLC

(Asian Alliance), Co-operative Insurance Company Limited (Co-operative) and Sri Lanka Insurance Corporation Limited (SLIC) have got their companies rated by local rating agencies. The details are as follows:

Name of Insurer	Rating Obtained	Name of the Rating Agency
HNB	A (lka)	Fitch Ratings Lanka Limited
JIC	BBB+	RAM Ratings (Lanka) Limited
Asian Alliance	BB+	RAM Ratings (Lanka) Limited
Co-operative	BB	RAM Ratings (Lanka) Limited
SLIC	AAA (Upgraded from AA- to AAA in 2010 May)	RAM Ratings (Lanka) Limited

Seven insurance companies are listed on the Colombo Stock Exchange namely, Ceylinco Insurance PLC, AVIVA NDB Insurance PLC (formerly known as Eagle Insurance PLC), Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amāna Takaful PLC and Janashakthi Insurance PLC.

Listed/Non-Listed Insurance Companies

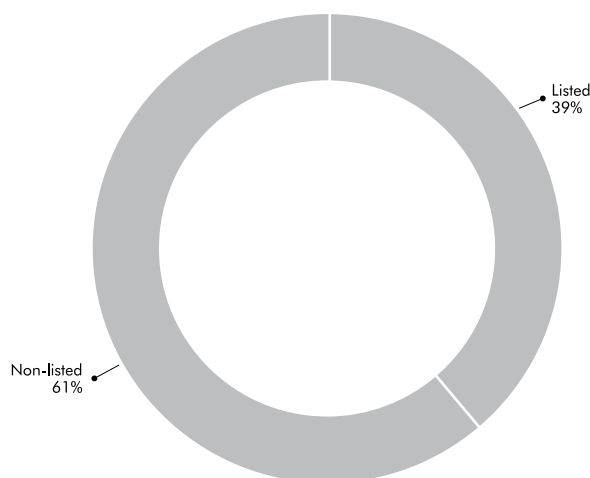


Figure 1.4 - 'listed/non listed' insurance companies

It may be noted that the proposed amendment to the Act states that an insurer within three years of being issued with a licence by the Board shall have itself listed on the stock exchange. An insurer who already holds a valid licence issued by the Board shall be required to have itself listed on the stock exchange within a period of three years of the proposed amendment coming into operation.

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. Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. have 100% direct foreign equity participation. They are subsidiaries of Allianz SE.

Insurance Broking Companies

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 broking companies was increased to Rs. 1 million with effect from 29 September 2005.

The Board also decided to increase the paid up share capital of existing insurance broking companies. However, the proposed amendment to the Act to increase the paid up share capital of existing insurance broking companies needs to be enacted for this. (Refer Figure 1.3).

Levy of 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 Cess for the creation of the Policyholders’ Protection Fund. By Gazette Notification No. 1244/5 on 9 July 2002, it has specified 0.2% of the total annual net premium of long term insurance business and 0.4% of the total annual net premium of general insurance business to be credited to the Policyholders’ Protection Fund. The collection of the Cess from insurers commenced with effect from January 2003 and the amount of Cess collected in 2009 was Rs. 138,941,319/-.

Policyholders’ Protection Fund

The Cess collected from insurance companies is deposited into the Policyholders' Protection Fund, established in terms of section 103 of the Act. The amount lying to the credit of the Policyholders’ Protection Fund is invested in Government Securities. The accumulated amount in the Fund as at 31 December 2009 was Rs. 755,073,543/-.

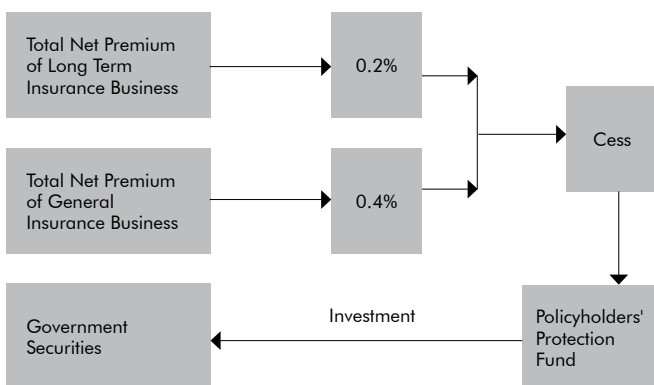


Figure 1.5 Cess and the Policyholders’ Protection Fund

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 granted approval to any person to place directly or indirectly health and travel insurance with an insurer, licenced or registered overseas, even if such insurer is not registered in Sri Lanka under the Act. Further approval has been granted to registered insurers, if they so desire, to obtain liability insurance cover for their directors and employees in respect of liabilities arising from the discharge of their duties from an insurer licenced or registered overseas, even if such insurer is not registered in Sri Lanka under the Act, provided that any proceeds on such covers payable to a resident party for any claim will be brought into the country in foreign currency.

Exemptions

Provisions of the Act do not apply to the Agricultural and Agrarian Insurance Board established under the Agricultural and Agrarian Insurance Act, No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established by 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 the National Insurance Trust Fund established under the National Insurance Trust Fund Act, No. 28 of 2006.

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, the 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. However, in terms of the above provision, NITF has directed all insurance companies to cede 20% of reinsurance premium 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 of Sri Lanka 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 in which every insurance company registered under the Act is eligible for membership. All insurance companies are members of this Association which maintains a close working relationship with the Board.

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

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

Sri Lanka Insurance Institute (SLII)

The Sri Lanka Insurance Institute, 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 in Australia, Insurance Institute in India and the Actuarial Society of India. The Institute conducts short term diploma courses in insurance for persons employed in the insurance industry.

The Board has entrusted the Institute with the responsibility of conducting the pre-recruitment tests 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 the Board under the Act were published in Gazette Notification No. 1255/3, all insurance agents who are appointed by insurers and insurance broking companies are required to pass the pre-recruitment test.

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, insurers, reinsurers, reinsurance brokers and other insurance professionals from 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.

Statistical Review

Premium Income

The aggregate Gross Written Premium (GWP) from long term and general insurance business was Rs. 57,252 million in 2009, down by 1.57% from the previous year's GWP of Rs. 58,166 million. The decline in the premium income growth during 2009 has resulted in a lower contribution to GDP of 1.19% when compared with the preceding six years.

The GWP of the general insurance business amounting to Rs. 33,485 million (2008 - Rs. 34,553 million) accounted for 58.48% (2008 - 59.40%) of the total GWP while long term insurance business with a premium income of Rs. 23,767 million (2008 - Rs. 23,613 million) represented 41.52% (2008 - 40.60%) of GWP. The contribution from long term insurance continued to be lower than the general insurance business though the contribution of the long term insurance towards the total premium income has been gradually rising every year since 2006.

Table 1

Premium Income							
	2003	2004	2005	2006	2007	2008	2009
Long Term Insurance (in million Rs.)	10,613	12,518	14,814	17,104	20,729	23,613	23,767
General Insurance (in million Rs.)	13,534	17,037	22,410	25,931	31,156	34,553	33,485
Total Premium Income (in million Rs.)	24,147	29,555	37,224	43,035	51,885	58,166	57,252
Gross Domestic Product (in billion Rs.)*	1,822	2,091	2,453	2,939	3,578	4,411	4,825
Total Premium as % of GDP	1.33	1.41	1.52	1.46	1.45	1.32	1.19
Growth Rate in Total Premium (%)	19.06	22.39	25.94	15.61	20.56	12.11	(1.57)

* GDP figures are extracted from the Central Bank of Sri Lanka Annual Reports

Total Shareholders' Funds of Insurance Companies

Total Shareholders' Funds of all the insurance companies as at 31 December 2009 amounted to Rs. 29,053 million, up by 15.96% when compared with the previous year's

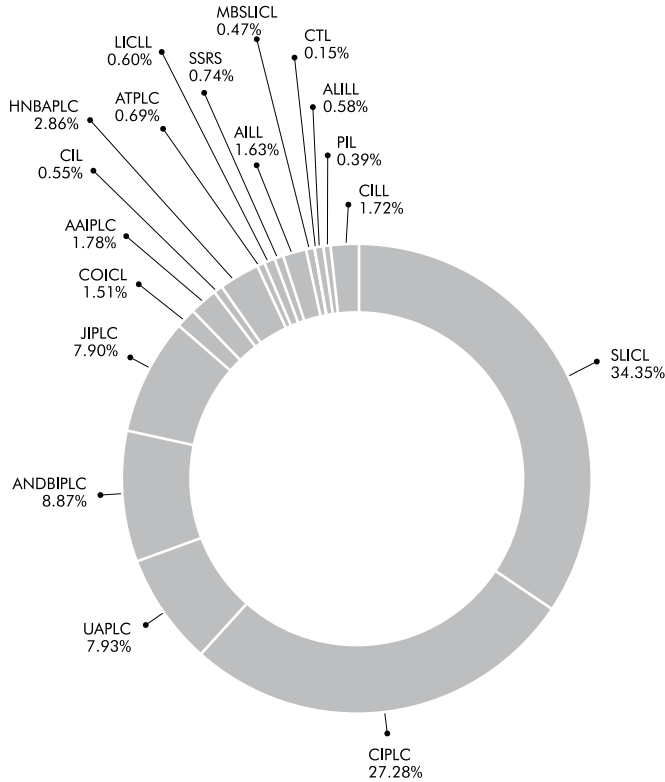
Rs. 25,055 million. Table 2 shows the company-wise analysis of Shareholders' Funds for 2008 and 2009 while Chart 1 shows the company-wise distribution of Shareholders' Funds in 2009.

Table 2

Total Shareholders' Funds of Insurance Companies									
Insurer	2008		2009						
	Total Shareholders' Funds Rs. '000	%	Paid-up Capital Rs. '000	General Reserves Rs. '000	Retained Earnings/(Loss) Rs. '000	Other Reserves Rs. '000	Total Shareholders' Funds Rs. '000	%	
SLICL	9,656,094	38.54	6,000,000	1,448,135	2,529,826	-	9,977,961	34.35	
CIPLC	5,952,852	23.76	1,324,822	1,970,416	3,994,521	636,204	7,925,963	27.28	
UAPLC	1,500,552	5.99	388,433	584,359	1,332,359	-	2,305,151	7.93	
ANDBIPLC	2,163,667	8.64	300,000	-	-	2,275,487	2,575,487	8.87	
JIPLC	2,244,048	8.96	1,496,000	-	798,407	-	2,294,407	7.90	
COICL	265,221	1.06	354,647	-	81,928	3,036	439,611	1.51	
AAIPLC	404,060	1.61	250,000	-	267,540	-	517,540	1.78	
CIL	199,679	0.80	536,669	-	(375,674)	-	160,995	0.55	
HNBAPLC	676,115	2.70	375,000	-	455,851	-	830,851	2.86	
ATPLC	419,456	1.67	500,000	-	(303,560)	5,000	201,440	0.69	
LICLL	160,141	0.64	362,500	-	(197,484)	10,500	175,516	0.60	
SSRS	248,700	0.99	209,820	-	3,627	75	213,522	0.74	
AILL	705,321	2.82	250,000	-	223,145	-	473,145	1.63	
MBSLICL	115,426	0.46	478,487	-	(340,944)	-	137,543	0.47	
CTL	103,066	0.41	130,000	-	(86,654)	-	43,346	0.15	
ALILL	240,348	0.96	249,999	-	(82,589)	-	167,410	0.58	
PIL	-	-	115,000	-	(683)	-	114,317	0.39	
CILL	-	-	500,000	-	(1,029)	-	498,971	1.72	
Total	25,054,746	100.00	13,821,377	4,002,910	8,298,587	2,930,302	29,053,176	100.00	

Chart 1

Company-wise Analysis of Shareholders' Funds - 2009



Total Assets of Insurance Companies

Total assets of all the insurance companies as at 31 December 2009 was Rs. 181,045 million, up by 16.06% when compared to the total assets as at 31 December 2008 which amounted to Rs. 155,994 million.

Assets of long term insurance business amounted to Rs. 118,305 million (2008 - Rs. 97,730 million) and represented 65.35% (2008 - 62.65%) of the total industry assets. Assets of general insurance business amounting to Rs. 62,740 million (2008 - Rs. 58,263 million) represent 34.65% (2008 - 37.35%) of total assets of insurers. Table 3 shows the distribution of assets in 2008 and 2009 while chart 2 depicts the company-wise analysis of assets for 2009.

Abbreviations for Insurance Companies

- SLICL : Sri Lanka Insurance Corporation Limited
- NICL * : National Insurance Corporation Limited
- CIPLC : Ceylinco Insurance PLC
- UAPLC : Union Assurance PLC
- ANDBIPLC : AVIVA NDB Insurance PLC (Formerly known as Eagle Insurance PLC)
- JIPLC : Janashakthi Insurance PLC
- COICL : Co-operative Insurance Company Limited
- AAIPLC : Asian Alliance Insurance PLC
- CIL : CHARTIS Insurance Limited (Formerly known as Hayleys AIG Insurance Company Limited)
- HNBAPLC : HNB Assurance PLC
- ATPLC : Amāna Takaful PLC
- LICLL : Life Insurance Corporation (Lanka) Limited
- SSRS : Seemasahitha Sanasa Rakshana Samagama
- AILL : Allianz Insurance Lanka Limited
- MBSLICL : MBSL Insurance Company Limited (Formerly known as ABC Insurance Company Limited)
- CTL : Ceylinco Takaful Limited
- ALILL : Allianz Life Insurance Lanka Limited
- PIL : People’s Insurance Limited
- CILL : Continental Insurance Lanka Limited

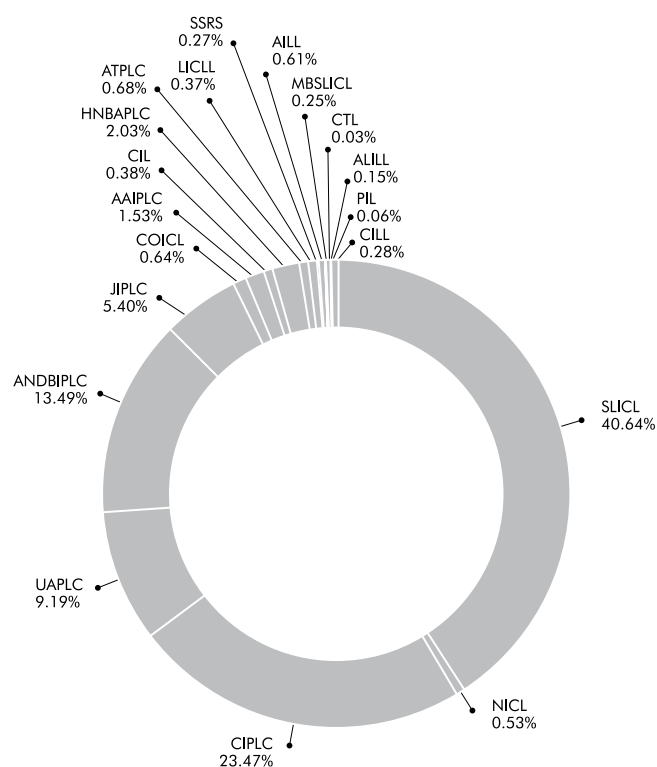
* NICL was amalgamated with JIPLC in December 2006.

Table 3

Insurer	Distribution of Assets							
	2008				2009			
	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	42,120,604	23,478,136	65,598,740	42.05	48,454,169	25,114,739	73,568,908	40.64
NICL	972,551	-	972,551	0.62	968,826	-	968,826	0.53
CIPLC	24,149,139	14,123,322	38,272,461	24.53	29,852,432	12,641,347	42,493,779	23.47
UAPLC	8,566,751	4,596,408	13,163,159	8.44	11,468,769	5,176,460	16,645,229	9.19
ANDBIPLC	15,057,772	4,611,581	19,669,353	12.61	18,958,838	5,462,348	24,421,186	13.49
JIPLC	2,345,719	5,878,104	8,223,823	5.27	2,744,848	7,031,697	9,776,545	5.40
COICL	276,614	604,935	881,549	0.57	322,733	837,404	1,160,137	0.64
AAIPLC	1,403,663	742,017	2,145,680	1.38	1,861,645	903,182	2,764,827	1.53
CIL	-	771,222	771,222	0.49	-	682,454	682,454	0.38
HNBAIPLC	1,582,210	1,217,261	2,799,471	1.79	2,098,269	1,573,434	3,671,703	2.03
ATPLC	313,868	739,342	1,053,210	0.68	369,186	861,532	1,230,718	0.68
LICLL	498,669	-	498,669	0.32	677,278	-	677,278	0.37
SSRS	121,400	299,600	421,000	0.27	167,598	313,262	480,860	0.27
AILL	-	705,321	705,321	0.45	-	1,105,444	1,105,444	0.61
MBSLICL	61,499	309,222	370,721	0.24	88,515	360,850	449,365	0.25
CTL	-	187,002	187,002	0.12	-	60,586	60,586	0.03
ALILL	259,745	-	259,745	0.17	271,418	-	271,418	0.15
PIL	-	-	-	-	-	116,683	116,683	0.06
CILL	-	-	-	-	-	498,971	498,971	0.28
Total	97,730,204	58,263,473	155,993,677	100.00	118,304,524	62,740,393	181,044,917	100.00

Chart 2

Concentration of Assets
Company-wise Analysis - 2009



Concentration of Assets of Long Term
Insurance Business of Insurance Companies

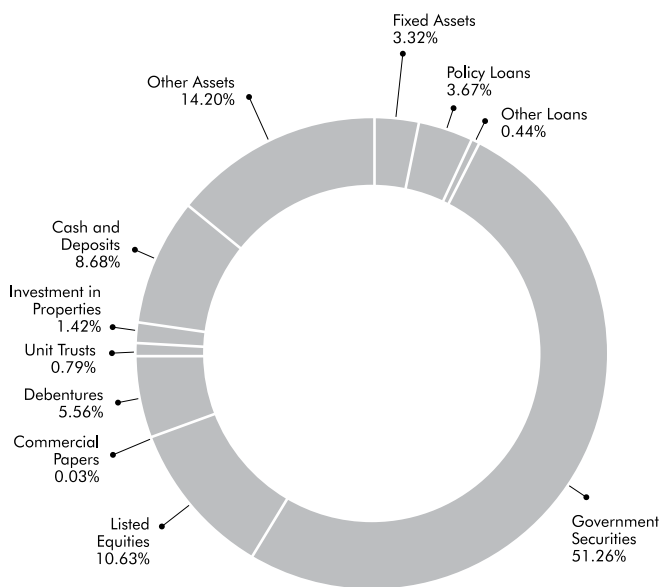
Table 4 and Chart 3 show the distribution of the assets of long term insurance business in 2009. Investments in government securities amounting to Rs. 60,648 million (2008 - Rs. 48,405 million) represent 51.26% (2008 - 49.53%) of the total assets of Rs. 118,305 million (2008 - Rs. 97,730 million) of the long term insurance business. These figures indicate that the insurers have invested in government securities exceeding the statutory minimum investment of 30% as required under the Act. The remaining assets of insurers were invested as stipulated by the Determination No. 1. There has been an increase of 21.05% in total assets of long term insurance business during 2009 when compared with 2008.

Table 4

Concentration of Assets of Long Term Insurance Business - 2009		
Type of Investment	Rs. '000	%
Fixed Assets	3,923,598	3.32
Policy Loans	4,345,715	3.67
Other Loans	519,082	0.44
Government Securities	60,647,803	51.26
Listed Equities	12,572,969	10.63
Commercial Papers	33,577	0.03
Debentures	6,573,414	5.56
Unit Trusts	939,770	0.79
Investment in Properties	1,684,645	1.42
Cash and Deposits	10,263,318	8.68
Other Assets	16,800,633	14.20
Total	118,304,524	100.00

Chart 3

Concentration of Assets of Long Term Insurance Business
Asset-wise Analysis - 2009



Concentration of Assets of General Insurance Business of Insurance Companies

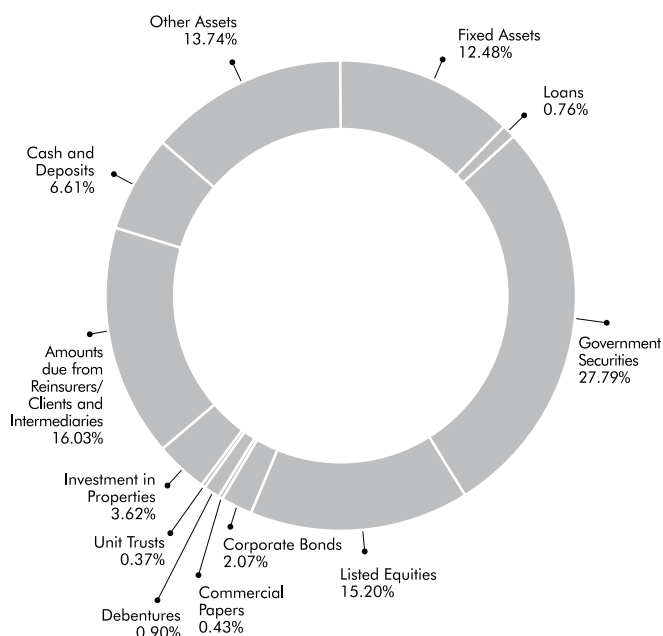
Total assets of the general insurance business for 2009 amounted to Rs. 62,740 million (2008 - Rs. 58,263 million), up by 7.68% against the 2008 figure. Investments in government securities amounted to Rs. 17,435 million (2008 - 15,956 million) and represented 27.79% (2008 - 27.39%) of the total assets of the general insurance business. The remaining assets of the insurance companies were invested as per Determination No. 1. Table 5 and Chart 4 depict the distribution of assets of the general insurance business.

Table 5

Concentration of Assets of General Insurance Business - 2009		
Type of Investment	Rs. '000	%
Fixed Assets	7,827,727	12.48
Loans	479,613	0.76
Government Securities	17,434,755	27.79
Listed Equities	9,534,855	15.20
Corporate Bonds	1,299,331	2.07
Commercial Papers	272,255	0.43
Debentures	563,391	0.90
Unit Trusts	235,001	0.37
Investment in Properties	2,273,118	3.62
Amounts due from Reinsurers/ Clients and Intermediaries	10,054,482	16.03
Cash and Deposits	4,148,504	6.61
Other Assets	8,617,361	13.74
Total	62,740,393	100.00

Chart 4

Concentration of Assets of General Insurance Business Asset-wise Analysis - 2009



Distribution of Total Assets of Major Financial Institutions

Total assets of major financial institutions amounted to Rs. 5,616 billion (2008 - Rs. 4,840 billion), out of which the total assets of the insurance sector amounted to Rs. 179.7 billion (as per provisional figures reported in Central Bank of Sri Lanka, Annual Report 2009) (2008 - 155.2 billion) which represented 3.2% (2008 - 3.2%).

Table 6 illustrates the distribution of total assets of major financial institutions from 2006 to 2009, and Chart 5 depicts the distribution of the total assets among the major financial institutions in 2009.

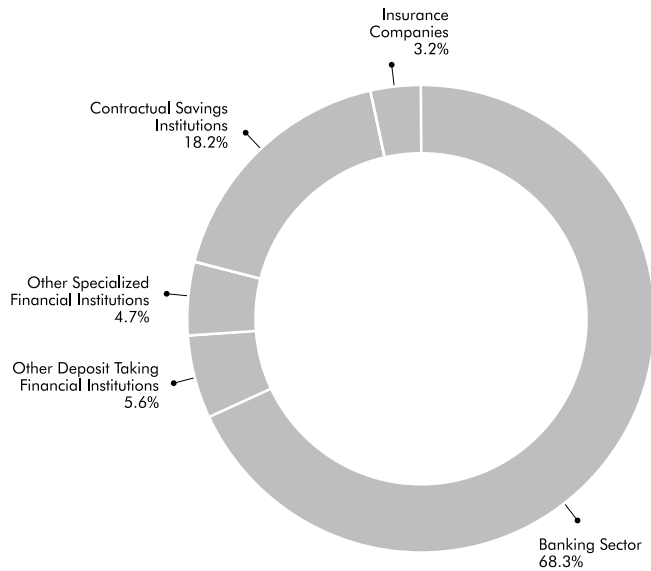
Table 6

Financial Institutions	Distribution of Assets							
	2006		2007		2008		2009	
	Rs. billion	%	Rs. billion	%	Rs. billion	%	Rs. billion	%
Banking Sector	2,635.0	70.6	3,065.6	71.1	3,294.6	68.0	3,832.0	68.3
Other Deposit Taking Financial Institutions	140.9	3.8	175.3	4.1	285.9	5.9	315.1	5.6
Other Specialized Financial Institutions	170.8	4.6	180.8	4.2	239.7	5.0	265.3	4.7
Contractual Savings Institutions	669.2	17.9	754.5	17.5	864.6	17.9	1,023.9	18.2
Insurance Companies	117.6	3.1	134.9	3.1	155.2	3.2	179.7	3.2
Total	3,733.5	100.0	4,311.1	100.0	4,840.0	100.0	5,616.0	100.0

* Source: Central Bank of Sri Lanka Annual Report - 2009

Chart 5

Distribution of Total Assets of Major Financial Institutions - 2009



Long Term Insurance Business

Gross Written Premium (GWP)

Despite the several challenges in the economic environment, the long term insurance business has recorded a GWP of Rs. 23,767 million in 2009, which is a marginal growth of 0.7% compared with the previous year's premium of Rs. 23,613 million. However, the growth rate has dropped when compared with 13.9% growth recorded in 2008 as seen in Table 7.

Table 7

Company-wise Market Share of Gross Written Premium - Long Term Insurance Business										
Insurer	2005		2006		2007		2008		2009	
	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%
SLICL	3,602,639	24.32	3,885,022	22.71	4,477,537	21.60	4,498,257	19.05	4,818,448	20.27
NICL	123,489	0.83	111,500	0.65	97,881	0.47	87,119	0.37	89,045	0.38
CIPLC	4,793,650	32.36	5,717,887	33.43	6,847,185	33.03	8,257,279	34.97	7,523,097	31.65
UAPLC	1,456,576	9.83	1,672,744	9.78	2,163,480	10.44	2,503,888	10.60	2,678,482	11.27
ANDBIPLC	2,832,541	19.12	3,150,042	18.42	3,788,103	18.27	4,342,218	18.39	4,632,490	19.49
JIPLC	691,199	4.67	912,658	5.34	1,108,152	5.35	1,339,041	5.67	1,304,976	5.49
COICL	61,897	0.42	73,695	0.43	100,393	0.48	131,003	0.55	149,391	0.63
AAIPLC	577,693	3.90	747,934	4.37	890,794	4.30	970,077	4.11	1,009,031	4.25
CIL	8,681	0.06	-	-	-	-	-	-	-	-
HNBAIPLC	354,181	2.39	503,322	2.94	767,576	3.70	914,170	3.87	891,808	3.75
ATPLC	86,272	0.58	90,895	0.53	130,986	0.63	188,406	0.80	207,097	0.87
LICLL	204,618	1.38	186,770	1.09	254,238	1.23	255,099	1.08	252,142	1.06
SSRS	18,737	0.13	27,826	0.16	55,548	0.27	69,617	0.29	61,563	0.26
MBSLICL	2,055	0.01	23,891	0.14	47,438	0.23	52,747	0.22	55,606	0.23
ALILL	-	-	-	-	-	-	4,013	0.02	94,322	0.40
Total	14,814,228	100.00	17,104,186	100.00	20,729,311	100.00	23,612,934	100.00	23,767,498	100.00
Growth Rate (%)	18.3		15.5		21.2		13.9		0.7	

Analysis of Data in Table 7

Ceylinco Insurance PLC has maintained its top position in the market, despite a weaker performance, by recording a GWP of Rs. 7,523 million (2008 - Rs. 8,257 million) in 2009 as reflected in Table 7. The company's market share fell to 31.65% (2008 - 34.97%), a drop of 3.32% from 2008.

Sri Lanka Insurance Corporation Limited with a premium income of Rs. 4,818 million (2008 - Rs. 4,498 million) contributed 20.27% (2008 - 19.05%) to the total industry GWP, gaining 1.22% of market share against 2008. AVIVA NDB Insurance PLC has recorded a GWP of Rs. 4,632 million (2008 - Rs. 4,342 million) which contributed 19.49% (2008 - 18.39%) to the market share.

Union Assurance PLC with a premium income of Rs. 2,678 million (2008 - Rs. 2,504 million) and a market share of 11.27% (2008 - 10.6%) and Asian Alliance Insurance PLC with a premium income of Rs. 1,009 million (2008 - Rs. 970 million) and a market share of 4.25% (2008 - 4.11%) showed marginal increases in their market share during 2009. Janashakthi Insurance PLC, HNB Assurance PLC and Life Insurance Corporation Lanka Limited showed a marginal decline in the premium income compared with the previous year.

Companies with a market share of less than 1% were not included in the analysis.

Life Insurance Penetration

The total number of life insurance policies in force was 2,131,947 at the end of 2009 as seen in Table 8. Insurance companies have issued only 464,249 new life insurance policies, down by 16.5% against 555,886 new policies issued in 2008, with the drop attributed to adverse consequences of the global economic crisis in 2009. The penetration of life insurance business as a percentage of the total population stood at the same level of 10.4% as of the previous year. The penetration as a percentage of total labour force was 26.4%, indicating a slight decline when compared to 2008.

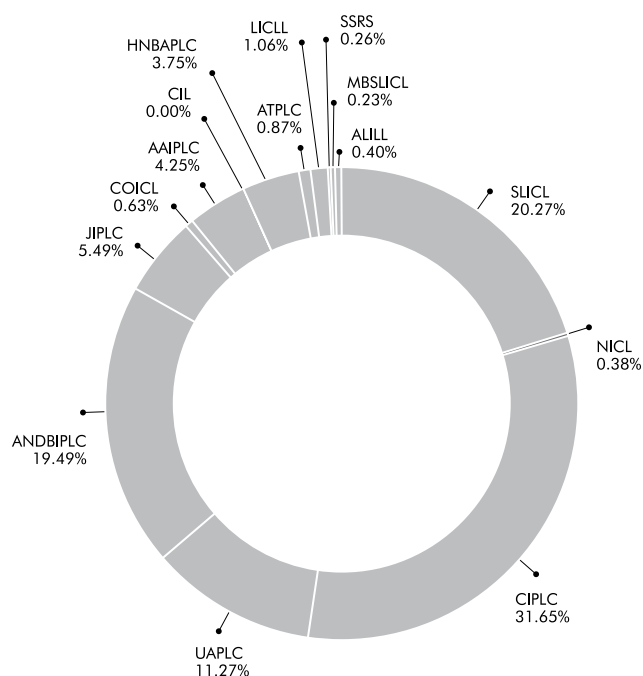
Table 8

Life Insurance Penetration							
	2003	2004	2005	2006	2007	2008	2009*
No. of New Life Policies Issued	305,092	304,639	366,132	409,933	527,385	555,886	464,249
No. of Life Policies in Force	1,359,536	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809	2,131,947
Total Population (in '000)*	19,252	19,462	19,668	19,886	20,010	20,217	20,450
Total Labour Force (in '000)*	7,654	8,061	7,312	7,599	7,489	7,569	8,074**
Penetration as % of the Total Population	7.1	7.7	8.3	8.8	9.6	10.4	10.4
Penetration as % of the Labour Force	17.8	18.5	22.3	22.9	25.7	27.8	26.4**

* 2009 Total Labour Force (in '000) data exclude Northern Province
 ** Total Labour Force (in '000) and Penetration as % of the Labour Force excluding both Northern and Eastern Provinces are 7,572 and 28.2 respectively
 # Total Population and Total Labour Force figures are extracted from the Central Bank of Sri Lanka Annual Report - 2009

Chart 6

Company-wise Market Share of Gross Written Premium - Long Term Insurance - 2009



General Insurance Business

Gross Written Premium (GWP)

The General Insurance business with a GWP income of Rs. 33,485 million showed negative growth of 3.1% during the year, down from last year's growth of 10.9% and a premium income of Rs. 34,553 million. A number of factors such as the global financial crisis, reduction in premiums charged by insurers due to aggressive competition, etc. contributed to falling growth during 2009.

Table 9

Company-wise Market Share of Gross Written Premium - General Insurance Business										
Insurer	2005		2006		2007		2008		2009	
	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%	Premium (Rs. '000)	%
SLICL	6,680,703	29.81	6,640,055	25.61	8,848,192	28.40	9,140,845	26.45	8,764,540	26.17
NICL	1,956	0.01	2,124	0.01	-	-	-	-	-	-
CIPLC	8,033,195	35.85	9,561,249	36.87	10,350,684	33.22	11,287,233	32.67	9,081,294	27.12
UAPLC	1,720,783	7.68	2,384,909	9.20	2,814,651	9.03	3,182,236	9.21	3,210,217	9.59
ANDBIPLC	1,210,939	5.40	1,468,420	5.66	1,867,142	5.99	2,064,423	5.97	2,503,628	7.48
JIPLC	2,851,792	12.73	3,099,955	11.95	3,678,224	11.81	3,937,284	11.39	4,272,925	12.76
COICL	180,433	0.81	207,490	0.80	289,688	0.93	522,449	1.51	595,822	1.78
AAIPLC	354,167	1.58	417,680	1.61	383,590	1.23	459,771	1.33	496,749	1.48
CIL	396,681	1.77	443,997	1.71	681,148	2.19	908,651	2.63	816,275	2.44
HNBPALC	469,929	2.10	618,502	2.39	704,578	2.26	924,709	2.68	1,130,782	3.38
ATPLC	383,425	1.71	589,067	2.27	678,013	2.18	835,188	2.42	953,798	2.85
SSRS	39,985	0.18	110,855	0.43	178,764	0.57	216,000	0.63	184,409	0.55
AILL	75,399	0.34	300,949	1.16	414,015	1.33	601,100	1.74	1,174,821	3.51
MBSLICL	10,769	0.05	70,418	0.27	230,431	0.74	294,316	0.85	271,309	0.81
CTL	-	-	14,849	0.06	36,931	0.12	178,734	0.52	28,324	0.08
PIL	-	-	-	-	-	-	-	-	-	-
CILL	-	-	-	-	-	-	-	-	-	-
Total	22,410,156	100.00	25,930,519	100.00	31,156,051	100.00	34,552,939	100.00	33,484,893	100.00
Growth Rate (%)	31.5		15.7		20.2		10.9		(3.1)	

Analysis of Data in Table 9

Union Assurance PLC with a premium income of Rs. 3,210 million (2008 - Rs. 3,182 million) and a market share of 9.59% (2008 - 9.21%), AVIVA NDB Insurance PLC with a premium income of Rs. 2,504 million (2008 - Rs. 2,064 million) and a market share of 7.48% (2008 - 5.97%), Janashakthi Insurance PLC with a premium income of Rs. 4,273 million (2008 - Rs. 3,937 million) and a market share of 12.76% (2008 - 11.39%), Co-operative Insurance Company Limited with a premium income of Rs. 596 million (2008 - Rs. 522 million) and a market share of 1.78% (2008 - 1.51%), Asian Alliance Insurance PLC with a premium income of Rs. 497 million (2008 - Rs. 460 million) and a

market share of 1.48% (2008 - 1.33%), HNB Assurance PLC with a premium income of Rs. 1,131 million (2008 - Rs. 925 million) and a market share of 3.38% (2008 - 2.68%) and Amāna Takaful PLC with a premium income of Rs. 954 million (2008 - Rs. 835 million) and a market share of 2.85% (2008 - 2.42%) showed marginal increases in their market share during 2009. Further, Allianz Insurance Lanka Limited with a premium income of Rs. 1,175 million (2008 - Rs. 601 million) and a market share of 3.51% (2008 - 1.74%) showed a substantial growth of 95.5% in its premium income during 2009 when compared with 2008.

Sri Lanka Insurance Corporation Limited with a premium income of Rs. 8,765 million (2008 - Rs. 9,141 million) and a market share of 26.17% (2008 - 26.45%), Ceylinco Insurance PLC with a premium income of Rs. 9,081 million (2008 - Rs. 11,287 million) and a market share of 27.12% (2008 - 32.67%), CHARTIS Insurance Limited with a premium income of Rs. 816 million (2008 - Rs. 909 million) and a market share of 2.44% (2008 - 2.63%) indicated decreases in their market share during 2009.

Companies with less than 1% market share were not considered for this analysis.

Gross Written Premium - General Insurance

Class-wise Analysis

As in the previous years, the highest contribution of 53.25% (2008 - 54.17%) was reported from motor insurance, with a premium income of Rs. 17,829 million (2008 - Rs. 18,718 million). However, this is a negative growth of 4.75% when compared with the previous year's growth of 9.71%. Miscellaneous insurance with a premium income of Rs. 7,455 million (2008 - Rs. 7,529 million) accounted for 22.26% (2008 - 21.79%) of the total premium, showing a negative growth of 0.98% when compared with the previous year's growth of 11.81%. Fire insurance with a premium income of Rs. 6,759 million (2008 - Rs. 6,480 million) accounted for 20.18% (2008 - 18.75%) of the total premium, showing a lower growth rate of 4.3% when compared with the previous year's growth of 13.21%. Marine insurance with a premium income of Rs. 1,442 million (2008 - Rs. 1,826 million) accounted for 4.31% (2008 - 5.28%) of the total premium, showing a negative growth of 21.04% which is significantly lower than the previous year's growth of 11.53%.

Chart 7

Company-wise Market Share of Gross Written Premium - General Insurance - 2009

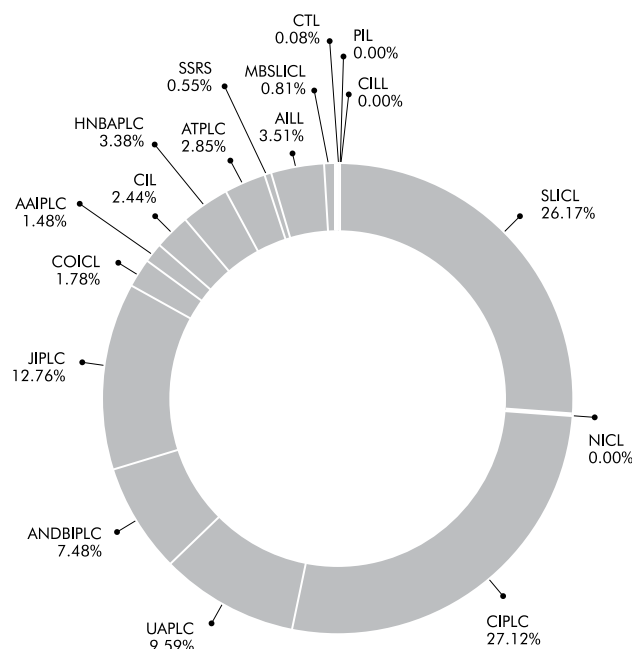


Table 10

Class-wise Analysis of Gross Written Premium - General Insurance

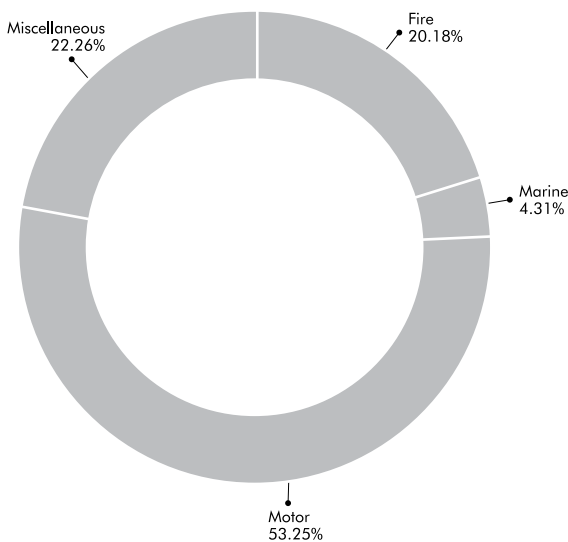
Sub-class	Gross Written Premium (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	2,724,800	2,978,979	4,140,458	4,627,075	5,724,377	6,480,344	6,758,843
Marine	956,900	1,172,810	1,358,033	1,554,560	1,637,019	1,825,782	1,441,683
Motor	6,224,332	8,367,447	11,102,737	14,005,560	17,060,829	18,717,667	17,829,077
Miscellaneous	3,627,976	4,518,122	5,808,928	5,743,624	6,733,828	7,529,146	7,455,290
Total	13,534,008	17,037,358	22,410,156	25,930,819	31,156,053	34,552,939	33,484,893

Sub-class	Growth (%)						
	2003	2004	2005	2006	2007	2008	2009
Fire	10.05	9.33	38.99	11.75	23.71	13.21	4.3
Marine	1.49	22.56	15.79	14.47	5.34	11.53	(21.04)
Motor	38.36	34.43	32.69	26.15	21.81	9.71	(4.75)
Miscellaneous	(1.47)	24.54	28.57	(1.12)	17.24	11.81	(0.98)
Total	16.68	25.89	31.54	15.71	20.15	10.90	(3.09)

Sub-class	Percentage Share (%)						
	2003	2004	2005	2006	2007	2008	2009
Fire	20.13	17.48	18.48	17.84	18.37	18.75	20.18
Marine	7.07	6.88	6.06	6.00	5.25	5.28	4.31
Motor	45.99	49.11	49.54	54.01	54.76	54.17	53.25
Miscellaneous	26.81	26.52	25.92	22.15	21.61	21.79	22.26
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Chart 8

Class-wise Analysis of Gross Written Premium - General Insurance - 2009



General Insurance - Claims Ratio

During the year, the overall claims ratio of 63.20% (2008 - 64.92%) fell by 1.72% compared to the previous year's figure. During 2009, marine insurance showed a low claims ratio of 25.58% against the earlier year's 28.39%. Fire insurance with a claims ratio of 44.38% showed an improvement during the year when compared with the previous year's claims ratio of 73.20%. Motor insurance with a claims ratio of 63.36% showed a marginal improvement with the previous year's claims ratio of 64.07%. Miscellaneous insurance with a claims ratio of 70.67% showed an improvement during the year when compared with the previous year's claims ratio of 71.85%.

Table 11

Sub-class	Earned Premium (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	425,942	687,351	1,033,804	757,066	962,204	901,075	1,126,607
Marine	390,171	474,776	545,962	667,135	606,908	752,825	587,397
Motor	4,993,288	6,920,787	9,153,642	11,920,208	14,518,179	16,942,690	17,205,912
Miscellaneous	2,223,099	2,267,407	3,316,000	3,584,231	4,095,975	4,996,599	5,416,661
Total	8,032,500	10,350,321	14,049,408	16,928,640	20,183,266	23,593,189	24,336,577

Sub-class	Claims Incurred (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	203,143	851,804	486,354	520,944	815,821	659,542	500,043
Marine	112,796	150,590	122,131	202,379	215,824	213,740	150,275
Motor	3,117,013	4,421,530	5,810,762	7,204,754	9,459,168	10,854,607	10,901,356
Miscellaneous	1,684,102	1,894,192	2,338,487	2,337,018	2,618,869	3,589,902	3,828,181
Total	5,117,054	7,318,116	8,757,734	10,265,095	13,109,682	15,317,791	15,379,855

Sub-class	Claims Ratio (%)						
	2003	2004	2005	2006	2007	2008	2009
Fire	47.69	123.93	47.05	68.81	84.79	73.20	44.38
Marine	28.91	31.72	22.37	30.34	35.56	28.39	25.58
Motor	62.42	63.89	63.48	60.44	65.15	64.07	63.36
Miscellaneous	75.75	83.54	70.52	65.20	63.94	71.85	70.67
Total	63.70	70.70	62.34	60.64	64.95	64.92	63.20

Retention of Gross Written Premium and Reinsurance

As usual, motor insurance continued to maintain the highest retention ratio of 96.56% (2008 - 95.03%) compared to other sub-classes of insurance. The retention ratio of 73.98% (2008 - 67.62%) in miscellaneous insurance showed a

considerable increase while marine insurance with a retention ratio of 37.61% also resulted in a marginal increase against the previous year's retention of 36.13%. Fire insurance with 15.77% retention, significantly increased against the previous year's 12.64%. The overall retention ratio of 72.69% (2008 - 70.49%) showed that premium retention by insurance companies in 2009 was slightly higher than the previous year.

Table 12

Gross Written Premium, Reinsurance Premium and Retention by Insurers							
Sub-class	Gross Written Premium (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	2,724,800	2,978,979	4,140,458	4,627,075	5,724,377	6,480,344	6,758,843
Marine	956,900	1,172,810	1,358,033	1,554,560	1,637,019	1,825,782	1,441,683
Motor	6,224,332	8,367,447	11,102,737	14,005,560	17,060,829	18,717,667	17,829,077
Miscellaneous	3,627,976	4,518,122	5,808,928	5,743,624	6,733,828	7,529,146	7,455,290
Total Gross Written Premium	13,534,008	17,037,358	22,410,156	25,930,819	31,156,053	34,552,939	33,484,893

Sub-class	Reinsurance Premium (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	2,246,092	2,425,875	3,260,854	3,904,755	4,346,992	5,661,372	5,692,637
Marine	554,160	666,292	656,340	915,086	986,706	1,166,168	899,486
Motor	272,217	341,072	539,951	623,688	919,537	930,588	612,696
Miscellaneous	1,756,857	1,281,222	1,484,923	1,644,675	1,989,109	2,437,905	1,939,910
Total Reinsurance Premium	4,829,326	4,714,461	5,942,068	7,088,204	8,242,344	10,196,033	9,144,729

Sub-class	Retention (Rs. '000)						
	2003	2004	2005	2006	2007	2008	2009
Fire	478,708	553,104	879,604	722,320	1,377,385	818,972	1,066,207
Marine	402,740	506,518	701,693	639,474	650,313	659,614	542,197
Motor	5,952,115	8,026,375	10,562,786	13,381,872	16,141,292	17,787,079	17,216,381
Miscellaneous	1,871,119	3,236,900	4,324,005	4,098,949	4,744,719	5,091,241	5,515,380
Total Net Written Premium	8,704,682	12,322,897	16,468,088	18,842,615	22,913,709	24,356,906	24,340,165

Sub-class	Retention as a Percentage of the Gross Written Premium (%)						
	2003	2004	2005	2006	2007	2008	2009
Fire	17.57	18.57	21.24	15.61	24.06	12.64	15.77
Marine	42.09	43.19	51.67	41.14	39.73	36.13	37.61
Motor	95.63	95.92	95.14	95.55	94.61	95.03	96.56
Miscellaneous	51.57	71.64	74.44	71.37	70.46	67.62	73.98
Overall Retention	64.32	72.33	73.48	72.66	73.54	70.49	72.69

Performance of Insurance Broking Companies

The number of insurance broking companies in the market fell to 48 in 2009 from 54 operated in 2008. The total GWP generated by Insurance Broking Companies during 2009 amounted to Rs. 8,886 million (2008 - Rs. 8,976 million) for both general and life insurance which represented 15.52% of the total industry GWP.

The GWP contribution towards general insurance by insurance broking companies during 2009 amounted to Rs. 8,698 million which represented 25.98% of the industry GWP of general insurance business.

The insurance broking companies' GWP contribution towards life insurance amounted to Rs. 187.8 million (2008 - Rs. 194.7 million) in 2009, which was a decline of 3.5% when compared to 2008 and represented 0.79% (2008 - 0.83%) of the industry GWP of life insurance in 2009.

Figures from 20 insurance broking companies that contributed more than Rs. 100 million each for the GWP are reflected in the Table 13. These 20 companies contributed Rs. 8,344 million which represent 93.9% of the total premium generated by the insurance broking companies.

Table 13

Gross Written Premium Generated by Insurance Broking Companies - Year 2009			
Name of Insurance Broking Company	Gross Written Premium (Rs. '000)		
	Long Term	General	Total
1. ADZ Insurance Brokers (Pvt) Limited	3,646	196,816	200,462
2. Aitken Spence Insurance Brokers (Pvt) Limited	1,520	261,775	263,295
3. Alfinco Insurance Brokers (Pvt) Limited	0	279,883	279,883
4. CF Insurance Brokers (Pvt) Limited	77	1,107,678	1,107,755
5. Commercial Insurance Brokers (Pvt) Limited	35,648	869,365	905,013
6. Delmege Insurance Brokers (Pvt) Limited	1,445	599,320	600,765
7. Assetline Insurance Brokers Limited (formerly known as DP Insurance Brokers Limited)	0	310,002	310,002
8. Essajee Carimjee & Co. (Pvt) Limited	1,658	237,958	239,616
9. Finlay Insurance Brokers (Pvt) Limited	10,811	850,081	860,892
10. Industrial & Commercial Insurance Brokers (Pte) Limited	1,518	367,015	368,533
11. Lanka Orix Insurance Brokers Limited	13,395	911,662	925,057
12. Nations Insurance Brokers Limited	1,953	396,081	398,034
13. Procure Insurance Brokers (Pvt) Limited	1,604	110,108	111,712
14. Protection & Assurance Insurance Brokers (Pvt) Limited	449	660,598	661,047
15. Reliance Insurance Brokers (Pvt) Limited	1,945	144,380	146,325
16. Senaratne Associates (Pvt) Limited	5,242	390,809	396,051
17. Strategic Insurance Brokers (Pvt) Limited	118	120,001	120,119
18. Sun Insurance Brokers Lanka (Pvt) Limited	78,639	76,818	155,457
19. Volanka Insurance Services (Pvt) Limited	5,467	169,877	175,344
20. Zenith Insurance Brokers (Pvt) Limited	3,464	115,101	118,565
Sub-total	168,599	8,175,328	8,343,927
Other Insurance Broking Companies (28)	19,215	522,530	541,745
Grand Total	187,814	8,697,858	8,885,672

Review of Operations

Supervisory Review

Insurance Companies

1. Review of Returns Submitted to the Board

Annual Statutory Returns, Audited Financial Statements and Actuarial Reports

All insurers are required to submit their annual statutory returns and audited financial statements to the Board within six months following the end of the financial year. Further, in terms of the provisions of the Act, insurers engaged in long term insurance business are required to submit an actuarial report and an abstract.

The Board ensured timely submission of returns and reviewed them for their accuracy and compliance with relevant rules and regulations of the Act. Deviations from statutory requirements, if any, were referred to the companies concerned for corrective action within a given period.

Further concerns identified from the examination of annual statutory returns, audited accounts and actuarial reports were addressed at meetings and/or during on-site inspections. Where necessary, guidance in respect of corrective action was provided to the insurance companies concerned.

Quarterly Returns

All insurance companies are required by the Act to submit their quarterly returns within 45 days of the end of every quarter. Returns submitted for all four quarters of 2009 were scrutinized by the Board to ensure their timeliness, accuracy and compliance with relevant rules and regulations of the Act.

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 income, the Board scrutinized the details relating to premium income, reinsurance, other costs, investments etc. reported in the companies' quarterly returns.

2. Solvency Margin

Monitoring Compliance with Solvency Margin Rules

The Board monitored closely the solvency margins of both life insurance and general insurance sectors in 2009 as per the life insurance solvency margin rules of 2002 and the general insurance solvency margin rules of 2004. All insurance companies are required to submit quarterly solvency margin computations along with their quarterly returns. These computations were reviewed to confirm compliance with the rules issued by the Board. If in any case the calculations were found to be inaccurate, the company concerned was instructed to re-submit corrected computations by a stipulated date.

It was observed that a few companies could not satisfy the minimum solvency margin requirement in some instances and they were instructed to take corrective action immediately. Further, action was also initiated by the Board against companies that did not comply with solvency margin rules.

IBSL Participation in the International Association of Insurance Supervisors (IAIS)

The International Association of Insurance Supervisors (IAIS) has appointed a representative of IBSL to serve on its sub-committee for solvency and actuarial issues.

3. Introduction of a Risk Sensitive Capital Model for Insurance Industry Supervision

After carefully analyzing the Sri Lankan insurance industry and prevailing international practice, the Board, with the assistance of the World Bank, has resolved to modernize its supervisory system on the basis of a risk sensitive capital model. The object of the project is to develop and support the implementation of a risk sensitive minimum capital regime consistent with industry risk profiles, practices and market dynamics. Modernization is being implemented in consultation with the industry under the collaborative control of the Board.

At the project inauguration ceremony held on 30 November, World Bank consultants apprised staff of the Board on processes the project would involve. Subsequently, the consultants held a series of meetings with industry representatives in order to gather information on the domestic insurance market for purposes of analysis as well as to ensure that the new model is sensitive to industry business profiles and practicalities.

The project will consist of five main phases: market analysis report, qualitative report, quantitative report, preparation and discussion of final draft rules and training. Market analysis report provides an overview of the insurance industry and outlines growth parameters and factors influencing it. In the second phase, the qualitative report proposes principles and a structure for a risk based solvency regime. The quantitative report will assess what financial and operational implications the new regime will have for companies. Based on the above three phases, draft rules will be formulated to determine the optimum risk sensitive capital regime for the Sri Lankan insurance industry. In the final phase, training requirements and necessary materials will be identified and a training plan prepared accordingly. The project is scheduled to continue until the end of 2010.

4. Grant of New Licences

In the year under review, the Board received applications from two companies, People's Insurance Limited and Continental Insurance Lanka Limited for registration as insurers in the general insurance business.

Companies desiring registration as insurers are required to submit a detailed business plan, projected solvency computations, forecast financial statements (prepared in accordance with the Statement of Recommended Practice for Insurance Contracts issued by The Institute of Chartered Accountants of Sri Lanka), a certificate by the company auditor confirming that the minimum capital requirement has been fulfilled among other documents for registration. The above documents were reviewed in order to determine the financial stability of the companies and the ability to meet the expectations of their policyholders.

5. Monitoring Compliance with Investment Specifications

Investments in Government Securities

As per Section 25 of the Act, not less than twenty percent of the assets of technical reserves for general insurance business and not less than thirty percent of the assets of long term insurance fund for long term insurance business should be held by insurers in the form of government securities.

The investments of all insurers were closely monitored by the Board to confirm compliance with the above rule. All insurance companies are required to submit a statement of holdings issued by the Central Bank of Sri Lanka, detailing their investments in government securities at the end of each quarter. The Board scrutinizes these statements to ascertain the accuracy of figures reported and the title and ownership of investments in government securities.

Further, during 2009, the Board introduced a new form (Form BR-IN), in which a detailed breakdown of investments relating to a company's long-term insurance fund and technical reserves is presented. All insurers must submit the completed form along with their quarterly returns.

Where discrepancies were detected with regard to the investments, 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.

To estimate the liquidity position on investments in government securities, the Board valued them at market prices based on information contained in insurers' quarterly returns, statements of holdings and relevant interest rates.

Other Investments as per Determinations

As per Determination No. 1 promulgated under the Act, the balance assets of the technical reserves and long term insurance fund of an insurer should be in the form of investments stipulated by the Determination. The Board continuously monitored all insurers' investments to ensure compliance with these stipulations. Insurers who deviated from the rule were instructed to take remedial action and subsequently demonstrate compliance with the Determinations, Rules and Regulations of the Board.

6. Risk-based Supervision

Three on-site inspections were carried out by the Board in 2009. In each case, the risk based supervisory framework known as CAMELS was applied. According to this methodology, insurer risk profiles are assessed with respect to Capital (C), Assets (A), Reinsurance (R), Actuarial liabilities (A), Management (M), Earnings (E), Liquidity (L) and Subsidiaries (S).

During the inspections, all these areas were inspected for compliance with the Act. All deficiencies identified were brought to the notice of the companies concerned, together with recommendations for corrective action with regard to operational procedures, internal controls, etc.

7. Submission of Information on Company Performance to the Central Bank of Sri Lanka

The Board submits quarterly information on the performance of insurance companies to the Financial System Stability Department of the Central Bank of Sri Lanka. The information includes comprehensive analysis on areas such as earnings, profitability, liquidity, capital, reinsurance, actuarial issues, etc., for individual companies and the industry as a whole.

8. Review of Reinsurance Arrangements

All insurance companies are required to submit statements of reinsurance arrangements and cover notes to the Board annually. These are evaluated by the Board in order to ensure that the interests of policyholders and insurers are adequately protected by covers obtained from reinsurers who satisfy the guidelines issued by the Board under Section 31(1) of the Act.

9. Monitoring Capital Requirements

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 in terms of the regulations issued under the provisions of the Act.

Though all insurers complied with this capital requirement, it was observed that shareholders' equity in a few companies had deteriorated because of operating losses and pre-operational expenses. The Board formally requested these companies to maintain, voluntarily and prudentially, shareholders' equity equivalent to the regulatory minimum paid-up capital.

Insurance Broking Companies

1. Review of Quarterly Returns, Interim Financial Statements and Audited Financial Statements

All quarterly returns submitted by insurance broking companies in 2009 as per Gazette Notification No. 1412/30 (First Schedule, Part II) of 29 September 2005 were scrutinized by the Board. Where errors and discrepancies such as incomplete sections, variant formats, errors in insurance broking accounts, classification errors, etc. were detected, the brokers in question were instructed to take corrective action within a period stipulated by the Board.

The Board also reviewed the quarterly financial statements and audited financial statements of insurance broking companies.

2. Monitoring Premium Collections

The premiums collected by brokers on behalf of insurance companies should be remitted within two weeks of collection, as per Section 89 of the Act. The Board closely monitored brokers' compliance with this regulation using the information contained in quarterly returns and obtained through on-site inspections. Non-compliant brokers were instructed to take action to rectify the situation immediately. Action was taken against the companies which remained non-compliant.

3. On-site Inspections of Insurance Broking Companies

The Board carried out eighteen on-site inspections of insurance broking companies to assess compliance with the rules and regulations of the Board. Where non-compliances were observed, the companies concerned were advised to take corrective action within a stipulated time period.

4. Renewing Licences

The approval of applications for the renewal of 'insurance broking companies' annual licences was based on the brokers' financial stability as indicated in their audited financial statements and quarterly returns. Brokers who were financially stable and had fulfilled all other Board requirements were licensed to carry out operations in 2010.

Regulatory Review

Registration of Insurance Companies

Having ascertained that both applicants satisfied all requirements under the Act, the Board granted registration to People's Insurance Limited and Continental Insurance Lanka Limited, licensing them to function as insurers to carry on general insurance business.

Registration of Brokers and Renewal of Registration

The Board granted registration to two new companies, Global Insurance Services (Pvt) Limited and Samson Insurance Brokers (Pvt) Limited, in the course of the year to function as insurance broking companies to carry on general insurance business. Applications for registration from four other companies remain pending due to insufficient information provided by them.

Applications for renewal of registration for 2010 were received from 41 insurance broking companies in the course of the year under review. All fulfilled the necessary conditions under the Act and renewals were accordingly granted.

Strategic Solutions International (Pvt) Limited and Cee Lanka Insurance Brokers (Pvt) Limited informed the Board of their intention to cease operating as brokers. Accordingly, all insurance companies were informed by the Board of their decision and were required to refrain from accepting any insurance business from these companies.

The registration of Palmers Insurance Brokers (Pvt) Limited and Colombo Insurance Brokers (Pvt) Limited lapsed as the companies failed to submit their renewal applications.

The Board also examined applications from Strategic Insurance Brokers (Pvt) Limited and Aitken Spence Insurance Brokers (Pvt) Limited for renewal of registration during the year under review in view of their first registration period ending during the course of it.

Enforcement Action: Insurance Companies

1. Suspensions

The Board suspended the registration of Janashakthi Insurance PLC and Ceylinco Takaful Limited during the year under review, in terms of Section 18 of the Act. Registration of Janashakthi Insurance PLC was suspended in respect of long term and general insurance business from 12 May 2009 to 27 May 2009. The suspension was removed by the Board after the company had shown sufficient cause under the Act.

The registration of Ceylinco Takaful Limited was suspended in respect of general insurance business from 5 August. The suspension remains in force until 8 December 2010. Initially, the Board suspended the registration of the company in view of the directors and the principal officer of the company being unable to carry out their functions. Thereafter, the company failed to maintain the stipulated minimum solvency margin requirement.

2. Directions

The Board issued directions to three insurance companies under Section 57 of the Act, requiring them to demonstrate compliance with the solvency margin rules of the Board on a monthly basis. However, directions issued to two of these companies were later relaxed in view of their compliance with the solvency margin rules, allowing them to resume normal reporting procedure.

The Board also issued several directions under Section 57 of the Act to another insurance company in order to ensure the financial stability of the company.

Enforcement Action: Insurance Broking Companies

1. Warnings

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

- Section 89 of the Act, which requires insurance broking companies 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 broking companies to furnish to the Board their audited accounts within six months of the end of the accounting period, and quarterly returns within 45 days of the end of each quarter.

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

2. Cancellation of Registration

Following a suspension of registration, the Board cancelled the registration of Insurex Insurance Brokers Company (Pvt) Limited in terms of section 84(1) (d) and (e) of the Act, having observed that the company failed to submit quarterly returns on time and had furnished false and misleading information to the Board. Furthermore, the company failed to show cause as to why the imposed suspension should be lifted.

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.

3. Regulatory & Advisory Measures

a. The Board required an insurer to refrain from considering the value of leasehold property belonging to its fully-owned subsidiary as admissible assets when calculating solvency margin, as this contravenes the solvency margin rules of the Board. Accordingly, the insurer informed the Board that it would merge with its subsidiary to ensure that the ownership and title of the said property is vested with the insurer. Having examined the amalgamation proposal, the Board gave its consent.

It was further revealed that the same company utilized its life fund to invest in unquoted shares of its subsidiary, in contravention of Determination No. 1 under Section 25 of the Act. Responding, the Board required the company to reverse the investment made out of its life fund, a demand which the company complied.

b. An insurer, proposing to launch a micro-insurance product accessible to low-income customers, sought the approval of the Board to appoint sales coordinators to promote this product. Since the proposed sales coordinators were not qualified insurance agents, the Board declined the insurer's request.

c. An insurer requested the Board to permit an investment not listed under Determination No. 1 under Section 25(1) of the Act (the said determination also vests the Board with the power to allow, on a case-by-case basis, investments in assets not listed under it, subject to any conditions that the Board may lay down). However, the Board ruled that the proposed investment could not be considered admissible under the existing solvency margin rules, and the request was declined.

d. An insurance company sought the approval of the Board to cancel a group retirement policy at the request of the insured. Having extensively examined the policy in question

and related documents, the Board approved the cancellation subject to the condition that it be effected in the best interests of the company and that all directors of the company accept responsibility for ensuring the bona fide nature of the transactions at all times.

e. Ceylinco Takaful Limited, whose registration is under suspension, requested the Board to grant approval for the transfer of all its shares from its present holding company to another firm. Considering the numerous court orders and decisions prohibiting the transfer of shares and assets belonging to corporate members of the Ceylinco Group of Companies, the Board sought the advice and assistance of the Attorney-General in order to obtain the exclusion of Ceylinco Takaful Limited from such orders and decisions.

f. Two insurance companies within the same group sought the Board's approval for a merger. This was granted subject to the condition that the company takes appropriate measures to comply with Section 102 of the Act, where the approval of the District Court should be obtained pursuant to submitting the observations of the Board and on condition that the amalgamated company complies with all statutory requirements under the Act.

g. The Board acceded to a request made by an insurance company to invest its shareholders' funds in the shares of a licensed commercial bank, having ensured that the company in question had fulfilled all necessary procedural formalities.

h. An insurance broking company sought the approval of the Board to introduce a scheme that would enable its clients to make premium payments to their insurers according to a pre-arranged plan. Customers were to be charged interest on settlements to the broker at a rate set by company management. Judging that the envisaged plan fell outside the scope of functions of an insurance broking company, the Board withheld its approval.

i. Two parties were permitted to enter into insurance agreements with overseas insurance companies under Section 101 of the Act, in view of their insurance arrangements being handled globally. Permission was granted subject to the companies concerned obtaining approval from the Controller of Exchange (Section 101 of the Act states that no person in Sri Lanka shall, directly or indirectly, place any insurance business with an insurer not registered under the Act without the prior written approval of the Board).

Regulatory Reforms

1. Amendments to the Act

The Bill consisting amendments to the Act was presented to the Consultative Committee at its meeting in August. Concerns were raised by the Parliamentary Opposition with regard to the proposal to segregate composite insurance companies, the requirement to list all insurance companies and the removal of the Director-General of the Securities and Exchange Commission of Sri Lanka as an ex-officio member of the Board. The Opposition also requested more time to study the bill in detail prior to its second reading in Parliament.

2. Further Amendments to the Act

The Board submitted a detailed note to the Ministry of Finance on further amendments it wishes to incorporate into the Act. These would:

- empower the Board to register re-insurers;
- amend the definition of 'loss adjusters' to include loss adjusters working for insurance companies, and
- empower the Board to regulate micro-insurers.

3. Amendments to the Solvency Margin Rules

Amendments to the solvency margin rules for general insurance business were received from the Legal Draftsman's Department. Following further examination of these, some changes were effected; these were also brought to the notice of IASL. The changes deal mainly with the valuation method of government securities. The amended draft has again been forwarded to the Legal Draftsman's Department for clearance prior to being published in the Government Gazette.

4. Amendments to Board Rules published in 2005

Rules pertaining mainly to the format of insurance broking companies' quarterly returns and certain other areas were published by the Board in 2005. These were revised and published in Gazette Extraordinary No. 1642/16 of 25 February 2010.

5. Qualification Rules for Insurance Agents

Formerly, an ordinary pass in Mathematics or Arithmetic was required among other requirements for individuals wishing to be registered as agents of an insurance company or an insurance broking company. Following changes to the national curriculum in 2004, the Board inquired from the Department of Examinations regarding the current equivalent

Review of Operations

qualification. The Department confirmed that an ordinary pass in Mathematics I (subject No. 45 of the new syllabus) or Mathematics II (subject No. 42) would be the equivalent of the ordinary pass specified in Rule 2 (c) (i) of the qualification rules for insurance agents. The Board has advised all relevant parties accordingly. It has also taken steps to monitor the qualifications of all insurers' and brokers' agents in terms of Section 78(4) of the Act read with rules in Gazettes Nos. 1255/3 of 23 September 2002 and 1341/8 of 17 May 2004.

Litigation

The application of Kaluthota Assurance Company Limited to be registered as an insurer having been rejected by the Board, the firm filed suit in the Court of Appeal, pleading the court to issue a writ of certiorari quashing the Board's decision and a writ of mandamus directing the Board to grant a licence to the company to carry on insurance business, and also to grant further relief.

The court accordingly directed the Board to show cause why the application of writs filed by Kaluthota Assurance should not be allowed. However, when the case was brought before the Court of Appeal, the instructing attorney for the petitioner informed the court that the petitioner wished to withdraw the case. Accordingly, the Board's decision in respect of Kaluthota Assurance stands.

Inquiries and Investigations

Complaints received by the Board over the last five years has varied in number.

In view of the increasing number of complaints received by the Board during the year, a separate division was set up in September 2009 to inquire into all such matters. The main objectives of the division are to strengthen the confidence of policyholders and potential policyholders by attending to their inquiries and complaints effectively and efficiently, conduct investigations, set standards in order to reduce complaints being received from the policyholders, to minimize the defaulting risk and to supervise the insurance industry in order to ensure that the insurance business and claim procedures are carried out in a professional manner.

Accordingly, policyholders are now able to directly address their complaints to the Board for relief. In this short period, the Board has conducted numerous inquiries and has been able to settle issues between parties.

Since September 2009 up to the year-end, the Board received 139 complaints out of which 44 complaints have been settled and/or closed after inquiry.

Complaints received by the Board during the last quarter can be categorized as follows:

Life insurance claims and related matters	63
Motor insurance claims	39
Fire insurance claims	9
Marine insurance claims	2
Burglary insurance claims	5
Travel insurance claims	1
Advance payment and performance bonds	5
Natural disaster insurance claims	3
Issues relating to agents' qualifications and related matters	11
Riot insurance claims	1

Complaints settled and/or closed by the Board during the last quarter can be categorized as follows:

Life insurance claims and related matters	21
Motor insurance claims	11
Fire insurance claims	2
Marine insurance claims	1
Burglary insurance claims	1
Travel insurance claims	1
Advance payment and performance bonds	1
Natural disaster insurance claims	3
Issues relating to agents' qualifications and related matters	3

The Board altogether received 235 complaints during the year under review including the 139 complaints received during the last quarter of the year. 68 complaints received were referred to the Insurance Ombudsman in keeping with the decision previously taken by the Board until the creation of a separate Investigation Division in September 2009, whilst the Board investigated into several appeals received from the policyholders dissatisfied with the Ombudsman's decision, as well as complaints received from insurance agents pertaining to agency termination and non-payment of commission. Accordingly, from January to August, the Board inquired into 28 complaints out of which 25 complaints have been completed.

Market Development Review

Awareness and Training

1. Training Programmes, Awareness Programmes and Seminars

The Board conducted several awareness and training programmes during the year under review. Groups targeted included school children, technical college students, members of the business community and the general public. The Board's object in conducting these programmes was to disseminate and enhance knowledge about insurance in general, the Sri Lankan insurance industry and recent developments in particular.

Programmes Conducted in 2009			
Date	Topic	Target Audience	Place
14 May	The Importance of Insurance	Students of Technical College, Embilipitiya	Technical College, Embilipitiya
27 July	The Importance of Insurance	Students of Technical College, Bandarawela	Technical College, Bandarawela
9 September	The Importance of Insurance	Students of Technical College, Ratnapura	Technical College, Ratnapura
8 October	The Importance of Insurance	Students of Technical College, Monaragala	Technical College, Monaragala
15 October	The Importance of Insurance and Introduction to the Functions and Responsibilities of the Board	Students of Hambantota Educational Zone	H/Ruhunu Vijayaba College, Beliatta

During these programmes, interactive sessions were held with participants on various matters pertaining to the subject of insurance. Various useful and relevant Board publications were also distributed among the participants.

2. National Insurance Congress

Rakshanayata Hetak or National Insurance Week was an event organized to coincide with the National Insurance Congress, which was organized by the Sri Lanka Insurance Institute (SLII) and held between 11 and 17 November. The Board's contribution to the programme of activities was a presentation on 'The Role of IBSL in Insurance', which was presented on 11 November at the DHPL Auditorium, Nawam Mawatha, Colombo. An audience of over three hundred, including school children, university students, teachers, insurance agents and industry employees attended the presentation.

3. Awareness Programmes for the General Public

The Board held a public awareness presentation on insurance at the Technical College, Kandy, on 23 August. The event was part of an 'Education and Industries' exhibition held at the College on the occasion of its golden jubilee.

4. Distribution of Books to Schools

In order to promote education on the subject of insurance to school children, the Board took the initiative of distributing 'Insurance and Insurance Market', a book in Sinhala authored by Nimal Perera, among schools having commerce stream at Advanced Level. So far, the Board has distributed these books to 848 schools in twelve districts.

5. Exhibitions

Deyata Kirula

The Board participated in the popular *Deyata Kirula* national exhibition for the third consecutive year. Its exhibition stall at the Bandaranaike Memorial International Conference Hall (BMICH) was part of a complex of attractions set up by institutions and organizations subsumed under the Ministry of Finance. The exhibition generated a vast influx of visitors, presenting the Board with a golden opportunity to educate the public on its responsibilities and functions.

Vidujaya

Organized by the University of Sri Jayewardenepura, the *Vidujaya* exhibition commemorating the university's golden jubilee was held from 18 to 23 February. This was another good opportunity to raise awareness of the Board and its role, especially among students and teachers. Hundreds of school children, teachers, university students and academic staff visited the stall, where exhibits and materials explained the responsibilities, activities and functions of the Board as well as recent regulatory and market developments.

Mahapola

The annual *Mahapola* exhibition was held at Ruhunu Vijayaba College, Beliatta, for four days in October. The Board considered this as an opportunity to hold an awareness programme on insurance for school children, introducing the functions and responsibilities of the Board. The programme was conducted on 15 October.

6. Publications

The Board prepared and distributed several publications in the year under review with a view to facilitating public understanding of important aspects of insurance. These publications are listed below:

Articles in the newspapers

The Board published the following newspaper articles containing important facts relating to insurance in order to create public awareness during 2009:

- Motor Insurance - what you need to know
- Are you dealing with authorized insurance agents?
- List of registered insurance companies
- List of registered insurance broking companies
- Facts to be considered when buying an insurance policy

Press Releases

Insurance Industry Performance - 2008

The Board published a comprehensive analysis of the performance of the insurance industry in 2008 including details of overall gross written premium, total assets, investments in government securities, growth rates of the insurance industry, etc.

Suspension of Registration and Removal of Suspension of Registration of Janashakthi Insurance PLC

The Board informed the public of its decision to suspend the registration of Janashakthi Insurance PLC. Subsequently, the Board's decision to remove the suspension in view of the company showing sufficient cause was also disseminated to the public.

Removal of War Risk Ratings

The Board issued a press release concerning the Board's intention to lobby insurers and overseas reinsurers for a reduction in the war risk rating imposed on Sri Lanka by international authorities, which was rated as 'severe' at the time. The press release described the disadvantages to the country's economy and people resulting from this rating and the advantages to the local insurance industry of a reduced risk rating.

Suspension of Registration of Ceylinco Takaful Limited

The registration of Ceylinco Takaful Limited was suspended by the Board with effect from 5 August 2009 under the provisions of the Act. In order to apprise the public of this event, the Board issued press releases.

Suspension of Registration of Insurex Insurance Brokers Company (Pvt) Limited

The Board issued a press release to inform the public of the suspension of the registration of Insurex Insurance Brokers Company (Pvt) Limited under the provisions of the Act. The suspension was imposed on 25 September 2009.

Registration of People's Insurance Limited and Continental Insurance Lanka Limited as Insurance Companies

The year saw the registration of two new general insurers, People's Insurance Limited and Continental Insurance Lanka Limited by the Board. These registrations were implemented on 2 December and 18 December, respectively. On each occasion, the public were informed through press releases issued by the Board.

Newspaper Supplements

His Excellency the President's Four Year Achievement Commemorative Supplement

The Board published a full page newspaper supplement on 19 November depicting the steady growth achieved by the insurance industry in Sri Lanka under the leadership and guidance of His Excellency the President, while the global insurance industry faced a setback.

Booklets

'Life Assurance' and 'Know More About Insurance'

The above booklets were published in revised Sinhala, Tamil and English editions. 'Life Assurance' emphasizes the need and importance of having a life insurance policy, while 'Know More About Insurance' is an introductory guide to the subject.

Brochures

Brochures on Life and General Insurance Policies

Lack of understanding in several areas of the subject of insurance often creates confusions among people seeking cover. These brochures were published by the Board to rectify the situation. They deal with various aspects of the subject of insurance, such as understanding the policy, providing necessary details to the insurance company, when and to whom to pay premiums, options available for making a complaint prior to seeking legal action, etc. These brochures were published in Sinhala.

Regulatory Activities

1. Database of Insurance Agents

Every insurance company is required to maintain a continuously updated database on a separate page of its web site containing information on its agents which should be accessible by the Board. This arrangement is required for compliance with Section 78(1) and (2) of the Act. Research by the Board has shown that most company databases are difficult to use and do not follow a uniform format. Accordingly, the Board requested that insurance companies upgrade their agent databases, making them more user friendly and furnishing information as stipulated in Gazette Notification No. 1255/3 of 23 September 2002. A positive response was received, and nine insurance companies have already completed their upgrades.

2. Compliance with Directive No. 1 Under Section 99 of the Act

In terms of Directive No. 1, promulgated under Section 99 of the Act, insurance companies are required to submit compliance certification to the Board regarding its advertisements. This is done whenever they publish a new advertisement in the media.

During the year under review, six insurance companies submitted compliance certification for a total of 18 advertising campaigns. The Board, having reviewed the advertisements, inquired into five products.

3. Filing of Insurance Policies

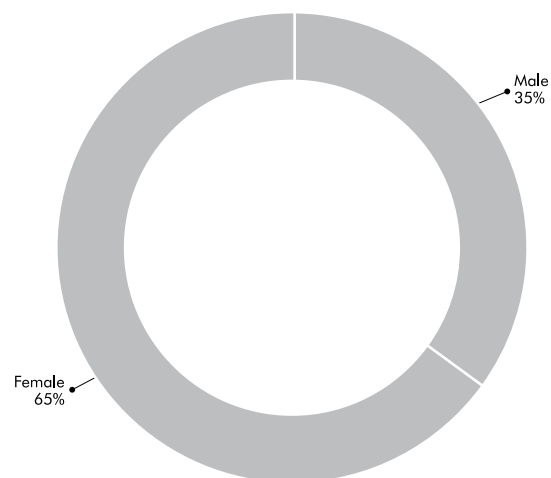
The Board received 16 new insurance policy products of six insurance companies. After scrutinizing these proposed products, the Board suggested improvements to be made to certain products.

Administrative and Financial Review

Staff

The Board recognizes human resources as the most important factor for growth and success in order to achieve the objectives and responsibilities of the Secretariat for strengthening, regulating and protecting the industry. Increased activities of the Board required recruitment of supporting staff. During the year, eleven executives and a driver were recruited in order to strengthen the activities of the Board.

Gender Analysis



Training

The Board has placed emphasis on improving the technical skills of the staff. Opportunities were provided for local and foreign training during the period under review. Financial assistance was given to staff who successfully completed their Master's Degree and other related studies.

Staff Welfare

The annual residential programme was held in October 2009. The programme was on 'Life Changing Corporate Training'.

Indoor and outdoor medical schemes, personal accident insurance covers, vehicle and distress loan schemes, festival advance and reimbursement of membership fees to professional bodies are some of the benefits enjoyed by the staff.

Policyholders’ Protection Fund

In terms of section 103 of the Act, the Board is required to establish a Policyholders’ 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 to publish in the Gazette as provided under section 7 of the Act.

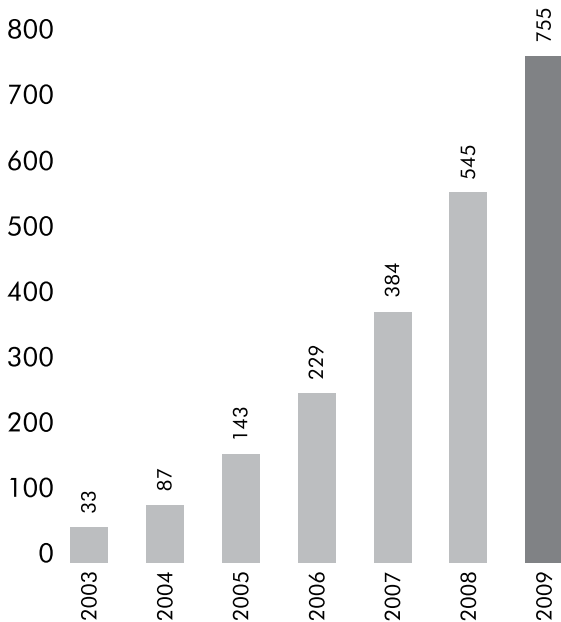
Accordingly, an order was published by the Gazette Notification No. 1244/5 dated 9 July 2002 for the levy of Cess at the rate of 0.2% of the annual net written premium for long term insurance business, and 0.4% of the annual net written premium for general insurance business. The Cess is received on a quarterly basis and falls due on or before the end of the first month of the following quarter.

In terms of the regulations, monies lying to the credit of the Fund shall be utilized for general protection of policyholders and for any other specific purpose as may be determined by the Board.

The collection of Cess credited to the Policyholders’ Protection Fund during the year amounted to Rs. 139 million (2008 Rs. 133 million). The total accumulated fund as at 31 December 2009 stood at Rs. 755 million.

Growth of the Fund during the period 2003-2009 is depicted below:

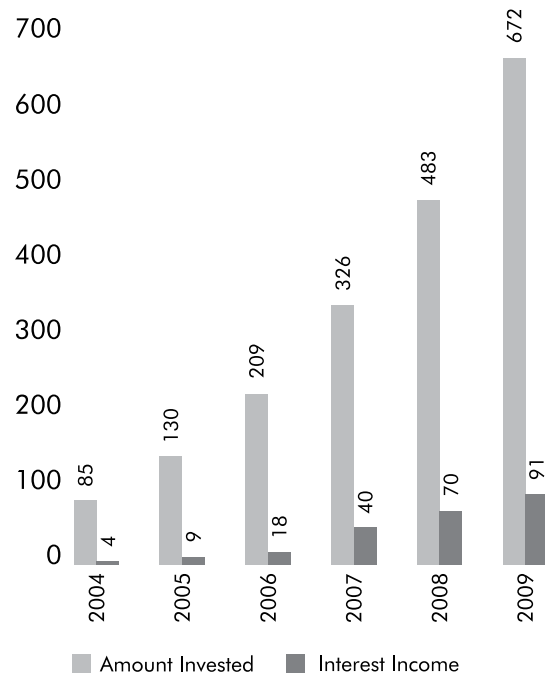
Policyholders' Protection Fund
(Rs. million)



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 good returns. The excess of the Policyholders’ Protection Fund invested in government securities as at 31 December 2009 amounted to Rs. 672 million (31 December 2008 Rs. 483 million). An additional income amounting to Rs. 91 million was earned by way of interest during the year 2009.

Growth of investments made in government securities and interest income earned during the period 2004-2009 is depicted below:

Investments in Government Securities
(Rs. million)



Income of the Board

The overall income of the Board is derived from the following sources:

- annual fee levied from insurance companies
- registration fees charged for the registration of insurers and insurance broking companies
- fees charged annually for the renewal of registration of insurance broking companies and
- interest income earned by investing surplus funds and also appropriate amounts transferred from the Policyholders’ Protection Fund for the specific purposes determined by the Board by rules made on that behalf.

Financial Information

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			Accounting Policies...	45		Notes to the Financial Statements...	47	

Balance Sheet

As at 31 December

	Note	2009 Rs.	2008 Rs.
Assets			
Non-Current Assets			
Property, Plant & Equipment	1	23,560,924	29,096,860
Policyholders' Protection Fund - Deposits	2	7,732,116	7,417,440
Current Assets			
Inventories	3	248,920	286,378
Policyholders' Protection Fund - Investments & Others	2	747,341,427	537,930,020
Other Current Assets	4	23,071,083	8,689,086
Investments in Government Securities		50,181,430	60,789,346
Cash and Cash Equivalents	5	1,573,717	4,168,779
Total Assets		853,709,617	648,377,909
Reserves and Liabilities			
Reserves			
Accumulated Fund	6	67,828,254	67,828,254
Policyholders' Protection Fund	7	755,073,543	545,347,461
Liabilities			
Non-Current Liabilities			
Grant	8	21,949,005	27,471,268
Retirement Benefit Obligation	9	876,171	793,126
Interest Bearing Borrowings	10	1,124,441	1,795,781
		23,949,617	30,060,175
Current Liabilities			
Receipt in Advance		1,873,602	1,743,750
Other Current Liabilities	11	4,244,020	2,346,504
Current Portion of Interest Bearing Borrowings	10	740,581	1,051,765
		6,858,203	5,142,019
Total Reserves & Liabilities		853,709,617	648,377,909

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

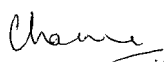
The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes appearing on pages 45 to 52.

For and on behalf of the Insurance Board of Sri Lanka,



UDAYASRI KARIYAWASAM
Chairman

Colombo, Sri Lanka
4 May 2010



CHANNA DE SILVA
Member

Income & Expenditure Statement

For the year ended 31 December

	Note	2009 Rs	2008 Rs
Income			
Revenue	12	31,848,752	28,663,356
Recognition of Grant	8	8,534,921	5,501,913
Interest Income		8,745,652	9,712,154
Other Income	13	275,196	5,411,297
Total Income		49,404,521	49,288,720
Less:			
Expenditure			
Staff Costs		26,514,536	22,924,628
Professional Charges		585,000	1,796,433
Administration & Establishment Expenses		38,616,711	33,453,847
Finance & Others		181,491	124,213
Total Expenditure		65,897,738	58,299,121
Net Deficit Before Tax	14	(16,493,217)	(9,010,401)
Transfer from Policyholders' Protection Fund	7	17,126,937	19,986,353
Taxation	15	(633,720)	-
Net Deficit After Tax		-	10,975,952
Net Surplus for the Year		-	10,975,952

The Accounting Policies and Notes appearing on pages from 45 to 52 form an integral part of the financial statements.

Statement of Changes in Reserves

For the year ended 31 December

	2009 Rs.	2008 Rs.
Accumulated Fund		
Balance at the beginning of the Year	67,828,254	56,852,302
Net Surplus/(Deficit) for the Year	-	10,975,952
Balance at the end of the Year	67,828,254	67,828,254

The Accounting Policies and Notes appearing on pages 45 to 52 form an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 December

	Note	2009 Rs	2008 Rs
Cash Flows from Operating Activities			
Net Increase/(Decrease) for the Period		-	10,975,952
Adjustment for Depreciation		8,365,646	6,556,502
Provision for Retirement Benefits		83,045	352,939
Loss on Disposal of Property, Plant & Equipment		54,048	-
Recognition of Grant		(8,534,921)	(5,501,913)
Interest Income		(8,745,652)	(9,712,154)
Net Increase before Working Capital Changes		(8,777,834)	2,671,326
Change of Working Capital			
(Increase)/Decrease in Inventories		37,458	(16,669)
(Increase)/Decrease of Receivables		(14,381,997)	(4,200,134)
Increase/(Decrease) of Receipt in Advance		129,852	(391,330)
Increase/(Decrease) of Creditors and Accruals		1,897,516	(4,155,369)
Cash Flow used in Operating Activities		(12,317,171)	(8,763,502)
Net Cash Flows from Operating Activities		(21,095,005)	(6,092,176)
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		10,607,916	(5,825,283)
Interest Income		8,745,652	9,712,154
Proceeds from Sale of Property, Plant & Equipment		128,900	25,654
Purchase of Property, Plant & Equipment		(3,012,658)	(23,159,244)
Net Cash used in Investing Activities		16,469,810	(19,246,719)
Cash Flow from Financing Activities			
Capital Transfer from Policyholders' Protection Fund		3,012,658	22,425,603
Increase in Finance Lease		(982,525)	296,431
Net Cash Flows from Financing Activities		2,030,133	22,722,034
Net Increase/(Decrease) in Cash and Cash Equivalents		(2,595,062)	(2,616,861)
Cash and Cash Equivalents at the beginning of the Year		4,168,779	6,785,639
Cash and Cash Equivalents at the end of the Year		1,573,717	4,168,779
Cash at Bank and in hand	5	1,573,717	4,168,779

The Accounting Policies and Notes appearing on pages 45 to 52 form an integral part of the financial statements.

Policyholders' Protection Fund - Cash Flow Statement

For the year ended 31 December

	Note	2009 Rs	2008 Rs
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		209,726,083	160,929,326
Net increase before Working Capital Changes		209,726,083	160,929,326
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities		(25,995,593)	(2,466,926)
(Increase)/Decrease of Cess Receivable		(5,014,466)	(1,547,516)
(Increase)/Decrease of Rent Deposit		(314,676)	-
Increase/(Decrease) of Fund to be Transferred from Cess Fund		12,639,596	-
		(18,685,139)	(4,014,442)
Net Cash from Operating Activities		191,040,944	156,914,884
Cash Flow into Investing Activities			
Investments in Government Securities		(189,022,637)	(156,853,318)
Net Cash from Investing Activities		(189,022,637)	(156,853,318)
Net Increase/(Decrease) in Cash and Cash Equivalents		2,018,307	61,566
Cash and Cash Equivalents at the beginning of the Year		3,326,330	3,264,764
Cash and Cash Equivalents at the end of the Year		5,344,637	3,326,330
Cash at Bank	2	5,344,637	3,326,330

The Accounting Policies and Notes appearing on pages 45 to 52 form an integral part of the financial statements.

Accounting Policies

1. Significant Accounting Policies

1.1 Basis of Preparation

The financial statements of the Insurance Board of Sri Lanka are presented in Sri Lanka 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 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 disclosures are 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 provisions 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.

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 Valuation

2.1 Property, Plant & Equipment

Owned Property, Plant & Equipment

Property, Plant & Equipment are stated at cost less accumulated depreciation. The cost of Property, Plant & 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 risks and benefits incidental to ownership of the leased item are capitalized at 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 expenses 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 the straight-line basis over the estimated useful life of the asset at following rates.

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

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

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

2.2 Investments

Investment 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.

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 the financial statements.

3.3 Grant

The amount transferred to capital expenditure from Policyholders' Protection Fund and assets received from Micro Insurance Project are treated as 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.

4.3 Expenditure Recognition

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

4.4 Cash Flow Statement

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

Notes to the Financial Statements

1. Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Assets on Finance Lease Motor Vehicles Rs.	Total Rs.
Cost						
Balance as at 01 January 2009	9,473,243	12,638,645	15,448,870	141,450	5,300,000	43,002,208
Additions	–	1,533,888	1,478,770	–	–	3,012,658
Disposals	–	(313,651)	–	–	(2,500,000)	(2,813,651)
Balance as at 31 December 2009	9,473,243	13,858,882	16,927,640	141,450	2,800,000	43,201,215
Accumulated Depreciation						
Balance as at 01 January 2009	2,973,924	2,616,407	5,220,548	106,089	2,988,082	13,905,050
Charge for the Year	2,368,311	1,578,203	3,683,771	35,360	700,000	8,365,645
Disposals	–	(130,404)	–	–	(2,500,000)	(2,630,404)
Balance as at 31 December 2009	5,342,235	4,064,206	8,904,319	141,450	1,188,082	19,640,291
Written Down Value						
As at 31 December 2009	4,131,008	9,794,676	8,023,321	–	1,611,918	23,560,924
Written Down Value						
As at 31 December 2008	6,499,319	10,021,939	10,228,322	35,361	2,311,918	29,096,860

For the year ended 31 December

2009
Rs.

2008
Rs.

2. Policyholders' Protection Fund Investments and Others

Non-Current Assets

Rent Deposits	7,732,116	7,417,440
---------------	-----------	-----------

Current Assets

Investment in Government Securities	671,655,764	482,633,126
Interest Receivable on Government Securities	43,328,893	17,333,300
Cess Receivable	39,651,728	34,637,263
Balance at Bank	5,344,637	3,326,330
Less:		
Funds to be Transferred from Cess Fund	(12,639,595)	–
	747,341,427	537,930,020
Total Assets	755,073,543	545,347,460

3. Inventories

Printing, Stationery and Computer Accessories	202,340	227,508
Publications	–	34,200
Stamps	46,580	24,670
	248,920	286,378

Notes to the Financial Statements

For the year ended 31 December

	2009 Rs.	2008 Rs.
4. Other Current Assets		
Deposits	103,000	103,000
Annual Fee Receivables	-	215,391
Other Receivables	96,040	45,107
WHT Receivables	1,517,928	971,215
VAT Control	952,850	-
VAT Receivables	-	80,291
Interest Receivable - Treasury Bills	3,888,030	4,536,958
Staff Loans*	3,112,003	2,355,407
Advance Payments	761,637	381,718
Amount to be Transferred from Cess Fund	12,639,595	-
	23,071,083	8,689,086

*Loans granted to staff

Balance as at 01 January	2,355,407	2,214,882
Loans granted during the Year	2,142,500	890,100
	4,497,907	3,104,982
Repayments during the Year	(1,385,904)	(749,575)
Balance as at 31 December	3,112,003	2,355,407

5. Cash and Cash Equivalents

People's Bank	950,566	2,686,152
Bank of Ceylon	569,216	815,385
Hongkong & Shanghai Banking Corporation Limited	50,142	652,243
Cash in Hand	3,793	15,000
	1,573,717	4,168,779

6. Accumulated Fund

Balance as at beginning of the Period	67,828,254	56,852,302
Net Surplus/(Deficit) for the Period	-	10,975,952
Balance as at end of the Period	67,828,254	67,828,254

For the year ended 31 December

	2009 Rs.	2008 Rs.
7. Policyholders' Protection Fund		
Opening Balance	545,347,461	384,418,135
Cess Received during the Year	138,941,320	133,081,659
Interest on Treasury Bill Investment	45,447,095	50,845,037
Interest on Repo and Call Account	45,485,710	19,420,049
	775,221,586	587,764,880
Less:		
Transfer for Operational Expenses	17,126,937	19,986,302
Transfer for Capital Expenditure	3,012,658	22,425,603
Total Transfer- Policyholders' Protection Fund	20,139,595	42,411,905
Debit Tax	-	-
Bank Charges	8,448	5,514
	20,148,043	42,417,419
Closing Balance	755,073,543	545,347,461

8. Grant

Balance at the beginning of the Year	27,471,268	10,547,578
Capital Expenditure from Policyholders' Protection Fund	3,012,658	22,425,603
Assets from Micro Insurance Project	-	
Less: Amortized during the Year	(8,534,921)	(5,501,913)
Balance at the end of the Year	21,949,005	27,471,268

Note - Recognition of Grant

The above grant has been received in respect of fixed assets and has been accounted for in accordance with the SLAS 24 at the following rates:

Motor Vehicle (%)	25.00
Office Equipment - Others and EDP (%)	25.00
Furniture, Fixtures and Fittings (%)	12.50

9. Retirement Benefit Obligation

	2009 Rs.	2008 Rs.
Balance at the Beginning of the Year	793,126	440,187
Provision Made during the Year	83,045	352,939
Balance at the end of the Year	876,171	793,126

Notes to the Financial Statements

As at 31 December

2009
Rs.

2008
Rs.

10. Interest Bearing Borrowings

Finance Lease Liability

Lease Creditor	2,274,720	3,844,769
Less: Interest in Suspense	(409,698)	(997,223)
	1,865,022	2,847,546
Current Portion of Finance Lease Liabilities	(740,581)	(1,051,765)
	1,124,441	1,795,781

11. Other Current Liabilities

VAT Payable	4,615	–
Others	4,239,405	2,346,504
	4,244,020	2,346,504

12. Revenue

Annual Fees from Insurance Companies	29,372,877	26,279,029
Registration and Renewal Fees	2,475,875	2,384,327
	31,848,752	28,663,356

13. Other Income

Registration of Suppliers	–	60,480
Interest on Vehicle Loan	51,977	64,400
Interest on Distress Loan	106,583	68,223
Sale of Publications	37,907	66,080
Reversal of Provision - Establishment of Financial Service Academy	–	5,000,000
Sundry Income	78,729	152,114
	275,196	5,411,297

14. Excess/(Deficit) Income Over Expenditure

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

<i>For the year ended 31 December</i>	2009	2008
	Rs.	Rs.
Staff Salaries	14,429,214	11,029,812
EPF and ETF	2,150,088	1,655,476
Provision for Retiring Gratuity	83,045	352,939
Staff Training - Overseas	1,486,171	3,655,274
Local Consultants	585,000	1,105,000
Foreign Consultants	-	691,433
Auditors' Remuneration	100,000	75,000
Depreciation	8,365,645	6,556,502
Chairman's Allowance	360,000	360,000
Attendance Fee for Directors	55,000	59,000
Public Awareness	4,255,457	1,963,741
Bank Charges	31,729	32,285
Debit Tax	149,762	91,928

15. Taxation

The provision for income tax has been computed in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 as at 31 December 2009.

15.1 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 forms 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 amounting to Rs. 874,565.14 for the year 2009 has been recognized in the financial statements for the year ended 31 December 2009.

Interest income earned from the secondary market transactions in government securities by investing the Cess Fund has been accounted by recognizing the net value.

16. Capital Commitments

There were no capital commitments as at 31 December 2009.

17. Contingent Liabilities

There were no contingent liabilities as at 31 December 2009.

18. 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.

19. Related Party Disclosures

Mr. Udayasri Kariyawasam (Chairman), Mr. Channa de Silva, Mr. C.P.E. Gunasingam, Mr. Graetian Gunawardhana, Mr. Wilfred Wickramasinghe, Mr. U.S. Abeyaratna, Mr. Kamal Ranjan Goonesinghe held office as members of the Board during the year 2009.

Mr. Lalith R. de Silva of the Ministry of Finance & Planning ceased to be an ex-officio member of the Board on 25 February 2009 and Dr. R.H.S. Samaraturunge assumed duties on 27 February 2009. From 07 December 2009 Mrs. Sujatha Cooray was appointed as an ex-officio member of the Board.

Dr. Raneer Jayamaha of the Central Bank of Sri Lanka ceased to be an ex-officio member of the Board on 27 May 2009 and Dr. P.W.R.B.A.U. Herat assumed duties on 18 June 2009. Upon his death, Dr. D.S. Wijesinghe was appointed as an ex-officio member to the Board on 09 November 2009.

Mr. C.P.E. Gunasingam and Mr. Wilfred Wickramasinghe ceased to be Members of the Board from 03 February 2009 and 30 May 2009 respectively upon completion of their term.

The following table depicts the corporate relationship of the Members of the Board during the year:

	Name of the Related Institution	Relationship
Mr. Udayasri Kariyawasam	Securities & Exchange Commission of Sri Lanka	Chairman (w.e.f. 26 February 2009)
Mr. Graetian Gunawardhana	Securities & Exchange Commission of Sri Lanka	Member
Mr. C.P.E. Gunasingam	Securities & Exchange Commission of Sri Lanka	Member
Dr. R.H.S. Samaraturunge	Securities & Exchange Commission of Sri Lanka	Ex Officio Member
Dr. Raneer Jayamaha	Securities & Exchange Commission of Sri Lanka	Ex Officio Member
Dr. D.S. Wijesinghe	Securities & Exchange Commission of Sri Lanka	Member (w.e.f. 09 November 2009)

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/IBSL/2009/01/02

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 04 May 2010

The Chairman,
Insurance Board of Sri Lanka

Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka (IBSL) for the year ended 31 December 2009 in terms of section 14(2) (c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2009 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 8(3) of the Sri Lanka Insurance Industries Regularization Act, No. 43 of 2000 and Section 13(1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act was forwarded to the Chairman of the Board on 8 April 2010.

1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls 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.

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain, reasonable assurances 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 policies 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. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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කොළඹ 07, ශ්‍රී ලංකාව

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

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Fax No. }

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#- மெயில் } oaggov@sltnet.lk
E-mail. }

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Insurance Board of Sri Lanka had maintained proper accounting records for the year ended 31 December 2009, and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Insurance Board of Sri Lanka as at 31 December 2009 and the financial results of its operation and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following Laws, Rules, Regulations and Management Decisions observed in audit are given below:

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliance
(a) Inland Revenue Act, No. 10 of 2006	
(i) Section 7 (b)	The Board had not obtained tax exemption from Director General of Inland Revenue for IBSL income. It was also observed that the Board had not paid tax since the establishment of the Board. (except for 2009) According to the Chairman, "the Board had requested from Ministry of Finance and Planning by its letter dated 16 January 2002 to exempt the Board from income tax. The Board is awaiting a favourable response from the Ministry of Finance and Planning - Fiscal Policies Department regarding this matter. Reply had not been received yet"
(ii) Section 153	Withholding Tax amounting to Rs.8,911 had not been deducted and remitted to the Department of Inland Revenue in respect of three payments totalling Rs.178,779.
(b) Procurement Guidelines Circular No. 08 of 25 January 2006 issued by the National Procurement Agency.	
Section 6.3.2	The Board had invested a sum of Rs.35 million on Treasury Bills without considering the closing date of the bidding.

3. Financial and Operating Review

3.1 Financial Performance

The operation of the Board for the year under review had resulted in a deficit of Rs.16,493,217 as compared with the corresponding deficit of Rs.9,010,401 in the preceding year thus indicating a further deterioration of Rs.7,482,816 or 83 per cent in the financial results. The total income and the total expenditure of the Board had increased by 0.2 per cent and 13 per cent respectively as compared with the preceding year. A summary of the financial results is given below:

	2009 Rs.	2008 Rs.
Total Income	49,404,521	49,288,720
Total Expenditure	(65,897,738)	(58,299,121)
Surplus/(deficit)	(16,493,217)	(9,010,401)
Income (pre tax)	(633,720)	-
Transfers from Policyholders' Protection Fund	17,126,937	19,986,353
Net Surplus	-	10,975,952

3.2 Uneconomic Transactions

A non moving average monthly cash balance of Rs. 3.5 million remained in a bank current account without being utilized such money effectively and efficiently to earn income.

3.3 Budgetary Control

Major variances were observed between the budget and the actual thus indicating that the budget had not been made use of as an effective instrument of management control.

3.4 Corporate Plan

Though the Corporate Plan for the period 2008-2010 had been prepared, time target of each strategy, had not been fixed and responsibility of performing each strategy had not been established.

According to the Chairman "The Corporate plan of the IBSL contains the time targets for each strategy and it is the responsibility of the staff of each division to perform accordingly. However, a particular period cannot be fixed when the strategy continues since it is unique in prudential regulation process especially to regulatory bodies"

4. Systems and Controls

Deficiencies in systems and controls observed in audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (i) Compliance with Laws, Rules, Regulations and Management decisions
- (ii) Investments
- (iii) Contract Administration



S. SWARNAJOTHI
Auditor General

Responses of the Board to the Matters Raised by the Auditor General

Matters Raised by the Auditor General

Responses of the Board

a. I. The Board had not obtained tax exemption from Director General of Inland Revenue for IBSL income. It was also observed that the Board had not paid tax since the establishment of the Board (Except for 2009).

II. Withholding Tax amounting to Rs. 8,911/- had not been deducted and remitted to the Department of Inland Revenue in respect of three payments totaling to Rs. 178,779/-.

b. The Board had invested a sum of Rs. 35 million on Treasury Bills without considering the closing date of the quotations.

a. I. The Board by its letter dated 16 January 2002 made a request from Ministry of Finance & Planning (MOF) to exempt the Insurance Board of Sri Lanka (IBSL) from income taxation under Section 8 of the Inland Revenue Act, No. 38 of 2000. Further, a reminder was sent on 25 October 2006 on the same matter requesting to exempt the IBSL from income taxation under Section 7 (b) of the Inland Revenue Act, No. 10 of 2006.

The Insurance Board of Sri Lanka (IBSL) was established in terms of the Regulation of Insurance Industry Act, No. 43 of 2000 which came into operation on 1 March 2001 by Gazette Notification No. 1172/27 dated 23 February 2001. Fund of the Board defined in the RII Act and it consists of sums of money as may be voted from Parliament and also collection of levy from insurance companies such as annual fees, Cess and registration fees. Therefore, we had a view that income in the form of such type of levy is not liable for corporate tax.

However, in our letter dated 23 March 2010, we have brought this matter again to the attention of the Director General of Fiscal Policies Department in order to list IBSL under Section 7(b) of the Inland Revenue Act, No. 10 of 2006. The Board is awaiting a favourable response from the Ministry of Finance & Planning - Fiscal Policies Department regarding this matter.

II. Comments noted. These payments were related to February and March 2009 and they were approved and executed by the former Director General of IBSL by an oversight. However, presently all the payments are being regularized in order to prevent this type of situations.

b. Comments noted. As per the Section 103 (3) of the Regulation of Insurance Industry Act, No. 43 of 2000, excess money should be invested by the Board in such prudent manner as would yield a good return and safeguard the investment at the interest of policyholders. Please note that maximum yield of 17.81% was given by Ceylinco Sri Ram Securities Limited which is a licensed primary dealer of the Central Bank of Sri Lanka and the Board has received the maturity amount at the maturity date.

Responses of the Board to the Matters Raised by the Auditor General

Matters Raised by the Auditor General

- c. The operation of the Board for the year under review had resulted in a deficit of Rs. 16,493,217/- as compared with the corresponding deficit of Rs. 9,010,401/- in preceding year thus indicating an increase in deficit by Rs. 7,482,816/- or 83%. The total income and the total expenditure of the Board had increased by 0.2% and 11.53% respectively as compared with the preceding year.

	2009 Rs.	2008 Rs.
Total Income	49,404,521	49,288,720
Total Expenditure	(65,897,738)	(58,299,121)
Surplus/(deficit)	(16,493,217)	(9,010,401)
Income (pre tax)	(633,720)	-
Transfers from Policyholders' Protection Fund	17,126,937	19,986,353
Net Surplus	-	10,975,952

Responses of the Board

- c. Please note that total expenditure of the Board had increased by 13% compared to the previous year.
- d. A non-moving average monthly balance of Rs. 3.5 million remained in a bank current account without being utilized such money effectively.
- d. The Board is taking every effort to minimize large cash balances recorded in the current accounts while maintaining the Repo investment with Government Securities. However, in some instances, current account balances are recorded high due to reserving the respective funds to pay essential payments on beginning of next month (Ex. rent payments, car parking fees etc.) to avoid overdrawn situations.

Responses of the Board to the Matters Raised by the Auditor General

Matters Raised by the Auditor General

- e. Major variances were observed between the budget and the actual thus indicating that the budget had not been made use of as an effective instrument of management control. Details are as follows:

Item	Budget Rs.	Actual Rs.	Variances Favourable/ (Adverse) Rs.
Interest Income	–	8,745,651	8,745,651
Staff Cost	36,140,000	26,514,536	9,625,464
Administration Expenses	28,280,000	38,616,712	(10,336,712)
Professional Developments	13,291,500	–	13,291,500
Professional Charges	5,686,000	585,000	5,101,000
Net Deficit	55,787,900	16,493,218	39,294,682

- f. Though the Corporate Plan for the period 2008-2010 had been prepared, certain significant elements had not been included.

- Time target of each strategy had not been fixed
- Responsibility of performing each strategy had not been established.

Responses of the Board

- e. IBSL notes that there are differences in recording the budgeted and actual expenditure in the report and therefore listed below the details as per our records.

Item	Budget Rs.	Actual Rs.	Variances Favourable/ (Adverse) Rs.
Staff Cost	36,140,000	23,574,554	12,565,446
Administration Expenses	28,280,000	31,948,288	(3,668,288)
Professional Developments	13,321,500	4,184,783	9,136,717
Professional Charges	5,686,000	1,746,167	3,939,833
Net Deficit	55,787,900	16,493,218	39,294,682

IBSL wishes to use the budget as an effective instrument of management control and above variances had occurred due to the reasons given below which are beyond the control of the IBSL.

- In case of staff costs budget is based on proposed salary scales and actual is based on old salary scales since, the salary is not approved by the Ministry of Finance & Planning.
- Although, administration expenses show adverse variance amounting to Rs. 3,668,288/- compared to the budget, depreciation amounted to Rs. 8,365,646/- is included in actual amount and no budgetary provision was made for the same since, real cash out flow is not arisen.
- Professional charges had recorded a surplus due to the Consultant Actuary from IRDA had not visited the Board during the year 2009 as planned.

However, action will be taken to avoid major variances during the year 2010.

- f. The Corporate plan of the IBSL contains the time targets for each strategy and it is the responsibility of the staff of each division to perform accordingly. However, a particular period cannot be fixed when the strategy continues since it is unique in prudential regulation process especially to regulatory bodies.

Appendix I

Insurance Companies Registered Under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31 December 2009

No.	Name of the Insurer	Class of Insurance
1.	Allianz Insurance Lanka Limited	General Insurance
2.	Allianz Life Insurance Lanka Limited	Long Term Insurance
3.	Amana Takaful PLC	Long Term Insurance General Insurance
4.	Asian Alliance Insurance PLC	Long Term Insurance General Insurance
5.	AVIVA NDB Insurance PLC (Formerly Eagle Insurance PLC)	Long Term Insurance General Insurance
6.	Ceylinco Insurance PLC	Long Term Insurance General Insurance
7.	Ceylinco Takaful Limited*	General Insurance
8.	CHARTIS Insurance Limited (Formerly Hayleys AIG Insurance Company Limited)	General Insurance
9.	Continental Insurance Lanka Limited	General Insurance
10.	Co-operative Insurance Company Limited	Long Term Insurance General Insurance
11.	HNB Assurance PLC	Long Term Insurance General Insurance
12.	Janashakthi Insurance PLC	Long Term Insurance General Insurance
13.	Life Insurance Corporation (Lanka) Limited	Long Term Insurance
14.	MBSL Insurance Company Limited	Long Term Insurance General Insurance
15.	People's Insurance Limited	General Insurance
16.	Seemasahitha Sanasa Rakshana Samagama	Long Term Insurance General Insurance
17.	Sri Lanka Insurance Corporation Limited	Long Term Insurance General Insurance
18.	Union Assurance PLC	Long Term Insurance General Insurance

* Currently Suspended

Appendix II

Insurance Broking Companies Registered Under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31 December 2009

No. Insurance Broker	Class of Business
1. A. M. W. Insurance Brokers (Pvt) Limited	Long Term and General
2. ADZ Insurance Brokers (Pvt) Limited	Long Term and General
3. Aitken Spence Insurance Brokers (Pvt) Limited	Long Term and General
4. Alfinco Insurance Brokers (Pvt) Limited	Long Term and General
5. Allion Insurance Brokers (Pvt) Limited	General
6. Assetline Insurance Brokers Limited (Formerly DP Insurance Brokers Limited)	General
7. Brilliance Insurance Brokers Co. (Pvt) Limited	Long Term and General
8. Ceyexxe Insurance Brokers Limited	General
9. Ceylan Insurance Brokers Co. (Pvt) Limited	General
10. CF Insurance Brokers (Pvt) Limited	Long Term and General
11. Commercial Insurance Brokers (Pvt) Limited	Long Term and General
12. Delmege Insurance Brokers (Pvt) Limited	Long Term and General
13. Equity Insurance Brokers (Pvt) Limited	Long Term and General
14. Essajee Carimjee & Co. (Pvt) Limited	Long Term and General
15. Finlay Insurance Brokers (Pvt) Limited	Long Term and General
16. Global Insurance Services (Pvt) Limited	General
17. Industrial & Commercial Insurance Brokers (Pte) Limited	Long Term and General
18. Jay Insurance Consultants (Pvt) Limited	Long Term and General
19. JF Insurance Brokers (Pvt) Limited	General
20. L M & A Insurance Brokers & Consultants (Pvt) Limited	Long Term and General
21. Lak Insurance Brokers (Pvt) Limited	Long Term and General
22. Lanka Orix Insurance Brokers Limited	Long Term and General
23. Mackwoods Insurance Brokers (Pvt) Limited	Long Term and General
24. Maxwell Enterprises (Private) Limited	Long Term and General
25. Nations Insurance Brokers Limited	Long Term and General
26. Placid Insurance Brokers (Pvt) Limited	Long Term and General
27. Procure Insurance Brokers (Pvt) Limited	Long Term and General
28. Protection & Assurance Insurance Brokers (Pvt) Limited	Long Term and General

No. Insurance Broker	Class of Business
29. Protection & Utmost Insurance Brokers (Pvt) Limited	Long Term and General
30. Reliance Insurance Brokers (Pvt) Limited	Long Term and General
31. Ro-Pa Insurance Brokers (Pvt) Limited	Long Term and General
32. Samson Insurance Brokers (Pvt) Limited	General
33. Senaratne Associates (Pvt) Limited	Long Term and General
34. Steuart Insurance Brokers (Pvt) Limited	Long Term and General
35. Strategic Insurance Brokers (Pvt) Limited	Long Term and General
36. Sun Insurance Brokers Lanka (Pvt) Limited	Long Term and General
37. United Insurance Brokers (Pvt) Limited	General
38. Veracity Insurance Brokers (Pvt) Limited	Long Term and General
39. Vertec Insurance Brokers (Pvt) Limited	Long Term and General
40. Victor Emmanuel Insurance Brokers (Pvt) Limited	Long Term and General
41. Visionwide Insurance Brokering and Financial Services (Pvt) Limited	Long Term and General
42. Volanka Insurance Services (Pvt) Limited	Long Term and General
43. Zenith Insurance Brokers (Pvt) Limited	Long Term and General

Glossary

Accumulation

The situation where a significant number of risks insured or reinsured with the same company 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 & equipment.

Admissible Assets

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

Annuity

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

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event 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 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)

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

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.

$$\frac{\text{Net claims incurred} \times 100}{\text{Net Earned premium}} + \frac{\text{Expenses} \times 100}{\text{Net Earned premium}}$$

Net Earned Premium (General Insurance Business)

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

Net Expense Ratio - Non-Life

A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commission, 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 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.

Policyholder

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 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 term. In order to attain a surrender value, the policy should have been in force continuously for a period of at least three years.

Underwriting Profit

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

Unearned Premium

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

Unearned Premium Reserve

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

Unexpired Risk Reserve

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





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