



Taking Aim...
REACHING TARGETS





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Taking Aim... REACHING TARGETS

Last year we established our path in the industry as a focused entity traveling in the right direction and this year we have reached a critical milestone in our journey. Following the many advancements that have been made in the industry, we are enthused and optimistic on the challenges and opportunities that we as a regulatory board will face in the future.

Continuing our focus on maintaining an accountable and transparent insurance industry, we will strive to carry through this trajectory of growth while creating a safe and professional environment for insurance companies and stakeholders alike.

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 policyholders and potential policyholders”

Highlights of the Year

- 22 insurance companies
- 46 insurance brokers
- 32,651 insurance agents
- Composite insurance companies are to be segregated into 2 entities by February 2015
- All insurance companies to be listed in the Stock Exchange
- Registration of loss adjustors
- Recognition of institutional insurance agents
- Capital requirements of insurance companies increased
- Moving towards Risk Based Capital (RBC)

Rs. 261.78 Bn.
Total Assets of Insurance Industry

Rs. 78.51 Bn.
GWP of Insurance Industry

Performance of Insurance Industry

	2011	2010	Change %
Gross Written Premium (Rs. billions)	78.51	66.25	18.5
Total Assets (Rs. billions)	261.78	219.10	19.5
Penetration as a % of GDP	1.20	1.18	1.7
Insurance Density (Rs.)	3,762.14	3,207.91	17.3

Performance of the Board

	2011	2010	Change %
Policy Holders' Protection Fund (Rs. billions)	1.28	1.01	26.4
Cess Income (Rs. millions)	216.84	144.67	50.0
Annual Fees (Rs. millions)	34.58	29.19	18.5

Chairperson's Statement



“Innovation in insurance products and public confidence are key for the growth of the industry”

Year 2011 was a milestone for the Insurance Board of Sri Lanka having completed ten years in regulating the insurance industry. A stable and dynamic insurance industry significantly contributes to the economic development of the country and therefore, it is important to ensure a sustainable growth in the industry. We, the Board continued our efforts to provide an effective regulatory and supervisory framework, which is essential for this sustainability, for the benefit of both the industry and policyholders.

During the year, Sri Lanka experienced a positive economic growth which was 8.3% following the 8% growth in 2010. Coinciding with this growth of the economy, the insurance industry witnessed a significant improvement in 2011. Overall Gross Written Premium income for long term insurance business and general insurance business was Rs. 78,512 million reflecting a growth of 18.5% compared to the same period last year. There are 22 registered insurance companies. However, only 21 companies are in operation out of which 3 companies engaging in long term insurance, 6 in general insurance and 12 companies doing composite insurance in 2011.

Focusing on the Board's journey in the right direction, we took several measures to further strengthen the confidence of the industry and general public whilst encouraging the growth of the industry.

The long awaited road test of the Risk Based Capital Model will take place in year 2012. We are grateful to the World Bank, First Initiative and the Consultant, Deloitte Touche Tomatsu India Pvt. Ltd. for their technical support and funding.

During the year, the Board granted licenses to Orient Insurance Ltd. which is a 100% fully owned subsidiary of a foreign insurance company and Arpico Insurance Ltd. to carry on general insurance business and long term insurance business respectively. We believe that the international expertise and the local expertise blended together will further strengthen the growth of the insurance industry.

The Amendment to the Regulation of Insurance Industry Act No. 3 of 2011 was passed in Parliament and came into effect in February 2011. This was another achievement of the Board during the year.

These amendments brought in significant regulatory reforms fulfilling our mandate of protecting policyholders and potential policyholders. As per the amendments, segregation of insurance companies which is the international norm, is now a mandatory requirement under the Act. Listing of insurance companies in a licensed Stock Exchange is another amendment which was introduced after much deliberation, and the National Insurance Trust Fund Board established under National Insurance Trust

Fund Act, No. 28 of 2006 has now been brought under the purview of the Board's regulation.

The stated capital to register as insurers was increased from Rs. 100 million per class of insurance business to Rs. 500 million per class of insurance business. Solvency Margin (General Insurance) Rules and Solvency Margin (Long Term) Rules were revised to suit industry needs after having consulted the industry and analyzing the risks involved.

During the year, we embarked on another important step to promote insurance literacy among the public being mindful of the fact that, to develop the insurance industry, there is a need to educate the public on the fundamentals of insurance. A series of press notices, press releases and press articles were published.

The legislative mandate gives the Board the power to resolve matters pertaining to grievances of policyholders. The Board gave specific emphasis to this area, during our journey in the right direction.

The economic upturn in the country, presents both opportunities and challenges to the insurance industry. Thus, the industry should focus on introducing innovative products to meet these challenges. The industry also needs to look at new strategies to develop life insurance and health insurance products to address the needs of growing population.

The Board has seriously taken note of the importance of public confidence and overall public awareness of insurance. We expect the cooperation of the industry stakeholders in this regard.

With lessons learnt from the global economic crisis, we as regulators brought new regulations with a view to managing risks efficiently and effectively, whilst ensuring breath and depth of insurance products.

In conclusion, I wish to thank Dr. P. B. Jayasundera, Secretary, Ministry of Finance & Planning and the relevant officers of the Ministry for the support extended to the Board. Further I wish to thank all my Board members for their valuable contribution. I also take this opportunity to thank the industry stakeholders for the cordial cooperation extended to the Board. Finally, the commitment and the dedication of my Director General, Directors and other staff are remembered with appreciation.



Indrani Sugathadasa

Chairperson

30th August 2012

Director General's Review



“The landmark developments during 2011 will provide opportunities as well as challenges to the industry. To face these challenges, we are motivated and focused on continuing our role as prudential regulator, comprising skilled motivated employees delivering effectively and efficiently in a winning culture. Working closely with industry stakeholders, we will strive to provide both businesses and consumers a fair and safe industry in which to grow and feel secure”

This year has been a truly remarkable one for the country, the insurance industry and the Board. In a year of progress marking the completion of a decade, we have gained ground in creating the regulatory and supervisory framework that will lead to more accountability and stability with regard to the insurance industry. As prudential regulator of the Sri Lankan insurance industry, the Board continued to provide guidance and direction to the industry during the year under review.

Regulatory & Supervisory

With a view to strengthening risk-based supervision, the Board achieved two key milestones during the year under review. We completed phases II and III of the Risk Based Capital (RBC) Project, initiated in 2009 by working closely with the project consultants and as a result, the Quantitative and Qualitative Reports were issued to the insurance industry. Through this project, the Board intends to enable market participants to effectively manage their business risks by providing a risk based framework to maintain a minimum capital requirement.

We monitored the timely submission of Annual Statutory Returns, Audited Financial Statements and Actuarial Reports, and through onsite and offsite inspections of insurance companies and insurance brokers, we reviewed their operations, systems, policies and procedures to verify their compliance with the provisions of the Act and assess their risk management processes.

In order to meet the varying requirements of the insurance industry and contemporary regulatory trends the Board amended the Regulation of Insurance Industry Act, No. 43 of 2000, revised the Solvency Margin Rules and increased the registration and annual fee paid by insurers. Central to the landmark changes introduced, segregation of composite insurers, listing of all insurers on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, and recognition of institutional insurance agents, will shape the landscape of the insurance industry in Sri Lanka.

The Board granted registration to Arpico Insurance Limited and Orient Insurance Limited as insurers to carry on long term insurance business and general insurance business respectively during the year under review. Accordingly, the number of registered insurers increased from twenty (20) to twenty two (22). However, only twenty one (21) companies are in operation, due to the suspension of Ceylinco Takaful Limited which continues from 2009.

We also received applications from eleven (11) companies seeking registration as insurance brokers during 2011. The Board granted registration to five (5) companies out of which, two (2) companies were registered to carry on both long-term and general insurance brokering business and the other three (3) companies to carry on general insurance brokering business.

In terms of Section 98 of the Insurance Industry Act No. 43 of 2000, a dispute relating to a settlement of a claim may, at the option of the claimant, be referred to the Board for its decision, and the Board may, after giving an opportunity to the parties of being heard and after making such further inquiries as it may think fit, make its order in the dispute. The investigation function of the Board was established in 2009, operating as a separate Division in the year 2010. During this short period, the Board has gained the confidence of the public in resolving disputes relating to insurance claims which is evidenced by the increasing number of complaints received and resolved.

During the year under review we successfully inquired into more than two hundred and eighty (280) complaints out of which two hundred and forty (240) were settled. We have now expanded our scope by looking into complaints relating to qualifications of agents and misappropriation of funds by agents in addition to addressing grievances relating to recovery of policy proceeds.

Public Awareness

Our participation in national/educational exhibitions and road shows during the year under review, gave us the opportunity to explain the Board's pivotal role in supervising, regulating and developing the insurance industry to the general public. We also took advantage of this platform to inform students on insurance courses that are available.

In addition to newspaper articles, press interviews and informative press notices, we published several leaflets and brochures on 'How to obtain an insurance cover' and 'How to fill a proposal form'.

Human Resources

At the end of 2011, the Board has grown to thirty seven (37) staff members. During this same period, the number of insurers increased from ten (10) to twenty two (22) and insurance brokers from thirty six (36) to forty six (46). The Board provided opportunities for members of the staff to

participate in twenty five (25) training programmes during the year under review.

Looking Forward

The Country's insurance sector showed remarkable resilience despite a global slowdown, growing Gross Written Premium (GWP) by 18.5% compared to year 2010 with long term insurance contributing GWP of Rs. 35,181 million and general insurance contributing GWP of Rs. 43,331 million.

The landmark developments during 2011 will provide opportunities as well as challenges to the industry. To face these challenges, we are motivated and focused on continuing our role as prudential regulator, comprising skilled motivated employees delivering effectively and efficiently in a winning culture. Working closely with industry stakeholders, we will strive to provide both businesses and consumers a fair and safe industry in which to grow and feel secure.

The priorities for 2012 have been identified and the top three (3) are the commencement of the road test for RBC which will enhance risk-based supervision, further strengthening of the regulatory framework with a view to safeguarding the interests of policyholders and potential policyholders and conducting awareness programmes to groups that interact with the rural community.

In the mid to long term, we will be focusing on sustainability of the insurance industry, with particular emphasis on monitoring the financial stability of the insurance industry in Sri Lanka through an effective supervisory system; a robust regulatory framework for insurance and reinsurance; facilitating the development of the industry by encouraging innovation; and improving confidence of policyholders/potential policyholders in insurance through increased financial literacy.

Conclusion

Several milestones have been achieved during the past decade as a result of steps taken in the right direction and it is indeed noteworthy that they should culminate in our reaching this critical milestone on our Tenth Anniversary. I wish to thank the Board for their unstinted support and guidance during the past year which enabled excellence in execution. I also wish to convey my sincere gratitude to Chairperson for her astute leadership, and to my dedicated team of Directors and

staff that made it possible for us to achieve our audacious goals during the year 2011.



Chandri Gunawardhana
Director General

30th August 2012

Members of the Board



1

Mrs. Indrani Sugathadasa
Chairperson



2

Mr. S.R. Attygalle
Member



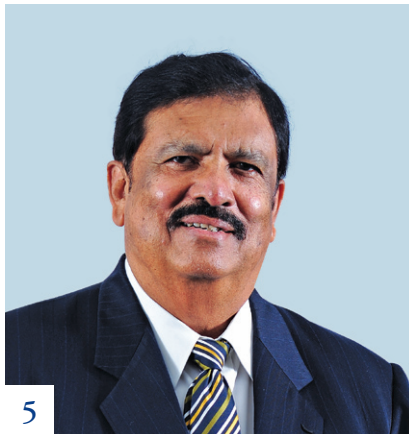
3

Mr. B.D.W. Ananda Silva
Member



4

Mr. D.K. Hettiarachchi
Member



5

Mr. G. Gunawardhana
Member



6

Mr. Gamini Kohona
Member



7

Mr. Mohamed Nawaz Rajabdeen
Member

Profiles of Members of the Board

(1) **Mrs. Indrani Sugathadasa** has been the Chairperson of the Board since May 2010. Mrs. Sugathadasa, a product of Musaeus College, Colombo, holds a Bachelor of Social Sciences degree from the University of Colombo and Masters Degree (MPA/ MBA) from Monash University, Melbourne, Australia. She has also been awarded the prestigious Hubert H. Humphrey Fellowship (Fulbright) by the United States Government in 1990 and was attached to Hunter College, City University of New York during the one-year Fellowship period.

She has received professional training in Computer Science, Personnel Management and Public Service Management.

Mrs. Sugathadasa joined the Sri Lanka Administrative Service (SLAS) in 1977 and commenced her professional career as an Assistant Secretary to the Ministry of Plan Implementation and rose to the highest level in the administrative hierarchy.

During her tenure in the mainstream public sector, Mrs. Sugathadasa has held senior positions such as Director, National Youth Service Council, Director, Women's Bureau of Sri Lanka, Chairperson, National Institute of Plantation Management and Permanent Secretary to the Ministry of Child Development and Women's Empowerment.

She retired as the Permanent Secretary, Ministry of Plantation Industries in 2010 after having served the public sector for over three decades. After retirement, she was

appointed as the Chairperson of both the Insurance Board of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. She served in the SEC until December 2011.

In addition to various Seminars and Conferences that Mrs. Sugathadasa has attended nationally and internationally, she had been a member of several Sri Lanka Delegations to foreign States and International Forums.

(2) **Mr. S.R. Attygalle** is a Senior Economist of the Central Bank of Sri Lanka and has also served as a Director and Acting Chairman of National Savings Bank and a Director of Shell Gas Lanka Limited. He served as the Director General of Department and Fiscal Policy and the Director General of Department of Public Enterprises of the Ministry of Finance and Planning till the end of 2011.

He is presently a Deputy Secretary to the Treasury. He is also serving as a Director to the Board of Bank of Ceylon, Sri Lanka Ports Authority, Securities & Exchange Commission of Sri Lanka. He is a member on the Board of Postgraduate Institute of Science, University of Peradeniya and as an observer on the Board of Investments of Sri Lanka. Mr. Attygalle holds a Bachelor of Science (B.Sc.) Degree in Mathematics from the University of Colombo and a Masters Degree in Economics from Warwick University, United Kingdom.

(3) **Mr. B.D.W. Ananda Silva** has been in the Central Bank for 28 years and has worked in Development Finance Department, Economic

Research Department, and Bank Supervision Department. In his 28 year career in the Central Bank, Mr. Silva has acquired wide experience in the areas of monetary policy, bank supervision, financial system stability, exchange rate policy, external trade, and balance of payments. He holds a B.Sc. First Class Degree from the University of Jaffna and M.A Degree from University of IOWA, U.S.A and M.Sc. Degree from University of Illinois, USA. He has been a visiting lecturer at the University of Colombo, and a resource person for several high level courses conducted by the Central Bank.

Mr. Silva currently serves as the Chairman of Credit Information Bureau of Sri Lanka, Chairman of Institute of Bankers of Sri Lanka, Director of Securities and Exchange Commission, Director of Insurance Board of Sri Lanka, Director of Api Venuven Api Fund, a Member of the Quality Assurance Board of Institute of Chartered Accountants of Sri Lanka and a Director of West Coast Power (Pvt.) Ltd.

(4) **Mr. D.K. Hettiarachchi** is an Attorney-at-law by profession. He is a Law Graduate (L.LB) of the University of Colombo. He joined the Department of the Registrar of Companies in 1986 as an Assistant Registrar and was promoted to the position of Registrar of Companies in 1997. He has been appointed as the Registrar General of Companies under the new Companies Act. He is an ex-officio member of the Securities and Exchange Commission of Sri Lanka and the Sri Lanka Accounting and Auditing Standards Monitoring Board.

(5) **Mr. G. Gunawardhana** was appointed to the Board in May 2010. He was the former Chairman of the Exporters Association, Sri Lanka Taiwan Friendship Association, and former Director of the American Chamber of Commerce. He was also a Board Member of the Securities & Exchange Commission of Sri Lanka.

Currently he serves as the Chairman of several organisations and private companies. He was adjudged the “Entrepreneur of the Year” in 1999/2000 and was the recipient of the Gold Award for Exports for the Extra Large Category for many years.

He was also adjudged the “Best Governor in the World” at the Boston Academy Awards function in 2006.

Mr. Gunawardhana was educated at Thurstan College and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician thereafter. He subsequently served in the Police Department for 12 years. He was the founder Chairman of Hands International (Pvt) Ltd. a leading manufacturer and exporter of industrial gloves to the world.

(6) **Mr. Gamini Kohona** was appointed to the Board in July 2010. Mr. Kohona who was educated at St. Thomas’ College, Mt. Lavinia, has had an illustrious career in plantation sector with over 30 years experience in plantation management in Tea, Rubber, Coconut and Oil Palm. He was the former Chief Executive Officer of Central Hills Plantations and currently serves as the Managing Director of Pulatissi Exports (Pvt) Ltd.

(7) **Mr. Mohamed Nawaz Rajabdeen** was appointed to the Board in July 2010. Mr. Rajabdeen’s expertise has been in the areas of Marketing and Customer Relations.

He has formerly held several distinguished positions such as the Chairman of Hotel Developers (Pvt) Ltd, Director of Export Development Board, President of Federation of Chambers of Commerce and Industry of Sri Lanka, Vice President of SAARC Chamber of Commerce, President of Chamber of Construction Industry in Sri Lanka, National Director of United Nations Industrial Development Organisation and the Vice President of World Assembly of Small and Medium Enterprise.

Mr. Rajabdeen is currently the Vice President of the Confederation of SAARC Apex Body in Sri Lanka and the Chairman and Managing Director of Rajabdeen Group of Companies since 1984.

Senior Management Team



Chandri Gunawardhana
(Director General)



Damayanthi Fernando
(Director Legal)



Thamari Senanayake
(Director Investigation)



Pius Fernando
*(Director Finance and
Administration)*



Nihal Ramanayake
(Director Supervision)



Chamarie Ekanayake
(Assistant Director Supervision)



Rajan Nirubasingham
(Assistant Director Legal)

Staff



Seated (left to right) : D.W. Supulee Saranga, Shyamalie Attanayake, Ruvini Liyanage, Bimsara Wijesinghe, Sarika Wattuhewa, Decika Rathnayake, Harshana Wanniarachchi

Standing (left to right) : Luxman Wijesinghe, Thanuja Antoney, Charitha Wickramasinghe, Veena Dineka, Merina Dias, H.P. Asanka, Upendra Senevirathna

Staff



Seated (left to right) : Chaminda Lal Kumara, Priyangi De Silva, Nayana Amarasinghe, E Srikanthan, Thushari Wijegunawardana, Kokila Siriwardana

Standing (left to right) : Lasanthi Thothahewa, G H Iroshan, Kapila Thilakarathne, Chamelika Peter, Sujeewa Ranasinghe, Kaushali Dayaratne, Saman Senadeera, Lakmal Kalubowila, Chandima Kamburugamuwa



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General Review

Administration of the Regulation of Insurance Industry Act

Legislation

The insurance industry in Sri Lanka 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'). Prior to the promulgation of the Act the insurance industry was regulated by the Controller of Insurance acting under the powers vested by the Control of Insurance Act, No. 25 of 1962. Subsequently, this Act was repealed with the introduction of the Act.

The Insurance Board of Sri Lanka (hereinafter referred to as the 'Board') has been established under the Act for the purpose of development, supervision and regulation of the insurance industry and to ensure that insurance business in Sri Lanka is carried out with integrity and in a professional and prudent manner, with a view to safeguarding the interests of policyholders and potential policyholders.

From time to time several amendments have been incorporated into the principal enactment of the Act and subordinate legislation made to strengthen the insurance industry, which is dealt in detail in the Regulatory Review of this report.

Market Structure

Insurance Companies

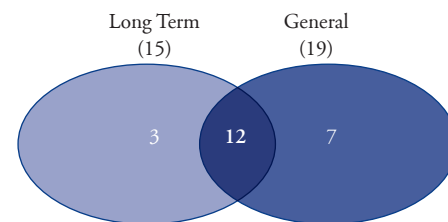
In terms of Section 13 of the Act, a company interested in engaging in insurance business in Sri Lanka should incorporate a public company under the Companies Act, No. 7 of 2007 and register as an insurer under the Act after having fulfilled all statutory requirements under the Act.

Twenty two insurance companies were registered under the Board at the end of the year. Twenty one companies are in operation and the suspension of registration of Ceylinco Takaful Limited still continues from 2009. Two new insurance companies were registered during the year. Orient Insurance Limited which was registered to carry on general insurance business commenced its operations in December 2011. Arpico Insurance Limited which was registered to carry on long term insurance business commenced its operations in January 2012. Chart 1 depicts the classes of insurance business companies are registered to carry on. Out of the twenty two companies, 12 companies are registered as composite insurance companies carrying on both long term insurance business and general insurance business, 3

companies are registered to carry on long term insurance business and 7 companies are registered to carry on general insurance business.

Chart 1

Classes of Insurance Business Carried on by the Insurers

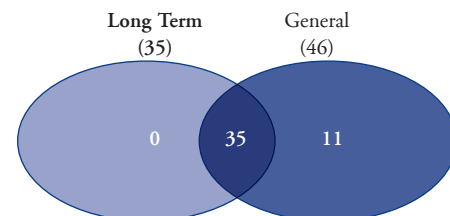


Insurance Brokers

In terms of Section 80 of the Act, a company interested in engaging in insurance brokering 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 all statutory requirements under the Act. At the end of 2011, there were 46 companies engaged in insurance brokering business in Sri Lanka. Out of the said companies, 35 companies were engaged in both long term and general insurance brokering business while 11 companies have engaged only in general insurance brokering business. Chart 2 depicts the classes of insurance brokering companies registered to carry on insurance brokering business.

Chart 2

Classes of Insurance Brokering Business Carried on by the Brokers



Insurance Agents

The principal enactment of the Act permitted only individuals to function as insurance agents for insurance companies and insurance brokering companies. The Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 (hereinafter referred to as the 'Amendment Act') permits persons other than individuals to function as insurance agents.

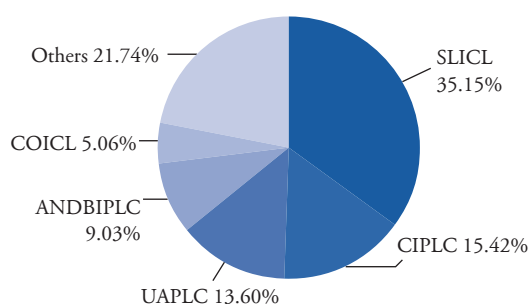
As per Section 34 of the Act insurance agents are one of the important distribution channels through which insurance companies and insurance brokering companies procure insurance business.

As per information given by insurance companies the total number of individuals recruited as insurance agents during the year was around 11,112 whereas the number of blacklisted insurance agents by insurance companies amounted to around 144.

Total number of insurance agents representing insurance companies as at 31st December 2011 was around 32,651. Chart 3 depicts insurance agents registered with insurance companies.

Chart 3

Insurance Agents registered with Insurance Companies



Company Status and Changes in Capital

Insurance Companies

The minimum capital requirement for a company to seek registration was increased during the year from Rs. 100 million per class of insurance business to Rs. 500 million per class of insurance business.

Risk Based Capital (RBC)

The Board is also in the process of introducing a Risk Based Capital Model for insurance companies under the Act.

The successful implementation of RBC is expected to provide the following benefits to the insurance industry:

- Informed basis for decision making: RBC provides a balanced approach in managing risk and reward and provides comfort for the Board and external stakeholders that risks are being actively controlled.
- Enhanced product profitability: RBC could cast the spotlight on riskier and capital-intensive products. It may provide opportunities for portfolio optimization, keener pricing and enhanced product profitability among companies
- Improved market perception : enhanced reputation for risk management
- Reduced costs : Operational efficiencies from better risk management
- Best practice : risk and capital management and in particular holistic approach to risks

The Board has also requested all insurance companies to obtain a rating of Insurer's Financial Strength (IFS) and the Claims Paying Ability (CPA). Accordingly, Table 1 depicts the ratings obtained by insurers.

Table 1
Ratings Obtained by Insurers

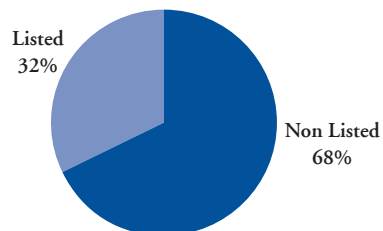
Name of Insurer	Credit Rating	Name of Rating Agency	Criteria Used as Basis for Rating	Date of Rating
Sri Lanka Insurance Corporation Ltd.	AA (Ika)	Fitch Ratings Lanka Ltd.	- National Long Term Rating - Outlook: Stable	June 2011
	AA (Ika)	Fitch Ratings Lanka Ltd.	- Insurer's Financial Strength Rating - Outlook: Stable	June 2011
	AAA	RAM Ratings Lanka Ltd.	- Long Term Claims Paying Ability - Outlook: Stable	August 2011
	P1	RAM Ratings Lanka Ltd.	- Short Term Claims Paying Ability	August 2011

Name of Insurer	Credit Rating	Name of Rating Agency	Criteria Used as Basis for Rating	Date of Rating
HNB Assurance PLC	Insurer's Financial Strength Rating A (lka)	Fitch Ratings Lanka Ltd.	The ability of an insurer to meet policyholder and related obligations, relative to the "best" credit risk in a given country across all industries and obligation types. Credit quality relative to the rating of the 'best' credit risk in a country.	May 2011
	National Long Term Rating A (lka)	Fitch Ratings Lanka Ltd.		May 2011
Janashakthi Insurance PLC	Long & Short Term Claims Paying Ability at A- & P2 respectively	Ram Ratings Lanka Ltd.	An adequate capacity to meet financial obligations, the entity is more susceptible to adverse changes in circumstances, economic conditions, and / or operating environments than those in higher-rated categories	December 2011
Co-operative Insurance Co. Ltd.	BB+	Ram Ratings Lanka Ltd.	Claims Paying Ability	November 2011
Asian Alliance Insurance PLC	BBB-	Ram Ratings Lanka Ltd.	Long Term and Short Term Claims Paying Ability	November 2011

Out of the insurance companies, seven insurance companies are listed on the Colombo Stock Exchange namely, Ceylinco Insurance PLC, AVIVA NDB Insurance PLC, Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC and Janashakthi Insurance PLC. Chart 4 depicts the status on listed/non listed insurance companies.

Chart 4

Status on 'Listed/Non Listed' Insurance Companies



The Amendment Act requires an existing insurer to be listed on the Stock Exchange within a period of five years from the date of operation of the Amendment Act. Composite insurance companies would therefore, have to segregate its

business into two separate companies within a period of four years from the date of operation of the Amendment Act prior to obtaining a listing.

The Board is working with the Insurance Association of Sri Lanka (IASL) to identify possible challenges in relation to segregation and finding solutions to same.

A new insurance company registered after the Amendment Act came into effect is required to be listed on the Stock Exchange within a period of three years of being issued a licence by the Board.

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 19th April 2002. Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. have 100% foreign equity participation. They are the subsidiaries of Allianz SE.

Levy of a Cess from Insurance Companies

In terms of Section 7 of the Act, an order was made by the Hon. Minister of Finance for the levy of a Cess for the creation of Policyholders Protection Fund. By Gazette Notification No. 1244/5 on 9th July 2002 it has specified

0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business 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 for the year 2011 was Rs. 217 million.

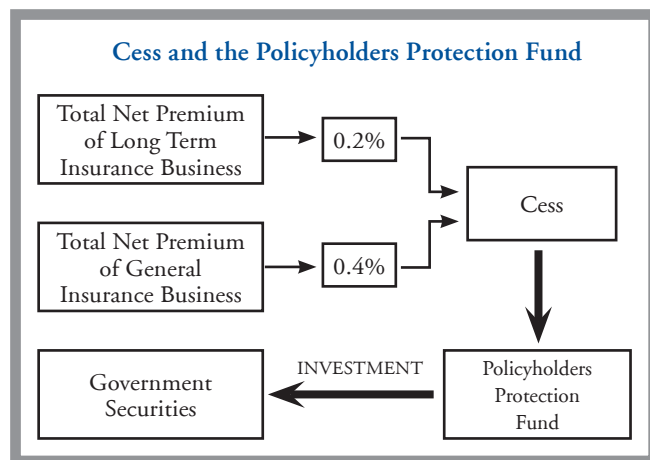
Policyholders Protection Fund

The Cess collected from insurance companies is deposited into the Policyholders' Protection Fund, established in terms of Section 103 of the Act. This Fund may be utilized, *inter alia*, for the following purposes in so far as it would be for the benefit of policyholders and potential policyholders -

- defraying the expenditure incurred in creating awareness of the insurance industry amongst the public and other expenditure incurred in the development of the insurance industry; and
- defraying the expenditure incurred by the Board in the exercise, discharge and performance of its powers, functions and duties.

The amount lying to the credit of the Policyholders Protection Fund is invested in government securities. The accumulated amount in the Fund as at 31st December 2011 is Rs. 1.279 billion a 26.38% increase from Rs. 1.012 billion (31st December 2010).

Table 2



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 1st January 2002, 2005 and 2007 respectively.

Tax Exemptions

In terms of Section 20 of the Value Added Tax (Amendment) Act, No. 9 of 2011, services being receipts from re-insurance by any local insurance company by way of commission or compensation in an insurance business (with effect from 1st January 2011) is exempt from Value Added Tax. This tax exemption was obtained after several submissions made by the Board on behalf of the insurance industry.

Overseas Insurance - Travel, Health and Liability Insurance

In terms of Section 101 of the Act, the Board has granted approval to any person in Sri Lanka to place directly or indirectly health and travel insurance with an insurer licensed or registered overseas, even if such insurer is not registered in Sri Lanka under the Act. Further, approval was granted to registered insurers to obtain liability insurance cover for their directors and employees in respect of liabilities arising from the discharge of their duties from an insurer licensed 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 to the Application of the Act

Provisions of the Act do not apply to the Agriculture and Agrarian Insurance Board established under the Agriculture and Agrarian Insurance Act, No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978 and the Social Security Board established under the Social Security Board Act, No. 17 of 1996.

National Insurance Trust Fund (NITF)

The National Insurance Trust Fund Board established by the National Insurance Trust Fund Act, No. 28 of 2006 (NITF Act) was brought under the purview of the Board by the amendment made to Section 12 of the Act.

In terms of the NITF 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 are required to remit the collected premiums to the NITF.

The Board requires all registered insurance companies to reinsure in respect of general insurance business a percentage not exceeding 20% of the liability sought to be reinsured with NITF. An order has been made under Section 31 of the Act by the Hon. Minister of Finance and Planning to this effect.

Other Related Matters

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 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 Board is represented on the IRIC.

Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka (IASL) was established in 1989 and every insurance company registered under the Act is eligible for membership. All insurance companies other than NITF are members of IASL.

The Executive Committee of IASL is responsible for the overall management, 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.

The main objectives of IASL are:-

To bring together all insurers who are transacting insurance and/or reinsurance business within Sri Lanka, in order to afford opportunities for consultations and co-operation in all matters affecting the common interest and welfare of its members and the insuring public;

To promote and maintain uniform and sound practices and high ethical standards in insurance business so as to develop confidence and educate the insuring public and by monitoring the legislation by making representations to the authorities concerned;

To review and examine the insurance practices and techniques in Sri Lanka and in other countries and to make their recommendation after modification and/or alteration to the existing policies and/or tariffs if necessary;

To encourage, actively assist and promote professionalism in insurance through education and training and for this purpose to organize and conduct classes, conferences, seminars, forums, consultations, workshops and meetings.

Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association (SLIBA) is the only association of insurance brokers that has been approved by the Board. In terms of Section 79 of the Act, it is mandatory that all applicants seeking registration as insurance brokers obtain membership of SLIBA prior to registration as an insurance broker by the Board. The members are subject to a code of conduct adopted by SLIBA.

The main objectives of SLIBA are:

To create awareness of the insurance broker's role to the public;

To enhance the technical knowledge of fellow members and build a high level of competency and professionalism;

To encourage and help members to follow insurance courses and obtain professional qualifications;

To maintain goodwill and mutually beneficial relationships with the regulator, insurers and the public.

Sri Lanka Insurance Institute (SLII)

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

The main objectives of SLII are:

To provide and maintain a central organization for the promotion of efficiency, progress and general development among persons engaged or employed insurance, whether members of the SLII or not, with a view not only to their own advantage but to rendering the conduct of such business more effective, and to instill and maintain professionalism in the industry;

To conduct courses leading to diploma and certificate qualifications in order to develop knowledge about insurance. Conduct examinations to encourage and assist the professional study of any subject bearing on any branch of insurance through any recognized educational institutions;

To hold conferences and meetings for the discussion of professional affairs, interests and duties, the reading of papers and delivery of lectures; to compile lists, registers and records of events and proceedings of interest to the members;

To exercise professional supervision and control over the members of SLII to safeguard their interests and welfare, to further their advancement, and to promote whatever may lead to the improvement of the status of insurance officials in general and the members of SLII in particular.

SLII 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 SLII conducts short term diploma courses in insurance for persons employed in the insurance industry.

The Board has entrusted the SLII with the responsibility for 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.

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors (IAIS), 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

An overview of the Insurance Industry

Overall Performance

As reflected in Table 1, insurance sector grew by 18.5% compared to year 2010 by recording Gross Written Premium (GWP) of Rs. 78,512 million in the year 2011 (2010: Rs. 66,253 million). Long term insurance sector contributed GWP of Rs. 35,181 million (2010: Rs. 31,152 million) and general insurance sector contributed GWP of Rs. 43,331 million (2010: Rs. 35,101 million) for above growth.

This performance was largely due to the steady recovery of the economy. Furthermore, the economy of Sri Lanka

demonstrated its resilience by growing at 8.3% in the year 2011, amidst most challenging domestic and external conditions.

The general insurance sector accounted for 55% (2010: 53%) of aggregate GWP while the contribution of long term insurance sector was 45% (2010: 47%) of the total GWP.

The penetration of insurance sector as a percentage of Gross Domestic Product (GDP) was 1.2% (2010: 1.18%) while the long term insurance penetration as a percentage of GDP was 0.54% (2010: 0.55%) and general insurance penetration as a percentage of GDP was 0.66% (2010: 0.63%).

Table 1

Premium Income & Penetration

	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (b)
Long Term Insurance (Rs. millions)	20,706	23,613	24,005	31,152	35,181
General Insurance (Rs. millions)	31,184	34,558	33,548	35,101	43,331
Total Premium Income (Rs. millions)	51,890	58,171	57,553	66,253	78,512
Gross Domestic Product (Rs. billions)*	3,579	4,411	4,835	5,604	6,543
Penetration as % of GDP - Industry	1.45	1.32	1.19	1.18	1.20
Penetration as % of GDP - Long term Insurance Business	0.58	0.54	0.50	0.55	0.54
Penetration as % of GDP - General Insurance Business	0.87	0.78	0.69	0.63	0.66
Insurance Density - (Total Premium Income / Population) Rs.	2,589.45	2,877.33	2,814.33	3,207.91	3,762.14
Population '000 (Mid Year) *	20,039	20,217	20,450	20,653	20,869
Growth Rate in Total Premium (%)	20.58	12.10	(1.06)	15.12	18.50

*Source Annual Reports of Central Bank of Sri Lanka.

(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.
2. Above analysis does not include NITF information since required complete information was not submitted to the Board.
3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Table 2
Assets of Insurance Companies

	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Assets - Long term Insurance (Rs. millions)	84,822	97,730	118,305	139,647	165,669
Assets - General Insurance & Shareholders (Rs. millions)	50,054	58,263	62,740	82,450	99,744
Total	134,876	155,993	181,045	*219,102	*261,778

*Composite insurance companies' intersegment transactions (life and general) have been eliminated.

(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Above analysis does not include NITF information since required complete information was not submitted to the Board.
2. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

As reflected in Table 2, the total assets of insurance companies amounted to Rs. 261,778 million (2010: Rs. 219,102 million) as at 31st December 2011 after eliminating intersegment (long term insurance and general insurance) transaction values. The total assets of insurance companies have grown by 19.5% in the year 2011 compared with the previous year.

Assets pertaining to long term insurance business amounted to Rs. 165,669 million (2010: Rs. 139,647 million) and assets of general insurance business with shareholders amounted to Rs. 99,744 million (2010: Rs. 82,450 million) as at 31st December 2011.

Long Term Insurance Business
Gross Written Premium (GWP)

In the year 2011, long term insurance sector witnessed a growth rate of 12.93% compared to the previous year by recording GWP of Rs. 35,181 million (2010: Rs. 31,152 million). Table 3 depicts total GWP, contribution of each insurer towards total GWP and growth rate of the GWP for the last five years.

The top five insurers accounted for 87.5% of the total GWP of long term insurance business while the balance 12.5% was shared among the remaining insurers engaged in long term insurance business. As reflected in Table 3 and Chart 1, Ceylinco Insurance PLC has secured its top position in the market similar to previous year in terms of GWP of long term insurance business by achieving a market share of 27.9%. AVIVA NDB Insurance PLC has been able to maintain the

second position in the long term insurance sector in terms of GWP with a market share of 22.36%. Sri Lanka Insurance Corporation Ltd. has secured third position with a market share of 19.17% in the year 2011. Union Assurance PLC achieved a market share of 12.71% (fourth position), while Janashakthi Insurance PLC accounted for a market share of 5.32% (fifth position) in the year 2011. All the companies except for Ceylinco Insurance PLC, AVIVA NDB Insurance PLC, Sri Lanka Insurance Corporation Ltd. and Janashakthi Insurance PLC have gained market share.

Table 3

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

Insurer	2007(a)		2008(a)		2009(a)		2010(a)		2011(b)	
	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %
AAIPLC	890,793	4.30	970,077	4.11	1,009,031	4.20	1,242,608	3.99	1,579,191	4.49
AIL	-	-	-	-	-	-	-	-	-	-
ALILL	-	-	4,013	0.02	101,816	0.42	204,814	0.66	351,299	1.00
ANDBIPLC	3,788,103	18.29	4,342,218	18.39	4,632,490	19.30	7,783,925	24.99	7,865,099	22.36
ATPLC	130,986	0.63	188,676	0.80	207,097	0.86	240,156	0.77	303,786	0.85
CIPLC	6,847,185	33.07	8,257,279	34.97	7,522,328	31.34	8,786,120	28.21	9,815,943	27.90
COICL	100,393	0.48	131,004	0.55	149,401	0.62	233,540	0.75	269,579	0.77
HNBAPLC	767,576	3.71	914,170	3.87	984,866	4.10	1,084,480	3.48	1,290,367	3.67
JIPLC	1,206,033	5.82	1,426,160	6.05	1,431,628	5.96	1,685,409	5.42	1,871,986	5.32
LICLL	254,238	1.23	255,099	1.08	251,150	1.05	252,656	0.81	295,859	0.84
LOLCICL	-	-	-	-	-	-	-	-	51,427	0.15
MBSLICL	23,813	0.12	52,637	0.22	55,606	0.24	89,984	0.28	143,156	0.41
SLICL	4,477,632	21.63	4,497,919	19.05	4,819,860	20.08	6,009,859	19.29	6,743,073	19.17
SSRS	55,541	0.27	69,617	0.29	61,563	0.26	73,030	0.23	128,113	0.36
UAPLC	2,163,480	10.45	2,503,887	10.60	2,778,184	11.57	3,465,505	11.12	4,471,627	12.71
Total	20,705,773	100	23,612,756	100	24,005,020	100	31,152,086	100	35,180,505	100
Growth Rate %	21.06		14.04		1.66		29.77		12.93	

(a) Reinstated audited figures

(b) Provisional figures

Chart 1

Company-wise Market Share of Gross Written Premium - Long Term Insurance Business 2011

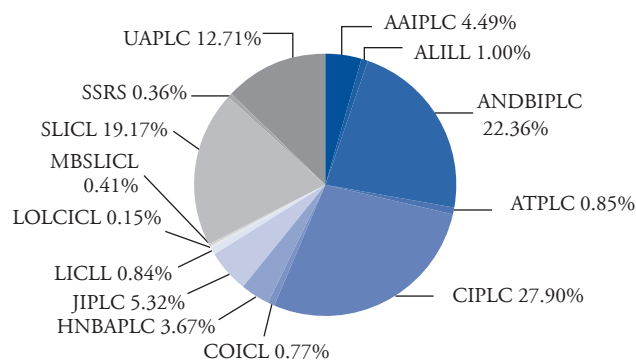
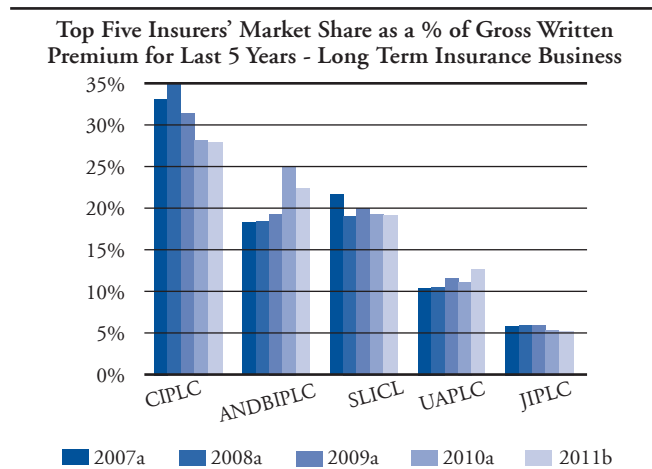


Chart 2 reflects company-wise market share of the top five insurers for the past five years.

Chart 2



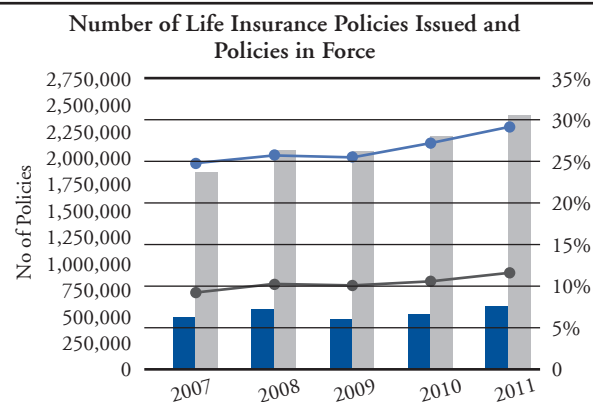
(a) Reinstated audited figures

(b) Provisional figures

Long Term Insurance Policies

As reflected in Chart 3, the total number of life insurance policies in force was reported as 2,408,202 as at 31st December 2011. During the year insurers have issued 587,916 new life insurance policies which indicate an increase of 13.9% compared to 516,139 new policies issued in year 2010. This growth was mainly due to the favourable economic conditions that prevailed in the country, new long term insurance products introduced to the market and advertising campaigns carried out by insurers during the year. The total life insurance policies in force as a percentage of the total population was 11.5% (2010: 10.7%) while as a percentage of total labour force was 29.2% (2010: 27.3%).

Chart 3



	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (b)
No. of New Life Policies issued	490,454	567,621	468,317	516,139	587,916
No. of Life Policies in Force	1,867,981	2,082,358	2,068,548	2,214,976	2,408,202
No. of Life Policies in Force as a % of the Total Population	9.3	10.3	10.1	10.7	11.5
No. of Life Policies in Force as a % of the Total Labour Force	24.9	25.8	25.6	27.3	29.2

*Source : Total population and labour force figures (Central Bank of Sri Lanka)

(a) As reported in Actuarial Returns submitted to the Board

(b) Provisional figures

General Insurance Business

Gross Written Premium (GWP)

General insurance business made a higher contribution to the industry GWP by recording 55% of the total GWP. In year 2011, total GWP generated by the insurance companies

amounted to Rs. 43,331 million (2010: Rs. 35,101 million) and reflected a growth of 23.45% compared to the previous year's growth of 4.63%. Table 4 depicts total GWP and growth rate of the GWP of each insurance company for the last five years.

Table 4

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

Insurer	2007(a)		2008(a)		2009(a)		2010(a)		2011(b)	
	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %	Premium (Rs.'000)	Market Share %
AAIPLC	383,590	1.23	459,771	1.33	496,749	1.48	397,789	1.13	589,534	1.36
AILL	414,017	1.33	601,103	1.74	1,174,822	3.50	1,356,660	3.86	1,379,406	3.18
ANDBIPLC	1,867,142	5.99	2,045,252	5.92	2,503,628	7.46	2,490,843	7.10	2,456,348	5.67
ATPLC	678,012	2.17	835,188	2.42	953,798	2.84	908,756	2.59	934,406	2.16
CIL	706,293	2.26	932,730	2.70	879,285	2.62	890,387	2.54	942,901	2.18
CILL	-	-	-	-	-	-	359,105	1.02	1,149,121	2.65
CIPLC	10,350,684	33.19	11,287,233	32.66	9,081,297	27.07	8,724,292	24.85	9,558,943	22.06
COICL	289,691	0.93	522,449	1.51	596,183	1.78	644,814	1.84	922,862	2.13
CTL	34,945	0.11	178,734	0.52	28,324	0.08	-	-	-	-
HNBAPLC	704,577	2.26	924,709	2.67	1,130,781	3.37	1,255,190	3.58	1,623,829	3.75
JIPLC	3,678,224	11.80	3,937,285	11.39	4,272,926	12.74	4,324,170	12.32	5,086,207	11.74
LOLCICL	-	-	-	-	-	-	-	-	364,735	0.84
MBSLICL	230,782	0.74	294,317	0.85	271,309	0.81	467,606	1.33	658,073	1.52
OIL	-	-	-	-	-	-	-	-	1,759	0.00
PIL	-	-	-	-	-	-	847,064	2.42	2,284,578	5.27
SLICL	8,845,417	28.36	9,140,845	26.45	8,764,539	26.13	8,766,027	24.97	11,128,446	25.68
SSRS	186,000	0.60	216,412	0.63	184,409	0.55	234,914	0.67	232,374	0.54
UAPLC	2,814,654	9.03	3,182,236	9.21	3,210,217	9.57	3,433,830	9.78	4,017,587	9.27
Total	31,184,028	100	34,558,264	100	33,548,267	100	35,101,447	100	43,331,109	100
Growth Rate (%)	20.26		10.82		(2.92)		4.63		23.45	

(a) Reinstated audited figures

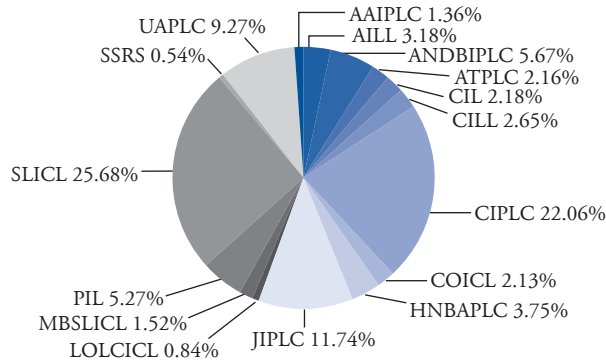
(b) Provisional figures

Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Chart 4

Company-wise Market Share of Gross Written Premium - General Insurance Business -2011



Notes :

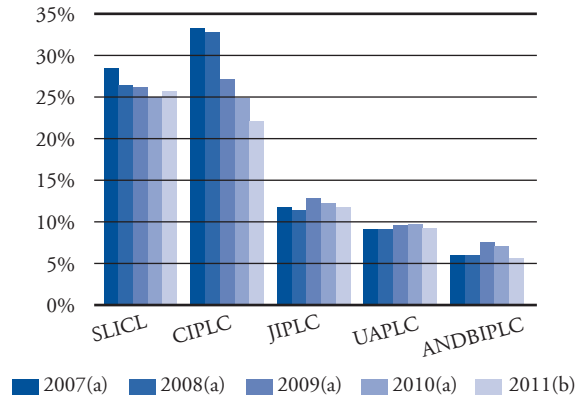
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2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

As reflected in the Chart 4, top five insurance companies accounted for 74% of the total GWP of general insurance business while the balance 26% was shared among the remaining companies engaged in general insurance business. Sri Lanka Insurance Corporation Ltd. led the general insurance market similar to previous year achieving a market share of 25.68%. Ceylinco Insurance PLC and Janashakthi Insurance PLC had been able to secure second and third positions similar to previous year, by achieving a market share of 22.06% and 11.74% respectively. Union Assurance PLC and AVIVA NDB Insurance PLC ranked at the fourth and fifth places similar to last year by recording market shares of 9.27% and 5.67% respectively.

Chart 5 reflects company-wise market share of top five insurers for the past five years.

Chart 5

Top Five Insurers' Market Share as a % of Gross Written Premium for Last 5 Years - General Insurance Business



- (a) Reinstated audited figures
- (b) Provisional figures

Class-wise Analysis of GWP of General Insurance Business

Table 5 and Chart 6 depict the class-wise analysis of gross written premium income of general insurance business. Premium income from motor insurance continued to represent the largest share of general insurance business by recording GWP of Rs. 27,138 million (2010: Rs. 20,949 million) and this represented 62.63% (2010: 59.68%) of total general insurance portfolio. This indicated a growth of 29.55% compared with the previous year (2010: 17.05%). This growth was mainly due to the increase in number of motor vehicle registrations as a result of granting permits to import motor vehicles at concessionary tax rates for public servants, low import duties and interest rates prevailed during the year.

Miscellaneous insurance with a premium income of Rs. 9,123 million (2010: Rs. 7,641 million) accounted for 21.06% (2010: 21.77%) of the total premium and indicated a growth of 19.39% over 2010. Fire insurance with a premium income of Rs. 5,379 million (2010: Rs. 5,012 million) accounted for 12.41% (2010: 14.28%) of the total premium, reflecting a growth of 7.3% compared to 2010. Marine insurance recorded GWP of Rs. 1,691 million (2010: Rs. 1,499 million) and accounted for 3.9% (2010: 4.27%) of the total premium, growing by 12.85% compared to 2010.

Table 5

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

Sub-class	Gross Written Premium (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	6,261,802	6,826,563	7,049,399	5,012,443	5,378,548
Marine	1,636,373	1,826,549	1,442,729	1,498,832	1,691,386
Motor	17,049,613	18,717,735	17,897,763	20,948,782	27,138,107
Miscellaneous	6,236,240	7,187,417	7,158,375	7,641,390	9,123,068
Total	31,184,028	34,558,264	33,548,266	35,101,447	43,331,109
Sub-class	Growth (%)				
	2007	2008	2009	2010	2011
Fire	35.33	9.02	3.26	(28.90)	7.30
Marine	5.26	11.62	(21.01)	3.89	12.85
Motor	21.73	9.78	(4.38)	17.05	29.55
Miscellaneous	8.58	15.25	(0.40)	6.75	19.39
Total	20.26	10.82	(2.92)	4.63	23.45
Sub-class	Percentage Share (%)				
	2007	2008	2009	2010	2011
Fire	20.08	19.75	21.01	14.28	12.41
Marine	5.25	5.29	4.30	4.27	3.90
Motor	54.67	54.16	53.35	59.68	62.63
Miscellaneous	20.00	20.80	21.34	21.77	21.06
Total	100.00	100.00	100.00	100.00	100.00

(a) Reinstated audited figures

(b) Provisional figures

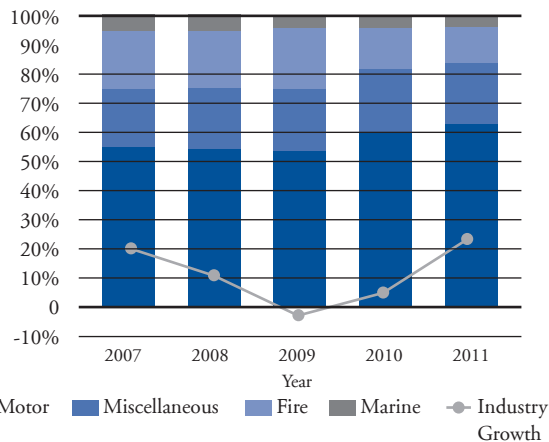
Notes :

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Chart 6 reflects class-wise analysis of gross written premium of general insurance business.

Chart 6

Class-wise Analysis of GWP - General Insurance Business



Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
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Claims Ratio of General Insurance Business

Table 6 and Chart 7 depict the details of earned premium, claims incurred and claims ratio of general insurance business for the last five years.

As depicted therein total claims incurred amounted to Rs. 19,882 million (2010: Rs. 15,571 million) against total earned premium of Rs. 31,784 million (2010: Rs. 25,412 million) which resulted in an overall claims ratio of 62.55% (2010 : 61.27%).

As depicted in the Table 6, motor insurance recorded the most significant claims ratio among the different sub-classes of general insurance business by recording 65.43% (2010: 63.92%). Marine insurance showed the lowest claims ratio of 33.68% (2010: 32.05%). Fire insurance with a claims ratio of 40.41% (2010: 48.21%) has decreased by 7.8%. Miscellaneous insurance reported a claims ratio of 59.14% (2010: 58.52%). Except for fire insurance, all the other sub-classes reflected an increase in claim ratios compared with previous year.

Chart 7 reflects earned premium, claims incurred and claims ratio of general insurance business for the past five years.

Table 6
Earned Premium, Claims Incurred and Claims Ratio

Class	Earned Premium (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	1,035,661	1,068,721	1,199,158	1,098,186	1,137,413
Marine	544,592	692,776	580,333	674,476	736,204
Motor	14,150,869	16,596,674	17,593,582	18,356,887	23,591,963
Miscellaneous	4,535,912	5,486,205	5,200,212	5,282,148	6,318,299
Total	20,267,034	23,844,376	24,573,285	25,411,697	31,783,879
Class	Claims Incurred (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	877,654	879,742	953,478	529,448	459,599
Marine	201,865	250,938	221,210	216,143	247,946
Motor	9,282,407	11,240,430	11,680,229	11,733,879	15,437,337
Miscellaneous	2,692,368	3,372,917	4,166,757	3,091,110	3,736,891
Total	13,054,294	15,744,027	17,021,674	15,570,580	19,881,773
Class	Claims Ratio (%)				
	2007	2008	2009	2010	2011
Fire	84.74	82.32	79.51	48.21	40.41
Marine	37.07	36.22	38.12	32.05	33.68
Motor	65.60	67.73	66.39	63.92	65.43
Miscellaneous	59.36	61.48	80.13	58.52	59.14
Total	64.41	66.03	69.27	61.27	62.55

(a) Reinstated audited figures

(b) Provisional figures

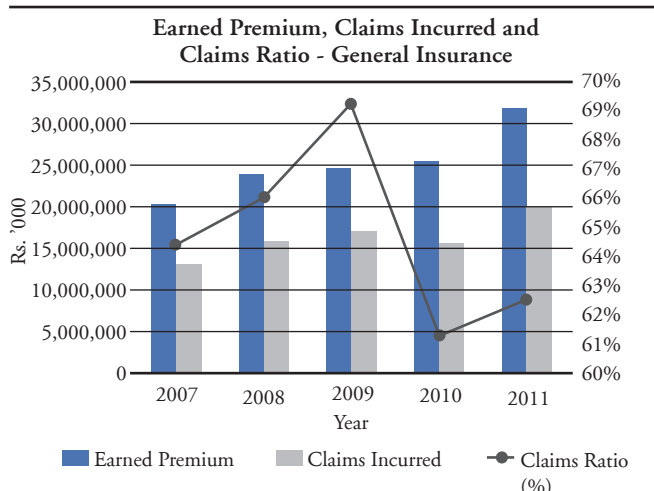
Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.

2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Chart 7



Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.

2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.

3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Table 7

Gross Written Premium, Reinsurance Premium and Retention by Insurer

Sub-class	Gross Written Premium (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	6,261,802	6,826,563	7,049,399	5,012,443	5,378,548
Marine	1,636,373	1,826,549	1,442,729	1,498,832	1,691,386
Motor	17,049,613	18,717,735	17,897,763	20,948,782	27,138,107
Miscellaneous	6,236,240	7,187,417	7,158,375	7,641,390	9,123,068
Total Gross Written Premium	31,184,028	34,558,264	33,548,266	35,101,447	43,331,109
Sub-class	Reinsurance Premium (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	4,847,948	5,861,973	5,904,806	4,233,236	4,185,810
Marine	1,021,126	1,174,809	892,411	813,665	860,614
Motor	643,556	655,220	533,720	316,594	443,326
Miscellaneous	1,985,204	2,482,405	1,918,389	2,020,031	2,306,222
Total Reinsurance Premium	8,497,834	10,174,407	9,249,326	7,383,526	7,795,972
Sub-class	Retention (Rs.'000)				
	2007(a)	2008(a)	2009(a)	2010(a)	2011(b)
Fire	1,413,853	964,590	1,144,593	779,208	1,192,738
Marine	615,247	651,740	550,318	685,167	830,772
Motor	16,406,057	18,062,516	17,364,043	20,632,188	26,694,781
Miscellaneous	4,251,036	4,705,012	5,239,986	5,621,359	6,816,846
Total Net Written Premium	22,686,193	24,383,858	24,298,940	27,717,922	35,535,137
Sub-class	Retention as a Percentage of Gross Written Premium				
	2007	2008	2009	2010	2011
Fire	22.58	14.13	16.24	15.55	22.18
Marine	37.60	35.68	38.14	45.71	49.12
Motor	96.23	96.50	97.02	98.49	98.37
Miscellaneous	68.17	65.46	73.20	73.56	74.72
Overall Retention	72.75	70.56	72.43	78.97	82.01

(a) Reinstated audited figures

(b) Provisional figures

Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

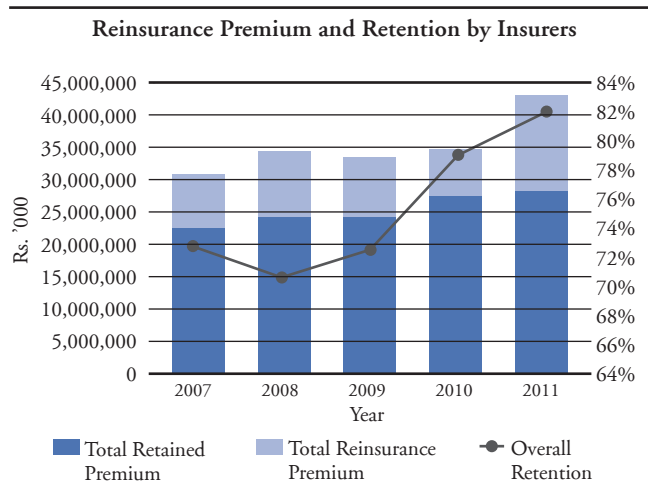
Retention of Gross Written Premium and Reinsurance

Table 7 and Chart 8 depict reinsurance premium and net written premium and overall retention rate for general insurance business for the last 5 years.

In the year 2011, out of the total GWP of Rs. 43,331 million, Rs. 7,796 million (2010: Rs. 7,384 million) has been paid as reinsurance premium. This has resulted in retention (net written premium) of Rs. 35,535 million (2010: Rs. 27,718 million). The overall retention ratio of 82.01% (2010: 78.97%) indicates that premium retention by insurers in 2011 was higher than the previous year.

Motor insurance continued to maintain the highest retention ratio of 98.37% (2010: 98.49%) when compared to other sub-classes of general insurance. Retention ratio of fire insurance was 22.18% (2010: 15.55%) while marine insurance and miscellaneous insurance indicated retention ratios of 49.12% (2010: 45.71%) and 74.72% (2010: 73.56%) respectively during the year 2011. Retention ratios of fire, miscellaneous and marine recorded improvements though the retention ratio of motor insurance has decreased marginally compared to year 2010.

Chart 8



Notes :

1. Strike, Riot, Civil Commotion and Terrorism (SRCC and T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 and 2011.
2. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
3. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Total Assets of Insurance Companies

The total assets of insurance companies were reported as Rs. 261,778 million as at 31st December 2011 (2010: Rs. 219,102 million) after eliminating Rs. 3,634 million inter segment balances. Assets pertaining to long term insurance business amounted to Rs. 165,669 million (2010: Rs. 139,647 million) as at 31st December 2011. Assets of general insurance

business including assets of shareholders' amounted to Rs. 99,744 million (2010: Rs. 82,450 million) as at 31st December 2011. Table 8 and Chart 9 reflect company-wise analysis of concentration of assets of insurers.

Table 8

Total Assets of Insurance Companies

Insurer	Distribution of Assets									
	2010 (a)					2011 (b)				
	Long Term Insurance Rs.'000	General Insurance / Shareholders Rs.'000	Inter Segment Transactions Elimination Rs.'000	Total Rs.'000	%	Long Term Insurance Rs.'000	General Insurance / Shareholders Rs.'000	Inter Segment Transactions Elimination Rs.'000	Total Rs.'000	%
AAIPLC	2,230,622	2,119,712	-	4,350,334	1.99	2,739,921	1,990,623	-	4,730,544	1.81
AIL	-	-	-	-	-	513,804	-	-	513,804	0.20
AILL	-	1,586,020	-	1,586,020	0.72	-	1,799,715	-	1,799,715	0.69
ALILL	282,365	-	-	282,365	0.13	486,094	-	-	486,094	0.19
ANDBIPLC	25,608,474	6,068,488	-	31,676,962	14.46	29,711,684	6,707,067	-	36,418,751	13.91
ATPLC	486,077	1,022,356	60,910	1,447,523	0.66	601,531	1,360,591	9,555	1,952,567	0.75
CIL	-	730,196	-	730,196	0.33	-	891,357	-	891,357	0.34
CILL	-	754,788	-	754,788	0.34	-	1,192,349	-	1,192,349	0.46
CIPLC	34,071,282	17,269,800	2,525,580	48,815,502	22.28	44,670,243	19,854,742	3,155,408	61,369,577	23.44
COICL	482,753	1,087,949	-	1,570,702	0.72	602,303	1,474,160	-	2,076,463	0.79
CTL	-	-	-	-	-	-	-	-	-	-
HNBAPLC	2,558,981	1,990,382	1,159	4,548,204	2.08	3,219,639	2,817,245	980	6,035,904	2.31
JIPLC	4,546,591	7,319,753	-	11,866,344	5.42	5,147,107	7,825,564	-	12,972,671	4.96
LICLL	978,637	-	-	978,637	0.44	1,189,152	-	-	1,189,152	0.45
LOLCICL	-	209,393	-	209,393	0.10	64,320	598,610	3,405	659,525	0.25
MBSLICL	85,341	548,698	-	634,039	0.29	131,706	849,287	-	980,993	0.36
OIL	-	-	-	-	-	-	776,924	-	776,924	0.30
PIL	-	870,141	-	870,141	0.40	-	2,441,020	-	2,441,020	0.93
SLICL	55,162,701	34,116,290	-	89,278,992	40.75	61,069,552	41,630,922	-	102,700,474	39.23
SSRS	165,510	433,842	-	599,352	0.26	230,967	563,436	-	794,403	0.30
UAPLC	12,987,843	6,322,550	407,765	18,902,628	8.63	15,290,943	6,970,169	464,977	21,796,135	8.33
Total	139,647,178	82,450,358	2,995,414	219,102,122	100	165,668,966	99,743,781	3,634,325	261,778,422	100

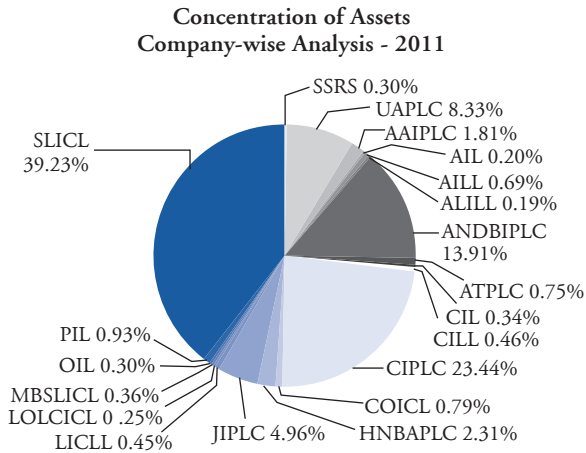
(a) Reinstated audited figures

(b) Provisional figures

Notes:

1. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
2. Intersegment balances include amounts receivable from each other segment (Long term insurance and general insurance segments) of composite insurance companies.
3. The assets belonging to shareholders of ALILL, AIL and LICLL have been reported under long term insurance business
4. JIPLC and NICL figures are reported together
5. CTL is prohibited from engaging in insurance business since 5th August 2009. The company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Chart 9



Concentration of Assets of Long Term Insurance Business

The concentration of assets among different asset categories of long term insurance business as at 31st December 2011 is depicted in Table 9 and Chart 10. The investments in government securities amounting to Rs. 83,944 million accounted for a share of 50.67% of the total assets. The Board ensured that investments in government securities comply with the statutory minimum investment of 30% of Long Term Insurance Fund of each insurer as required under the Act and the remaining assets of Long Term Insurance Fund were invested in accordance with Determination No.1 of 2011 throughout the year 2011. As indicated in Table 9 and Chart 10, the insurers had substantial amounts of assets of long term insurance business in the form of equities, deposits and corporate debts.

Table 9

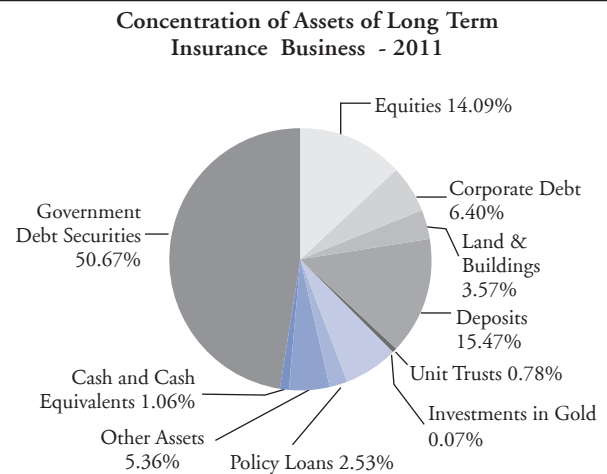
Concentration of Assets of Long Term Insurance Business - 2011

Type of Asset	Rs.'000	%
Government Debt Securities	83,944,280	50.67
Equities	23,339,196	14.09
Corporate Debt	10,598,987	6.40
Land & Buildings	5,918,594	3.57
Deposits	25,627,511	15.47
Unit Trusts	1,292,158	0.78
Investments in Gold	110,916	0.07
Policy Loans	4,186,821	2.53
Other Assets	8,902,230	5.36
Cash and Cash Equivalents	1,748,273	1.06
Total	165,668,966	100

Note :

The assets belonging to shareholders of ALILL, AIL and LICLL have been reported under long term insurance business.

Chart 10



Concentration of Assets of General Insurance Business (Including Shareholders) of Insurance Companies

Table 10 and Chart 11 represent the concentration of assets pertaining to general insurance business and shareholders of insurers. The investment in equities (which includes investments made in subsidiaries and associates) amounted to Rs. 27,174 million representing 27.24% of the total assets of general insurance. The investments in government debt securities amounted to Rs. 24,804 million which represented 24.87% of total assets of general insurance. These two investment categories represented 52.11% of the total assets. Significant amount of assets of general insurance business and shareholders were in the form of receivables from reinsurers, premium receivable from policyholders and intermediaries, land & buildings, deposits and other assets. The Board closely monitored that insurers engaged in general insurance comply with the 20% minimum investment of Technical Reserves in government securities as required under the Act and the remaining assets of the Technical Reserves were invested in accordance with Determination No:1 of 2011 throughout the year 2011.

Table 10

Concentration of Assets of General Insurance Business (Including Shareholders) - 2011

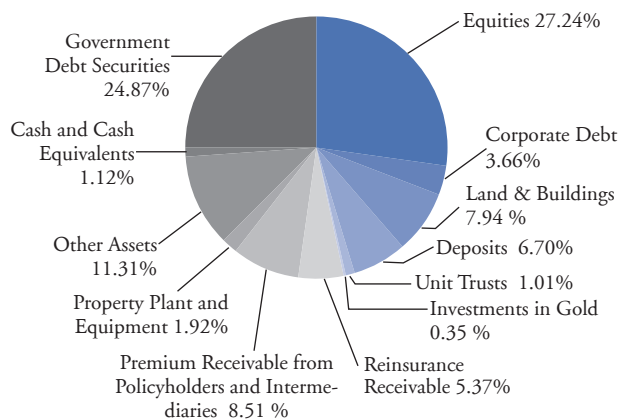
Type of Asset	Rs.'000	%
Government Debt Securities	24,804,466	24.87
Equities	27,173,716	27.24
Corporate Debt	3,655,418	3.66
Land & Buildings	7,915,779	7.94
Deposits	6,679,485	6.70
Unit Trusts	1,012,129	1.01
Investments in Gold	344,224	0.35
Reinsurance Receivable	5,355,937	5.37
Premium Receivable from Policyholders and Intermediaries	8,484,116	8.51
Property Plant and Equipment	1,912,810	1.92
Other Assets	11,291,960	11.31
Cash and Cash Equivalents	1,113,741	1.12
Total	99,743,781	100

Notes :

1. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
2. CTL is prohibited from engaging in insurance business since 5th August 2009, and the company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.
3. The assets belonging to shareholders of ALILL, AIL and LICLL have been reported under long term insurance business.

Chart 11

Concentration of Assets of General Insurance Business and Shareholders - 2011



Notes :

1. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
2. CTL is prohibited from engaging in insurance business since 5th August 2009, and the company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.
3. The assets belonging to shareholders of ALILL, AIL and LICLL have been reported under long term insurance business.

Distribution of Total Assets of Major Financial Institutions

Total assets distributed in major financial institutions amounted to Rs. 7,703.1 billion (2010: Rs. 6,574.4 billion) and the total assets of the insurance sector amounted

Rs. 261.8 billion (2010: Rs. 219.1 billion). The distribution of total assets of major financial institutions from 2007 to 2011 is illustrated in Table 11.

Table 11**Distribution of Total Assets of Major Financial Institutions**

Financial Institutions	Distribution of Assets									
	2007		2008		2009		2010		2011	
	Rs. billion	%	Rs. billion	%	Rs. billion	%	Rs. billion	%	Rs. billion	%
Banking Sector	3,065.6	71.1	3,294.6	68.1	3,832.0	68.2	4,527.3	68.9	5,367.8	69.7
Other Deposit Taking Financial Institutions	175.3	4.1	285.9	5.9	315.1	5.6	295.0	4.5	427.0	5.5
Other Specialized Financial Institutions	180.8	4.2	239.7	5.0	265.3	4.7	354.3	5.4	340.8	4.4
Contractual Savings Institutions	754.5	17.5	863.8	17.8	1,022.6	18.3	1,178.7	17.9	1,305.7	17.0
Insurance Companies	134.9(a)	3.1	156.0(a)	3.2	181.0(a)	3.2	219.1(a)	3.3	261.8(b)	3.4
Total	4,311.1	100	4,840.0	100	5,616.0	100	6,574.4	100	7,703.1	100

* Source Central Bank of Sri Lanka (Assets of insurance companies and Contractual Savings Institutions are reinstated based on data received by the Board)

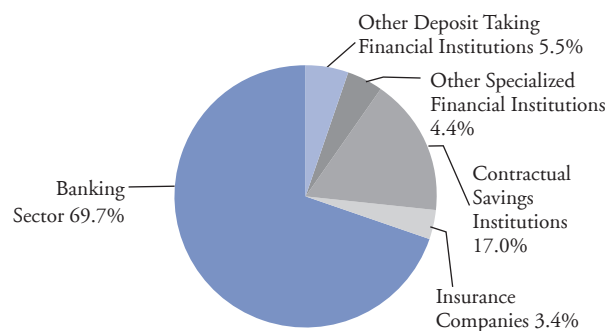
(a) Reinstated audited figures

(b) Provisional figures

Chart 12 reflects distribution of assets of major financial institutions as at 31st December 2011.

Chart 12

Distribution of Assets of Major Financial Institutions - 2011



Total Shareholders' Funds of Insurance Companies

Table 12 depicts the distribution of Shareholders' Funds among insurers as at 31st December 2011 and this indicates that three insurers namely Sri Lanka Insurance Corporation

Ltd., Ceylinco Insurance PLC and AVIVA NDB Insurance PLC account for more than two thirds (70.72%) of total industry Shareholders' Funds.

*Table 12***Total Shareholders' Funds of Insurance Companies**

Insurer	2010 (a)		2011 (b)			
	Total Shareholders' Funds Rs.'000	%	Share Capital Rs.'000	Total Reserve Rs.'000	Total Shareholders' Funds Rs.'000	%
AAIPLC	1,560,860	3.95	1,062,500	183,131	1,245,631	2.40
AIL	-	-	503,000	-	503,000	0.97
AILL	599,255	1.52	250,000	430,780	680,780	1.31
ALILL	140,654	0.36	492,499	(269,955)	222,544	0.43
ANDBIPLC	2,907,477	7.35	300,000	3,030,326	3,330,326	6.42
ATPLC	134,508	0.34	1,250,001	(508,662)	741,339	1.43
CIL	196,157	0.50	536,669	(321,203)	215,466	0.42
CILL	428,594	1.08	500,000	(40,061)	459,939	0.89
CIPLC	7,415,916	18.76	1,324,822	7,428,994	8,753,816	16.87
COICL	613,963	1.55	563,409	225,249	788,658	1.52
CTL	-	-	-	-	-	-
HNBAPLC	1,016,340	2.57	1,171,875	437,841	1,609,716	3.10
JIPLC	2,701,755	6.83	1,496,000	1,479,041	2,975,041	5.73
LICLL	329,700	0.83	373,000	62,200	435,200	0.84
LOLCICL	203,352	0.51	300,000	(62,305)	237,695	0.46
MBSLICL	140,446	0.37	779,487	(386,756)	392,731	0.75
OIL	-	-	750,000	(16,261)	733,739	1.41
PIL	219,356	0.55	550,000	44,593	594,593	1.15
SLICL	18,138,985	45.88	6,000,000	18,609,429	24,609,429	47.43
SSRS	262,395	0.66	314,215	55,742	369,957	0.71
UAPLC	2,524,790	6.39	388,433	2,601,236	2,989,669	5.76
Total	39,534,503	100	18,905,910	32,983,359	51,889,269	100

(a) Reinstated audited figures

(b) Provisional figures

Notes :

1. Above analysis does not include information of NITF since required complete information was not submitted to the Board.
2. CTL is prohibited from engaging in insurance business since 5th August 2009, and the company did not submit audited financials for the year ended 31st December 2010 and relevant data for the year ended 31st December 2011.

Performance of Insurance Brokering Companies

During the year 2011, forty six insurance brokering companies operated in the insurance market when compared to the forty two insurance brokering companies operated in 2010. The total GWP income generated through brokers during 2011 amounted to Rs. 10,489 million (2010: Rs. 9,560 million) for both long term and general insurance which represented 13.36% (2010 : 14.42%) of the total industry GWP. Out of the total industry GWP generated through brokers, Rs. 296 million (2010: Rs. 243 million) was generated from long term insurance business representing 0.84% (2010 : 0.78%) of the total GWP of

long term insurance business. The remaining GWP of Rs. 10,193 million (2010: Rs. 9,317 million) was generated from general insurance business which represented 23.52% (2010 : 26.54%) of total GWP of general insurance business.

Nineteen insurance brokering companies recorded more than Rs. 100 million each of GWP for the year 2011 and they recorded total GWP of Rs. 9,825 million as listed in Table 13. These nineteen insurance brokering companies represented 93.66% of the GWP generated by all the insurance brokering companies for 2011.

Table 13

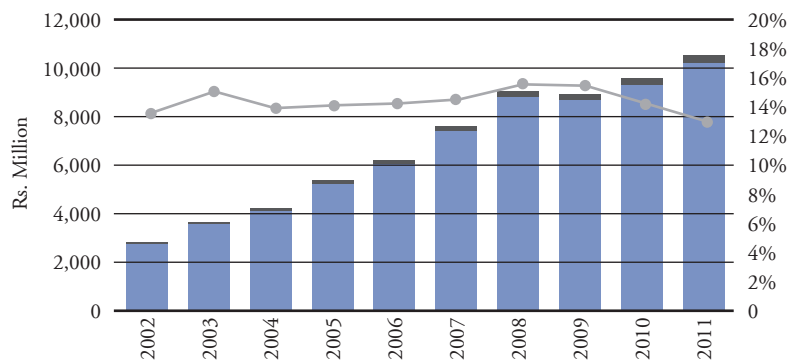
Gross Written Premium Generated Through Insurance Brokering Companies - Year 2011

Gross Written Premium (Rs.'000)							
Name of the Broker	Long term		General		Total		
	(Rs.'000)	%	(Rs.'000)	%	(Rs.'000)	%	
1 ADZ Insurance Brokers (Pvt) Limited	5,191	1.75	240,111	2.36	245,302	2.34	
2 Aitken Spence Insurance Brokers (Pvt) Limited	991	0.33	331,115	3.25	332,106	3.17	
3 Alfinco Insurance Brokers (Pvt) Limited	379	0.13	407,711	4.00	408,090	3.89	
4 Assetline Insurance Brokers Limited	-	-	693,406	6.80	693,406	6.61	
5 CF Insurance Brokers (Pvt) Limited	22	0.01	1,182,254	11.60	1,182,275	11.27	
6 Commercial Insurance Brokers (Pvt) Limited	78,263	26.42	1,460,833	14.33	1,539,096	14.67	
7 Delmege Insurance Brokers (Pvt) Limited	6,482	2.19	693,143	6.80	699,625	6.67	
8 Essajee Carimjee & Co. (Pvt) Limited	6,140	2.07	270,365	2.65	276,505	2.64	
9 Finlay Insurance Brokers (Pvt) Limited	6,875	2.32	1,115,613	10.94	1,122,488	10.70	
10 Global Insurance Services (Pvt) Limited	-	-	472,998	4.64	472,998	4.51	
11 Industrial & Commercial Insurance Brokers (Pte) Limited	1,852	0.63	413,142	4.05	414,994	3.96	
12 Nations Insurance Brokers Limited	8,431	2.85	605,404	5.94	613,835	5.85	
13 Procure Insurance Brokers (Pvt) Limited	1,235	0.42	147,051	1.44	148,286	1.41	
14 Protection & Assurance Insurance Brokers (Pvt) Limited	399	0.13	617,683	6.06	618,082	5.89	
15 Reliance Insurance Brokers (Pvt) Limited	3,395	1.15	151,564	1.49	154,959	1.48	
16 Senaratne Associates (Pvt) Limited	11,066	3.74	241,612	2.37	252,678	2.41	
17 Strategic Insurance Brokers (Pvt) Limited	825	0.28	244,950	2.40	245,775	2.34	
18 Sun Insurance Brokers Lanka (Pvt) Limited	116,863	39.46	120,953	1.19	237,816	2.27	
19 Zenith Insurance Brokers (Pvt) Limited	2,020	0.68	164,304	1.61	166,324	1.59	
Sub-total	250,429	84.55	9,574,213	93.93	9,824,642	93.66	
Other Insurance Brokering Companies (27)	45,753	15.45	618,703	6.07	664,456	6.34	
Grand Total	296,182	100	10,192,916	100	10,489,098	100	

Chart 13 reflects gross written premium generated through insurance brokering companies from year 2002.

Chart 13

Gross Written Premium Generated Through Insurance Brokering Companies - From Year 2002 to 2011



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
■ Long term insurance GWP (Rs. million)	50	76	88	103	144	158	195	188	243	296
■ General insurance GWP (Rs. million)	2,765	3,573	4,117	5,208	6,028	7,393	8,781	8,698	9,317	10,193
● Brokers' Contribution as a % of total GWP	13.88	15.11	14.22	14.26	14.34	14.55	15.43	15.44	14.42	13.36

Abbreviations for Insurance Companies

AAIPLC	: Asian Alliance Insurance PLC
AIL	: Arpico Insurance Ltd.
AILL	: Allianz Insurance Lanka Ltd.
ALILL	: Allianz Life Insurance Lanka Ltd.
ANDBIPLC	: AVIVA NDB Insurance PLC
ATPLC	: Amana Takaful PLC
CIL	: CHARTIS Insurance Ltd.
CILL	: Continental Insurance Lanka Ltd.
CIPLC	: Ceylinco Insurance PLC
COICL	: Co-operative Insurance Company Ltd.
CTL	: Ceylinco Takaful Ltd.
HNBAPLC	: HNB Assurance PLC
JIPLC	: Janashakthi Insurance PLC
LICLL	: Life Insurance Corporation (Lanka) Ltd.
LOLCICL	: LOLC Insurance Company Ltd.
MBSLICL	: MBSL Insurance Company Ltd.
NICL	: National Insurance Corporation Ltd.
NITF	: National Insurance Trust Fund.
OIL	: Orient Insurance Ltd.
PIL	: People's Insurance Ltd.
SLICL	: Sri Lanka Insurance Corporation Ltd.
SSRS	: Seemasahitha Sanasa Rakshana Samagama
UAPLC	: Union Assurance PLC

Review of Operations

Supervisory Review - 2011

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 in terms of the provisions of the Act. Furthermore the insurers who are engaged in long term insurance business should submit an Actuarial Report and an abstract pertaining to Long term Insurance Fund along with their Annual Statutory Returns.

The Board monitored the timely submission of the returns and scrutinized them for accuracy and compliance with the provisions of the Act and other rules and regulations of the Board. The Board communicated the deviations from statutory requirements observed during the review of returns to respective companies and advised to rectify same within stipulated deadlines. In addition, the Board addressed material issues noted during the review of returns at meetings and onsite inspections conducted at respective companies.

Quarterly Returns

It is required by the provisions of the Act that all insurers submit their quarterly returns to the Board within forty five days of the end of each quarter. The Board reviewed the quarterly returns submitted by all insurers for all four quarters of 2011 to assess their quarterly performance and financial position.

A comprehensive analysis of each insurer's quarterly performance based on premium income, underwriting profit and net profit for both long term and general insurance businesses was carried out in order to ascertain the overall insurance industry performance. Ratios were computed and analyzed for profitability, expenses and claims for each insurer to ascertain their performance for all quarters of the year and compared against the ratios of previous quarters. Financial position of each insurer at quarter ends was observed by analyzing their asset and liability position and by computing liquidity and capital adequacy ratios.

Non-compliances/discrepancies/errors observed during the review of quarterly returns were brought to the notice of relevant companies and instructions were given for rectification within given deadlines.

Monthly Returns

During the year 2011, the Board reviewed the monthly returns of three insurers in order to scrutinize their financial position and business operations in a closer and more frequent manner. According to the directives issued by the Board, such companies were required to submit their monthly returns within fifteen days from the end of each month. Non-compliances/discrepancies observed during the review were notified to the respective companies for rectification.

2. Monitoring Compliance with Solvency Margin Rules

The Board amended the Solvency Margin (Long term Insurance) Rules 2002 and Solvency Margin (General Insurance) Rules 2004 in year 2011 by considering the developments taking place in the insurance industry. Solvency Margin (General and Long term Insurance Business) Amendment Rules, 2011 came into effect from 01st April 2011 and all insurers are required to maintain the minimum required solvency margins according to its provisions for both classes of insurance business at all times. Accordingly the Board drafted new reporting formats in line with the new Solvency Margin Rules and Determinations which were issued to all insurance companies.

Similar to previous years, in 2011 the Board closely monitored the solvency margins of all insurers for both long term and general insurance businesses. All insurers are required to submit their solvency margin computations together with their monthly/quarterly returns and annual statutory returns. The Board ensured that same have been computed in accordance with the relevant Solvency Margin Rules. If insurers were unable to fulfil the required solvency margin or if the solvency computations were inaccurate, the relevant companies were instructed to rectify same within stipulated time-lines.

3. Risk Sensitive Minimum Capital Model for Insurance Industry Supervision

In 2009, the Board with the assistance of the World Bank and FIRST Initiative undertook the development of a risk sensitive minimum capital regime for the insurance sector in Sri Lanka. Deloitte Touche Tohmatsu India (Pvt.) Limited was appointed by the World Bank and FIRST Initiative to provide assistance in proposing a risk sensitive capital regime. Through this project, the Board intends to enhance its supervisory activities and enable market participants to effectively manage their business risks by providing a risk based framework to maintain the minimum capital requirement.

The Market Assessment Report, the first phase of this project was completed in 2010 to identify relevant issues and to provide an understanding of the Sri Lankan insurance market. This report further outlined underlying factors and growth parameters influencing or likely to influence the insurance industry in the future.

The second phase of the project, Qualitative Report which proposes broad principles and structure of a risk-based capital framework was submitted to the insurance industry in February 2011. The objective of the Qualitative Report was to identify and define the risk factors appropriate to the unique structure of the Sri Lankan insurance sector.

The Quantitative Report was submitted to the insurance industry in October 2011 and it identifies and suitably quantifies the capital charges for various risk categories defined in the Qualitative Report. This report also outlined changes in valuation methodology of assets and liabilities of insurers. The Board organized a presentation to introduce the Quantitative Report to the insurance industry with the participation of the project leader from the World Bank, consultants from Deloitte India, representatives of insurers, external auditors, actuaries and staff of the Board. Industry participants were given the opportunity to submit their comments regarding both above mentioned reports.

Further discussions are being held with the World Bank consultants to finalize draft rules, conduct training programmes to staff of the Board and commencement of road test in 2012.

4. Grant of New Licenses

Financial position of Orient Insurance Limited and Arpico Insurance Limited was evaluated by the Board prior to register them as insurers in year 2011. The Board scrutinized the documents submitted by the said companies, namely, detailed business plans and organizational structures, forecasted financial statements, certificates issued by companies' external auditors confirming their stated capital, re-insurance and their credit rating details, etc. Subsequently registration was granted to Orient Insurance Limited and Arpico Insurance Limited since they fulfilled the requirements of the Board.

5. Monitoring Compliance with Investment Specifications Investments in Government Securities

All insurers should maintain not less than 20% of the assets of Technical Reserves (for general insurance business) and

not less than 30% of the assets of the Long Term Insurance Fund (for long term insurance business) in government securities as per Section 25 of the Act. The Board monitored compliance of all insurers with the said provision of the Act during all quarters of 2011 and at month ends for insurers who are subject to monthly monitoring by reviewing the returns submitted. Furthermore, in order to confirm the accuracy of investments in government securities reported in the returns and title and ownership of such investments, the Board reviewed the Statement of Holdings issued by the Central Bank of Sri Lanka of each insurer as at the end of each reporting period. Non-compliances noted in respect of investments in government securities were brought to the notice of the relevant companies for necessary action.

Other Investments as per Determinations

All insurers are required to invest the balance assets of Technical Reserves and Long Term Insurance Fund in approved assets as specified in Determination 1 of 01st March 2011 (amended on 20th October 2011), promulgated under the Act. The Board monitored the investments of insurance companies to confirm that they comply with Determination 1 and if non-compliances were noted, respective companies were advised to take corrective action.

6. Onsite Inspections

During 2011, the Board conducted three onsite inspections at insurance companies and reviewed their operations, systems, policies and procedures to assess their compliance with the provisions of the Act. The Board made certain recommendations for areas which needed improvements through onsite inspection reports. Furthermore, the Board reviewed the Risk Assessment Summary (RAS) of insurers which are filed with the Board annually to be informed of various information pertaining to insurers such as organizational structure and ownership, business profile, senior management structure, marketing and distribution, claims administration, risk management function, etc.

7. Submission of Information to the Central Bank of Sri Lanka

The Board analyzed premium income, profitability, liquidity, capital, retention, etc. of insurers in detail to identify the insurance industry performance over each quarter of 2011. Ratios were computed based on the information submitted by the insurers in order to ascertain the overall insurance industry performance. Information on financial performance and financial position of the insurance industry were submitted to the Financial System Stability Department of the Central Bank of Sri Lanka on a quarterly basis.

8. Review of Reinsurance Arrangements

All insurers are required to furnish the Board with certified copies of their reinsurance treaties, contracts and arrangements annually according to the provisions of the Act. Such documents were perused by the Board to ensure that insurers mitigate their insurance risks by obtaining adequate reinsurance coverage. Insurance companies are required to comply with the guidelines issued by the Board under Section 31(1) of the Act when they engage in reinsurance arrangements with various reinsurers.

9. Submission of Biannual Compliance Certificate as per Circular 18

All insurers are required to submit their Biannual Compliance Certificates to the Board as per Circular 18 on a half yearly basis on or before 15th February and 15th August every year. During 2011, Board reviewed the Compliance Certificates submitted by all insurers to confirm that they comply with all the legal and regulatory provisions of the Act, enter into treaty and facultative reinsurance arrangements with approved reinsurers as per guidelines of the Board, comply with solvency margin rules, fulfil minimum capital requirement and comply with premium payment warranty for policies of general insurance.

Insurance Brokers

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

An important activity of off-site supervision is the review of quarterly returns, interim financial statements and audited financial statements submitted by insurance brokers. All insurance brokers are required to submit their quarterly returns in terms of the Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010 and their interim financial statements within 45 days of the end of each quarter. The Board reviewed returns submitted by all insurance brokers during 2011 and issues identified during the review (for example, incomplete sections, erroneous computations, variant formats, discrepancies, etc.) were brought to the notice of respective insurance brokers for rectification.

Insurance brokers are required to submit their audited financial statements within six months from the end of the financial year. The Board reviewed the audited financial statements submitted to ascertain the financial position and performance of insurance brokers during the year.

2. Monitoring Premium Collections

As per Section 89 of the Act, insurance premiums collected by insurance brokers on behalf of insurers should be remitted to respective insurers within two weeks of collection. The Board closely monitored insurance brokers' compliance with this regulation through quarterly returns and during on-site inspections. Necessary action was taken against insurance brokers who did not comply with the said requirement.

3. Onsite Inspections

During 2011, the Board carried out twelve on-site inspections at premises of insurance brokers in order to assess whether they conduct insurance brokering business in accordance with the rules and regulations of the Board. When non-compliances were observed during on-site inspections, instructions were given to rectify them within stipulated time periods.

4. Renewal of Licenses

In order to renew the annual licenses of insurance brokers for year 2012, the Board assessed their financial position by reviewing the audited financial statements and quarterly returns.

5. Grant of New Licenses

During the year the Board reviewed the business plans, audited financial statements, net capital position, etc. of eleven new insurance brokers who applied for registration in order to assess their financial position. Subsequently registration was granted to five insurance brokers since they fulfilled the requirements of the Board.

Regulatory Review

Registration of Insurance Companies

The Board granted registration to Arpico Insurance Limited and Orient Insurance Limited as insurers to carry on long term insurance business and general insurance business respectively during the year.

Accordingly, the number of registered insurers increased from 20 to 22 from 2010 to 2011.

Appendix I: Names of all insurance companies registered with the Board and the class/classes of insurance business they are permitted to carry on.

Registration of New Insurance Brokering Companies and Renewal of Registration of Insurance Brokering Companies

Applications from 11 companies seeking registration as insurance brokers were received by the Board during the year. The Board granted registration to 5 companies out of which, two companies were registered to carry on both long-term and general insurance brokering business and the other three companies to carry on general insurance brokering business.

Applications from 41 insurance brokering companies seeking renewal of registration for year 2012 were received by the Board during the year for which renewal of registration was granted to 40 companies in view of them fulfilling necessary requirements under the Act for renewal of registration.

Volanka Insurance Services (Pvt) Ltd. was prohibited from functioning as an insurance broker with effect from 1st January 2012 since the company failed to comply with Section 80 (2) of the Act prior to 31st December 2011 which prohibits (i) an insurance broker to be a shareholder of an insurer or (ii) a director or principal officer of an insurance broker or a director or chief executive officer of an associate, subsidiary or a holding company of an insurance broker to be director, shareholder or employee of any insurer.

Appendix II: Names of all insurance brokering companies registered with the Board and the class/classes of insurance brokering business they are permitted to carry on.

Enforcement Action

Insurance Companies

Suspensions

The Board did not impose any new suspensions during the year. However, the suspension imposed on Ceylinco Takaful Limited continues.

Directions

The Board issued a direction to an insurance company in terms of Section 57 of the Act, requiring them to submit to the Board, certification from the company's External Auditor and from the Actuary with regard to the solvency position of general insurance business and long-term insurance business respectively.

Further, the Board issued a direction to another insurance company to submit a comparison of projected and actual results of the income and expenditure statement on a monthly basis from the month the company commences its business operations.

Section 57 of the Act empowers the Board to issue directions to insurers when the affairs of any insurer are conducted in a manner likely to be detrimental to the public or national interest or the interest of policyholders or prejudicial to the interest of the insurer.

In addition to above, a close and continuous monitoring was carried out by the Board in respect of previously issued directions to insurance companies, in order to determine whether the respective insurers have adhered to same.

Insurance Brokering Companies

Warnings

The Board issued a letter of warning in terms of Section 84(1) (d) of the Act to an insurance brokering company since the company failed to comply with Section 89 of the Act.

Section 89 of the Act, *inter alia*, requires insurance brokers to remit insurance premia collected by them on behalf of insurance companies within two weeks of collection.

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

Regulatory/Advisory Measures

1. Section 84 (1) (c) (ii) of the Act, as amended, *inter alia*, prohibits a director or chief executive officer of a holding company of an insurance broker to be a director or shareholder or an employee of an insurer. The Board, in terms of Section 51 of the Amendment Act, has decided that where a director or a chief executive officer of a holding company of a registered insurance broker who is also a director, shareholder or an employee of an insurer, to grant a period of three months from 12th August 2011 as a reasonable period of time within which to dispose of the shares being held or relinquishing such directorship or employment, as the case may be. The said period was extended by the Board until 31st December 2011 due to numerous requests.

2. The Ministry of Finance and Planning has forwarded to the Board with documents relating to sanctions imposed by the Security Council of the United Nations over the Islamic Republic of Iran including the United Nations Security Council Resolution 1929 (2010) dated 09th June 2010. It was observed that Article 21 of the said resolution has a direct bearing on insurance business.

Accordingly, the Board informed the IASL of the said sanctions for compliance by member companies.

3. The Department of Exchange Control has drawn the attention of the Board with regard to the activities of a company incorporated in Sri Lanka, as it appeared from the documents the said company had submitted to the Department of Exchange Control that the company proposes to engage in insurance/ re- insurance business. The said company had approached the Controller to obtain the approval to open up a Foreign Currency Account. Upon examination of the relevant legal provisions of the Act, the Board decided that the proposed business of the aforesaid company does not come under the purview of the Act, and informed same to the Controller of Exchange.
4. An insurance company sought permission from the Board to tie up with other institutions (such as telephone companies, banks, money transfer agencies etc.) to collect payment and / or to disburse monies to their customers through its branches, with a view to expanding their current volume of insurance business by increasing the

number of people who visits their branches. Since the said proposal does not fall within Section 12 (4) of the Act, the Board informed the company that such approval cannot be granted.

As per Section 12 (4) of the Act, any person registered under the Act, shall not carry on any form of business other than insurance business: Provided that, an insurer with the prior written approval of the Board may carry on financial services business which is ancillary or associated with insurance business for which registration is obtained under the Act.

5. A company providing risk mitigating solutions for merchant vessels sailing in designated high risk areas identified by the International Maritime Organization sought the permission of the Board to obtain a 'Kidnap and Ransom Insurance Cover' from a foreign insurer as no local insurance company provided such insurance cover. The Board inquired into the matter and decided to permit the company to obtain such cover from a foreign insurer for a period of two years in terms of Section 101(2) of the Act.

As per Section 101 (2) of the Act, the Board shall consider the policy of the government in relation to insurance industry and the national interest, when granting approval for any requests for placement of insurance business with overseas insurers.

6. An inquiry was made by an insurance company with regard to investing its Unit Linked Funds in overseas investments. The Board informed them that as per Determination 1, other than "Debt Securities issued or fully guaranteed by any Foreign Government or a Central Bank of any foreign country and carrying an investment grade rating to the instrument", all other investments from the Technical Reserve or from the Long Term Insurance Fund will be limited to Sri Lanka. Further, any asset of an Unit Linked Fund not falling within the Long Term Insurance Fund may be invested in overseas assets provided that, specific approval of the Board is obtained in terms of Section 25(3) of the Act read with Regulation 4 of Insurance Board Regulations, 2005 published in Gazette bearing No.1414/19 dated 12th October 2005.

7. A request was made by an accounting firm to obtain their professional indemnity cover from a foreign insurer arranged by the parent company for all its firms around the world. The Board granted approval under Section 101 (2) of the Act to remit the insurance premium in favour of a foreign insurer in respect of Professional Indemnity Insurance Cover of the Sri Lankan operation, recognizing the global arrangement of the firm.
8. A regional telecommunications operator, having implemented a Global Insurance Program (GIP) emulating from robust risk management techniques across its subsidiaries in several countries, requested the approval of the Board to directly subscribe to all non-admitting global insurance policies. Since the Board has previously granted approval under Section 101 (2) of the Act, to obtain insurance covers under the group insurance cover arrangements to other companies, approval was granted in terms of Section 101 (2) of the Act subject to the condition that such approval will be valid only until the regional telecommunication operator is the holding company of the local party.
9. An insurance company sought the clarifications of the Board as to whether a former Deputy Governor of the Central Bank who had been nominated by the Monetary Board and had served on the Board, by virtue of such office, would be subject to the disqualification criteria introduced by Section 31A of the Amendment Act, and be prohibited from being a director of an insurer. In terms of Section 31A of the Act, read with paragraph (b) of the 2nd Schedule therein, a member or an employee of the Board will not be eligible to be appointed, elected or nominated as a director of an insurer, if such person had served as a member or employee of the Board at any time during the period of 3 years prior to being appointed, elected or nominated as a director of such insurer. The said position was informed to the insurer.
10. An insurance company sought the approval of the Board to open up a separate Takaful Window within the company, to operate keeping in line with Islamic Shariah Principles. The Board having examined the request of the company informed that it cannot permit the said insurer to account for takaful operations separately from other operations as it will lead to difficulties in fulfilling requirements laid down by the Board under the Act.
11. The Board did not object to a request made by an insurance company to convert a sum of Rs. 100 million from the debentures (investment of the life fund) into voting shares of a finance company and then treating same to be an investment of the Life Fund subject to the following:
 - That the insurance company will consider same to be an investment of the Life Fund once the shares are listed on the Stock Exchange; and
 - That the insurance company will comply with the Determinations and Solvency Margin Rules issued by the Board.
12. An insurance company sought the approval of the Board to use reinsurance security of ZEP-RE in their treaty arrangements. The Board disapproved the said request due to the reason that the security rating given to ZEP-RE by AM Best Rating Agency and the sovereign rating given to the hosting country, Kenya by Standard & Poor's does not come within the 'secured rating levels' prescribed by the Board.
13. The Board during the year has received number of applications being submitted by insurance companies for appointment of directors in terms of the new provisions introduced by the Amendment Act.
14. The Board is in the process of collating and preparing a database of all insurance products which are in the market and for this exercise has called from insurers, all insurance product details. Further, around 40 insurance products have been filed with the Board in terms of the new provisions introduced to the Act.

Regulatory Reforms

Amendments to the Act, No. 43 of 2000

The Amendment to the Act, was passed in Parliament in January 2011. Accordingly, the principal enactment was amended by Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 effective from 11th February 2011. Significant amendments are as follows:

- The Director General of the Securities and Exchange Commission of Sri Lanka who was a member of the Board was substituted by the Registrar General of Companies.
- Provisions are introduced to register persons as loss adjusters.
- Companies carrying on both classes of insurance business (i.e. long term insurance business and general insurance business) are required to segregate their business into two separate companies within a period of 4 years from the date of the coming into operation of the Amendment Act.
- Existing insurers upon fulfilling the segregation requirement contained in the Amendment Act and other insurers (registered prior to the Amendment Act coming into operation) are required within 5 years of the date of the coming into operation of the Amendment Act, to have itself listed on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987.
- A company seeking registration as an insurer will be permitted to carry on only one class of insurance business and such company will have to list itself on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No.36 of 1987 within a period of three years from the date of registration as an insurer.
- Directors, specified officers and principal officers of insurance companies and principal officers of brokering companies are required to have fit and proper criteria for appointment and to continue in such company.
- Corporate bodies will become eligible to be registered as insurance agents once the rules for the registration criteria are in place.
- The Board is empowered to increase the capital of registered insurance companies and brokering companies even after registration, by rules made in that behalf.
- The National Insurance Trust Fund (NITF) is deemed to be an insurer registered under the Board on the date of coming into operation of the Amendment Act.

Amendments to Rules

The Board revised the Solvency Margin (General Insurance) Rules published in Gazette Extraordinary No. 1341/8 of 17th May 2004 and the Solvency Margin (Long Term Insurance) Rules published in Gazette Extraordinary No. 1255/12 of 24th September 2002. The Solvency Margin Rules of the Board have been revised to meet the varying requirements of the insurance industry and the trends of commercial affairs of the fast moving world. These revisions have been published in Gazette Extraordinary No. 1697/27 of 18th March 2011. Further, revisions are contemplated on same.

The stated capital of persons seeking registration as insurers was increased from Rs. 100 million per class of insurance business to Rs. 500 million per class of insurance business. Further the registration fee of insurance brokers was increased from Rs. 50,000/- per class of insurance brokering business to Rs. 100,000/- per class of insurance brokering business.

These revisions were published in the Gazette Extraordinary No. 1711/25 of 24th June 2011.

Section 78 (1) of the Act was amended by the Amendment Act to permit insurers and brokers to appoint persons as insurance agents. Accordingly, rules on registration requirements for institutions have been drafted by the Board and a consultation process with the industry has been carried out. The Board has also obtained the views of the Central Bank of Sri Lanka on same in view of 'bancassurance arrangements' currently being practiced.

Part VIIIA introduced by the Amendment Act, empowers the Board to register persons as 'loss adjusters' by rules made in that behalf. The Board has reviewed the registration requirements of loss adjusters in other countries and are in the process of drafting rules on registration requirements for loss adjusters in Sri Lanka.

The Board is in the process of increasing the stated capital of existing insurance companies to Rs. 500 million per class of insurance business.

Amendments to Determinations and Introduction of New Determinations

Determination 1 dated 30th October 2002 stipulates the manner that should be followed in investing the balance assets of the Long Term Insurance Fund and of the Technical Reserve after investing the minimum required amounts in

government securities. The Board has widened the scope of such investment parameters introduced by Determination 1 dated 30th October 2002 through the amendment effected in March and October 2011.

Determination 3 of 30th October 2002, which states, 'the period for settlement of premia to be set at 60 days from the date on which the premium is payable' has been repealed since Section 15 of the Amendment Act, has deleted Section 35 of the Principal Enactment.

Determination 9 of 1st February 2011 was repealed and replaced by Determination 9 of 12th July 2011. Accordingly, renewal fee of insurance brokering companies was increased as follows:

- (a) Where the brokering commission income of an insurance broker as stated in the Returns submitted to the Board under Gazette Extraordinary No. 1642/16 of 25th February 2010, for the four quarters immediately preceding the due date of submission of the renewal of registration application, as stipulated in Section 83 of the Act is Rs. 3 million or less than Rs. 3 million, the renewal fee is Rs. 30,000 per class of insurance brokering business.
- (b) Where the brokering commission income of an insurance broker as stated in the Returns submitted to the Board under Gazette Extraordinary No. 1642/16 of 25th February 2010, for the four quarters immediately preceding the due date of submission of the renewal of registration application, as stipulated in Section 83 of the Act is above Rs. 3 million, the renewal fee is Rs. 50,000 per class of insurance brokering business.

The above was a revision from Rs. 25,000 per class of insurance brokering business.

Determination 10 of 30th October 2002 was amended in July 2011 to determine the maximum commission paid by insurance brokers to its insurance agents to be set at the maximum level of commission paid by an insurer to an agent.

Determination 12 of 31st May 2011 was made by the Board under Section 49(b) of the Act to introduce the quarterly return format of insurers. The returns were revised to be in line with the amendments to the Solvency Margin Rules, which came into effect from 1st April 2011.

Determination 13 of 31st May 2011 was made by the Board under Section 33B (1) of the Act on 'Notice for giving information to the Board when seeking approval for a person sought to be appointed, elected or nominated as a director of an insurer'.

Amendments to Regulations

Regulations have been made amending the Regulations published in Gazette Extraordinary No. 1414/19 of 12th October 2005 in respect of registration fee and annual fee paid by insurers. The registration fee has been increased from Rs. 250,000 per class of insurance business to Rs. 500,000 per class of insurance business. The annual fee has been changed from Rs. 100,000 in respect of each class of insurance business or 0.05% of the gross written premium of long term and general insurance businesses of the preceding financial year which ever is higher to Rs. 100,000 in respect of each class of insurance business for the first calendar year of operation; and from and after the commencement of the second calendar year of operation, Rs. 200,000 in respect of each class of insurance business or 0.075% of the gross written premium of each class of insurance business of the preceding financial year; whichever amount is higher.

Directions Issued by the Board

The Board issued a direction to an insurance company in terms of Section 57 of the Act with regard to returns submitted by the company.

Measures to Strengthen the Confidence of the Industry/General Public (Policyholders and Potential Policyholders) by Expanding, Strengthening and Monitoring the Regulatory Process of the Insurance Industry

- Appropriate measures have been taken to publish news articles in national newspapers regarding insurance industry to create awareness among general public.
- The website of the Board was continuously updated with changes pertaining to revision of laws that are applicable to the insurance industry and important industry details.
- A workshop was conducted by the Board to all principal officers of insurance brokering companies, regarding the amended renewal of registration form and matters connected thereto.

Investigatory Review

In terms of Section 98 of the Act, a dispute relating to the settlement of a claim may at the option of the claimant, be referred to the Board for its decision, and the Board may after giving an opportunity to the parties of being heard, and after

making such further inquiries as it may think fit, make its order in the dispute.

During the year under review, the Division looked into a total of 213 such complaints in the following categories :

Table 1

General	No.	Life	No.	Agent Related	No.
Motor	76	Hospitalization	17	Employment Matters	05
Marine	01	Death Benefit	12	Qualifications	04
Fire	22	Disability	05	Misappropriation	13
Credit Insurance	01	Lapsed	17		
Burglary	03	Cover Removed/Policy not Revived	05		
Performance/ Advance Payment	05	Maturity Benefits/ Surrender Value	10		
Workmen's Compensation	02	Other – Loans	02		
Flood	02	Refund of Premia	04		
Property Damage	04				
Funeral Expenses (PAFI)	01				
Personal Accident Cover	01				
Consequential Loss	01				

Chart 1

**Company-wise Break Down of Complaints
Received During the Year 2011**

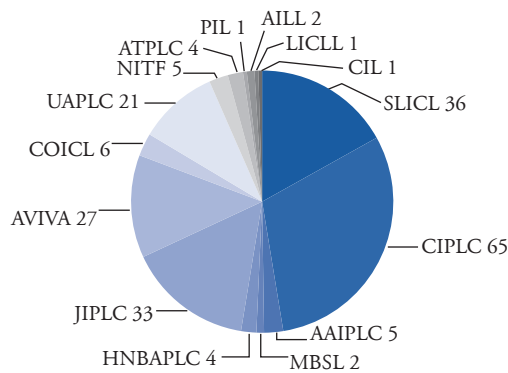


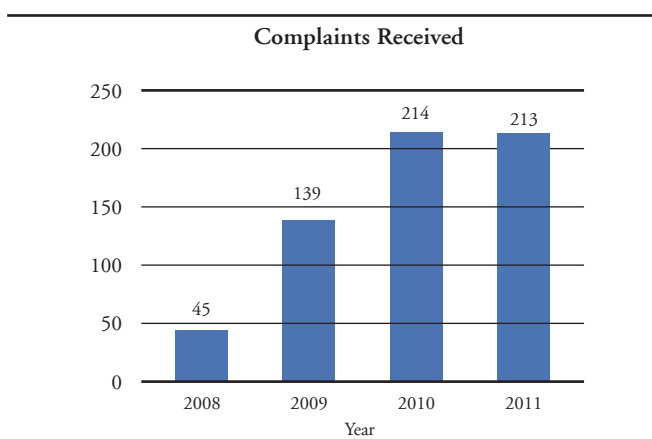
Table 2

Details of complaints and verifications sort by the Division are in the following format:

Nature of Complaint	Remarks
Life Insurance Claims and Related Matters	Majority of matters referred in this category are with regard to non disclosure of material information at the time of obtaining the policy. Investigation Division looks into all the relevant information including verifications from medical experts in arriving at a decision.
Motor Insurance Claims	In this category, the reasons for repudiation varies from non disclosure to deduction of sums, policy being lapsed due to non- payment of premium during the Premium Payment Warranty period, pending court cases, incident being inconsistent with the accident, withholding of information and the policy not having adequate cover. When resolving motor claims, the Division does a comprehensive examination into documentation including the Investigation Report, Assessment Reports and where necessary opinion of Automobile Experts.
Fire Insurance Claims	Claims in this category are mostly repudiated on ground of direct and/or indirect involvement of the insured concerned. Hence, we analyse the available evidence with regard to the deliberate attempt of the insured and direct and/ or indirect involvement of the insured.
Issues relating to Agents' Qualifications and Related Matters	With regard to the qualifications of Agents, the Board verifies the accuracy and the authenticity of the certificates.
Marine Insurance Claims	Generally few complaints are received in these categories. The Division does a comprehensive analysis of the documents involving in arriving at a decision.
Burglary Insurance Claims	
Travel Insurance Claims	
Advance Payment and Performance Bonds	
Natural Disaster Insurance Claims	
Electronic Equipments	
Loan Protection	
Transit	
Other (PAFI Policy/Traders Combine)	

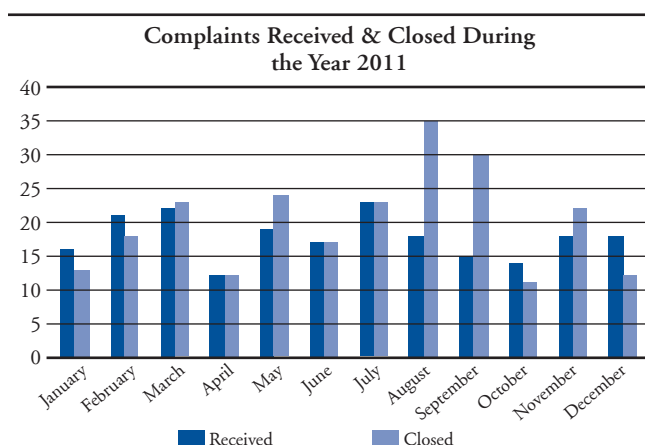
Along with public awareness activities, complaints received by the Division has arisen during the last 4 years.

Chart 2



During the year under review, Division successfully inquired into 213 complaints and a total of 240* were settled to the satisfaction of the complainants.

Chart 3



*Settled no. includes complaints carried forward from 2010.

Market Development and External Relations

Objective

The objective of the Board in conducting awareness programmes is to enhance the knowledge on the subject of insurance, the insurance industry and its latest developments.

Participation at Exhibitions

The Board participated at “Deyata Kirula” National Exhibition for the fifth consecutive year and erected a stall at the exhibition, in Buttala, Monaragala from 4th February to 10th February 2011. This was a great opportunity to educate the public on insurance and the responsibilities and functions of the Board. The stall attracted approximately 10,000 interested public.



Road Show

The Board, pursuant to a request made by the Securities and Exchange Commission of Sri Lanka (SEC) participated in the “Investment Day”, a road show organized by them on 22nd October 2011, held at Sri Lanka Exhibition and Convention Centre at Colombo.



Brochures Published in 2011

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රක්ෂණ ආවරණයක් (Insurance Cover) ලබා ගන්නේ කෙසේද?

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IBSL
INSURANCE
BOARD OF SRI LANKA

දැයට කිරළ

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IBSL
INSURANCE
BOARD OF SRI LANKA

Publications

The Board published and distributed several publications in the year under review, with a view to facilitating the public understanding about the concepts and other important aspects of insurance that may assist them when contemplating whether to purchase insurance products.

The Board published the following paper advertisements, press notices and press releases:

- (a) Published advertisements in the “Independence Day/ Deyata Kirula” paper supplement in Daily News, Dinamina and Thinakaran on Independence Day.
- (b) Press Notices on -
 - Important notice to the Public – “Insurance Proposal Forms”
 - Notice to the Public – “List of Registered Insurance Companies”
 - Notice to the Public – “List of Registered Insurance Brokering Companies”
 - Press Notice in the special feature of Daily Mirror news paper on the occasion of 10th Anniversary of “Daily Mirror Business”.
- (c) Press Releases on -
 - Press Release about the participation of IBSL at Deyata Kirula Exhibition
 - Press Release on “Insurance Regulator Meets the Industry”
 - Press Release on “Performance of the Insurance Industry during the Year 2010”
 - Press Release on “10th Anniversary of IBSL”
 - Press Release on “Appointment of New Director General to IBSL”
 - Press Release on “Insurance Industry Performance - 1st Half 2011”
 - Press Release on “Risk Sensitive Minimum Capital Rule for Insurance Industry”
- (d) Brochures on -
 - Insurance Proposal Form
 - Insurance Cover

Press Interview

The Division organized a press interview of the new Director General of the Board with Daily Mirror newspaper, pursuant to a request made by the business editor of Daily Mirror.

Other Activities

1) Insurance Agents’ Database

In terms of Section 78 (1) and (2) of the Act, all insurance companies are required to maintain an updated database on a continuous basis in the individual websites of the companies giving agents’ information with access to the Board. These databases were further modified to be user friendly.

2) Filing of Insurance Policies

According to the Amendment Act, “for the purpose of examining whether the interests of the policy holders are being adequately safeguarded every insurer shall be required to file with the Board, all policy forms to be issued by such insurer, prior to its issue.”

The Board received thirty six (36) new insurance policies from insurance companies during the year under review. After examining these proposed products, the Board suggested improvements to be made to certain products.

3) Public Consultations

During the year under review, the Board attended to numerous inquiries from the general public, policy holders and as well as from other stakeholders requesting information relating to the industry and making inquiries on insurance related matters.

Administrative Review

Human Resource

The success of any organization largely depends on the expertise of people involved in its functions. As such, we believe that the human resource is the very backbone of the success strategy of the Board.

The Board establishes the organizational structure, identifies necessary functions to discharge its duty towards achieving the overall objective of ensuring that the insurance industry in Sri Lanka is carried on with integrity with a view to safeguarding the interests of all policyholders and potential policyholders.

The Board took initiatives during the year under review to strengthen human resources through timely recruitment of required professionals. The total staff strength of the Board as at 31st December 2011 was 37, and only 11 out of them were non executives.

Training

The constantly changing external environment and the unique dynamics involved in insurance regulation, requires the Board to focus heavily on structured training for its employees. The training needs were focused on matching individual capabilities to expected business requirement and long term challenges. The Board allocated training not only for the senior management but also for the executive levels. Opportunities were given to participate in training programmes conducted locally as well as overseas.

12 Staff Members were provided foreign training and exposure by the Board during year 2011. 18 Employees were provided local training opportunities and 6 employees were provided sponsorships for higher studies.

In addition the Board conducted its annual residential training programme for all staff during the year under review.

The following table depicts the composition of total training expenditure for 2010 and 2011:

Category	2010 (Rs.)	2011 (Rs.)
Local Training	1,648,253	1,668,837
Foreign Training	2,792,679	3,087,200

Welfare

In order to maintain a high morale and motivate the staff in achieving the objectives of the Board, the annual get-together for staff and their family members was held at Taj Samudra Hotel, Colombo. The staff was provided with welfare benefits such as indoor and outdoor medical schemes, insurance covers and financial support schemes throughout the year.

Financial Review

Policyholders' Protection Fund

According to the Act, any (Cess) money collected to Policyholders' Protection Fund (PPF) which is not immediately required for any of the purposes referred to in the act has to be invested by the Board in a prudent manner to yield good returns. During the year, the Board invested such funds accordingly and Chart 1 depicts the Cess collection and investment income earned.

Chart 1

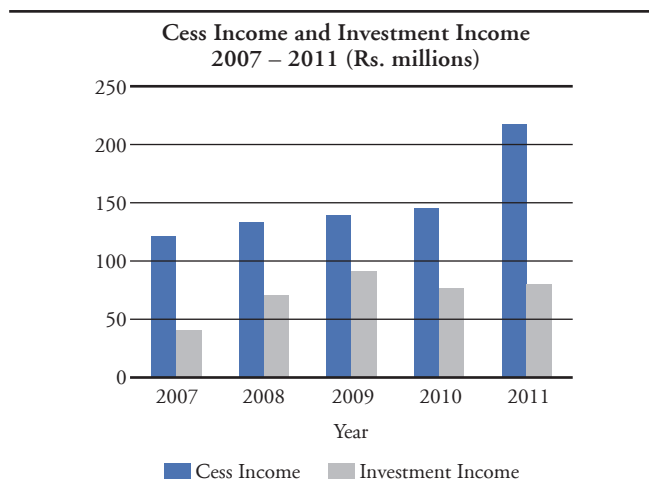


Chart 1 illustrates the growth of Cess income over the last five years. Investment income has shown a steady increase from 2007 to 2009, although it has decreased in 2010 when compared to 2009, due to the drop in interest rates during 2010. However investment income has again taken a favorable trend in 2011 due to 50% increase in Cess income from 145 million in 2010 to 217 million in 2011.

Value of the PPF has increased over the last five years and Chart 2 depicts the same:

Chart 2

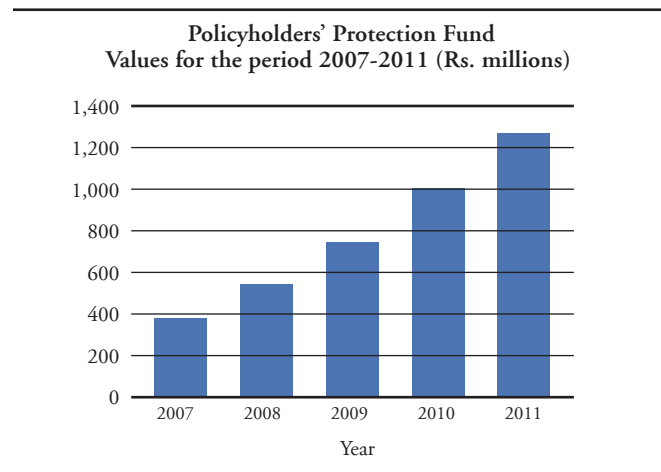
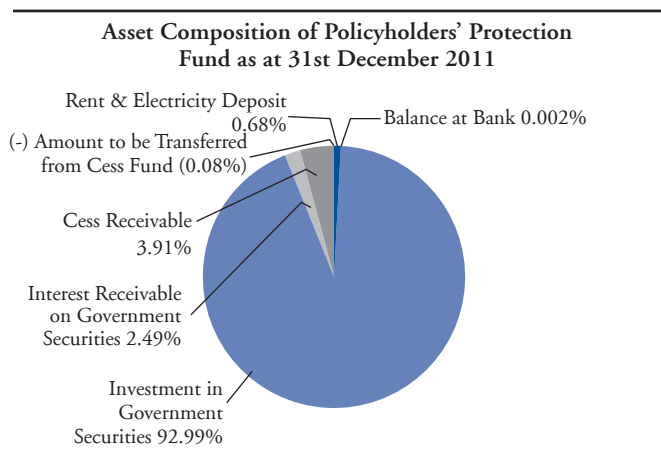


Chart 3



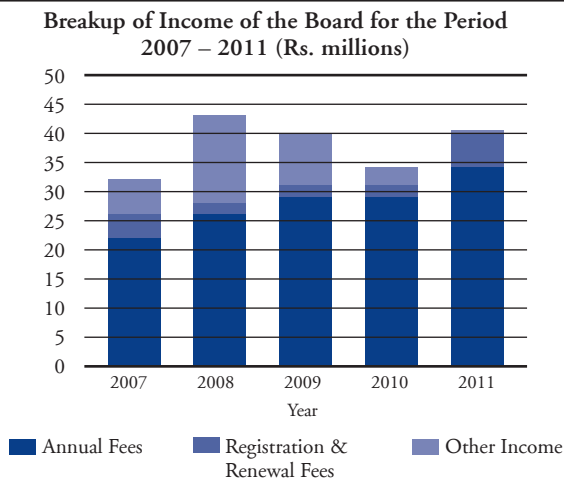
Income of the Board

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

- Registration fees from insurers and insurance brokering companies
- Annual fee levied from insurance companies
- Annual renewal fee for registration of insurance brokering companies
- Interest income by investing surplus funds

Chart 4 depicts the breakup of overall income received for the period 2007 to 2011.

Chart 4

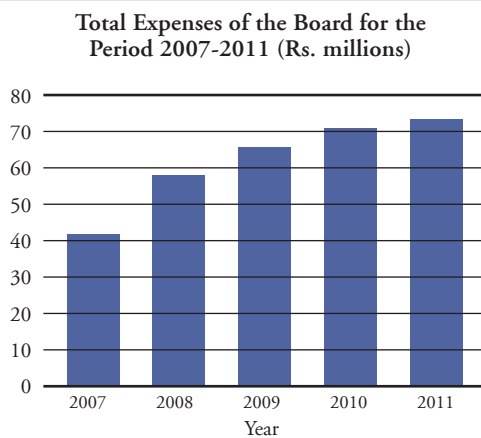


Expenses of the Board

Total expenses of the Board have increased from 2007 to 2011. The deficit between income and the expenses has been financed from the PPF in accordance with the provisions of the Act.

Chart 5 below depicts the total expenses of the Board for the period 2007 to 2011.

Chart 5





Financial Information

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Balance Sheet

As at 31 st December	Notes	2011 Rs.	2010 Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	1	12,368,886	16,818,661
Policyholders' Protection Fund-Rent and Electricity Deposits	2	8,728,590	8,728,590
Current Assets			
Inventories	3	183,131	312,131
Policyholders' Protection Fund-Investments and Others	2	1,270,526,277	1,003,081,520
Other Current Assets	4	8,028,124	7,211,191
Investments in Government Securities		-	5,000,000
Cash and Cash Equivalents	5	185,159	1,606,284
Total Assets		1,300,020,167	1,042,758,377
Reserves and Liabilities			
Reserves			
Accumulated Fund	6	-	-
Policyholders' Protection Fund	7	1,279,254,867	1,011,810,110
Liabilities			
Non Current Liabilities			
Grant	8	12,368,887	15,906,644
Retirement Benefit Obligation	9	1,833,909	1,444,533
Interest Bearing Borrowings	10	-	361,872
		14,202,796	17,713,049
Current Liabilities			
Receipt in Advance		1,400,018	2,350,018
Other Current Liabilities	11	5,162,486	10,122,632
Current Portion of Interest Bearing Borrowings	10	-	762,569
		6,562,504	13,235,219
Total Reserves & Liabilities		1,300,020,167	1,042,758,377

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 61 to 68.

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



Indrani Sugathadasa
Chairperson



D. Widanagamachchi
Member

Income & Expenditure Statement

For the year ended 31 st December	Notes	2011 Rs.	2010 Rs.
Income			
Revenue	12	40,498,544	31,496,975
Government Grants	-	-	
Recognition of Grant	8	6,040,348	7,520,440
Interest Income		144,873	3,064,491
Other Income	13	415,246	224,167
Total Income		47,099,011	42,306,073
Less:			
Expenditure			
Staff Costs	20	36,063,408	28,974,292
Professional Charges	21	1,619,785	1,076,189
Operational Expenses	22	36,567,718	41,190,501
Finance and Others		99,514	242,115
Total Expenditure		74,350,425	71,483,097
Net Deficit Before Tax	14	(27,251,414)	(29,177,024)
Transfer from Policyholders' Protection Fund	7	27,262,344	30,472,838
Taxation	15	(10,930)	(1,295,814)
Net Deficit After Tax		-	-
Net Surplus for the Year		-	-

The Accounting Policies and Notes appearing on pages from 61 to 68 form an integral part of the Financial Statements.

Statement of Changes in Reserves

For the year ended 31 st December	2011 Rs.	2010 Rs.
Accumulated Fund		
Balance at the beginning of the year	-	67,828,254
Adjustment made within the year	-	(67,828,254)
Net Surplus/(Deficit) for the year	-	-
Balance at the end of the year	-	-

The Accounting Policies and Notes appearing on pages 61 to 68 form an integral part of the Financial Statements.

Cash Flow Statement

For the Year ended 31 st December	Note	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) for the Period		-	-
Adjustment for Depreciation		6,237,563	8,220,340
Provision for Retirement Benefit		703,074	568,362
Profit/Loss on Disposal		(172,023)	-
Recognition of Grant		(6,040,348)	(7,520,440)
Income Tax		10,930	1,295,814
Interest Income		(144,873)	(3,064,491)
Net Increase before Working Capital Changes		594,323	(500,415)
Change of Working Capital			
(Increase)/Decrease in Inventories		129,000	(63,210)
(Increase)/Decrease of Receivables		(824,969)	10,990,533
Increase/(Decrease) of Receipt in Advance		(950,000)	476,416
Increase/(Decrease) of Creditors and Accruals		(5,284,774)	5,878,612
Cash Flow used in Operating Activities		(6,930,743)	17,282,351
Net Cash Flows from Operating Activities		(6,336,420)	16,781,936
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		5,000,000	(22,646,824)
Interest Income		152,910	6,638,036
Proceeds from Sale of Property, Plant and Equipment		886,826	-
Purchase of Property Plant and Equipments		(2,502,591)	(1,478,079)
Net Cash used in Investing Activities		3,537,145	(17,486,867)
Cash Flow from Financing Activities			
Capital Transfer from Policyholders' Protection Fund		2,502,591	1,478,079
Increase in Finance Lease		(1,124,441)	(740,581)
Net Cash Flows from Financing Activities		1,378,150	737,498
Net Increase/(Decrease) in Cash and Cash Equivalents		(1,421,125)	32,567
Cash and Cash Equivalents at the beginning of the year		1,606,284	1,573,717
Cash and Cash Equivalents at the end of the year		185,159	1,606,284
Cash at Bank and In Hand	5	185,159	1,606,284

The Accounting Policies and Notes appearing on pages 61 to 68 form an integral part of the Financial Statements.

Policyholders' Protection Fund Cash Flow Statement

For the Year Ended 31 December	Note	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		267,444,757	256,736,567
Net Increase before Working Capital Changes		267,444,757	256,736,567
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities		(8,377,361)	19,821,348
(Increase)/Decrease of Cess Receivable		(13,985,183)	3,636,910
(Increase)/Decrease of Rent Deposit		-	(996,474)
Increase/(Decrease) of Amount to be Transferred From Cess Fund		5,458,870	(17,133,531)
		(16,903,674)	5,328,253
Net Cash from Operating Activities		250,541,083	262,064,820
Cash Flow into Investing Activities			
Investments in Government Securities		(250,939,905)	(266,982,177)
Net Cash from Investing Activities		(250,939,905)	(266,982,177)
Net Increase/(Decrease) in Cash and Cash Equivalents		(398,823)	(4,917,357)
Cash and Cash Equivalents at the beginning of the year		427,280	5,344,637
Cash and Cash Equivalents at the end of the year		28,457	427,280
Cash at Bank	2	28,457	427,280

The Accounting Policies and Notes appearing on pages 61 to 68 form an integral part of the Financial Statements.

Accounting Policies

1. Significant Accounting Policies

1.1 Basis Of Preparation

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

1.3 Events After The Balance Sheet Date

All material events after the Balance Sheet date are considered and appropriate adjustments or 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 provision of the Inland Revenue Act No. 10 of 2006.

The Board has now been exempted from Income Tax other than profits and income from dividends or interest.

1.6 Conversion Of Foreign Currency

Foreign exchange transactions if any, 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

Properties, 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.

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.

2.2 Investments

Investments in Government Securities are stated at cost and interest is accrued up to the 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 to be 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".

The Board provides gratuity on the completion of the 1st year of employment. However, the provision is adjusted according to the liability.

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

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

Capital Expenditure transferred 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	Furniture, Fixtures & Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost						
Balance as at 1 January 2011	9,473,243	14,206,234	18,058,366	141,450	2,800,000	44,679,294
Additions	-	76,775	2,425,817	-	-	2,502,591
Disposals	-	-	-	-	(2,800,000)	(2,800,000)
Balance as at 31 December 2011	9,473,243	14,283,009	20,484,183	141,450	-	44,381,885
Accumulated Depreciation						
Balance as at 1 January 2011	7,710,546	5,831,228	12,289,327	141,450	1,888,082	27,860,633
Charge for the year	1,012,061	1,778,607	3,249,780	-	197,115	6,237,563
Disposals	-	-	-	-	(2,085,197)	(2,085,197)
Balance as at 31 December 2011	8,722,607	7,609,835	15,539,107	141,450	-	32,012,999
Written Down Value						
As At 31 December 2011	750,636	6,673,174	4,945,076	-	-	12,368,886
Written Down Value						
As At 31 December 2010	1,762,697	8,375,006	5,769,040	-	911,918	16,818,661

2. Policyholders' Protection Fund Investments and Others

As at 31 st December	Notes	2011 Rs.	2010 Rs.
Non Current Assets			
Rent and Electricity Deposits		8,728,590	8,728,590
Current Assets			
Investment in Government Securities		1,189,577,848	938,637,943
Interest Receivable on Government Securities		31,884,906	23,507,545
Cess Receivable		50,000,000	36,014,817
Balance at Bank		28,457	427,280
Amount to be Transferred to Cess Fund		-	4,493,936
Less			
Amount to be Transferred from Cess Fund		964,935	-
		1,270,526,277	1,003,081,521
Total Assets		1,279,254,867	1,011,810,111

As at 31 st December	Notes	2011 Rs.	2010 Rs.
3. Inventories			
Printing, Stationery and Computer Accessories		175,871	171,186
Publications		-	51,100
Stamps		7,260	89,845
		183,131	312,131
4. Other Current Assets			
Deposits		187,870	162,000
Other Receivables		146,911	5,416
WHT Recoverable		1,055,865	841,728
VAT Control		1,182,959	1,423,033
Interest Receivable - Treasury Bills		-	8,036
Staff Loans *		3,668,481	4,025,086
Advance and Pre-payments		821,104	745,892
Amount to be Transferred from Cess Fund		964,935	-
		8,028,124	7,211,191
*Loans Granted to Staff			
Balance as at 1 st January		4,025,086	3,112,003
Loans Granted during the year		2,305,239	3,282,500
		6,330,325	6,394,503
Repayments during the year		(2,661,844)	(2,369,417)
Balance as at 31 st December		3,668,481	4,025,086
5. Cash & Cash Equivalents			
Cash at Banks			
Bank of Ceylon		185,159	1,600,315
Cash in Hand		-	5,970
		185,159	1,606,285
6. Accumulated Fund			
Balance at the beginning of the Period		-	67,828,254
Adjustment made with in the year		-	(67,828,254)
Net Surplus/(Deficit) for the Period		-	-
Balance at the end of the Period		-	-

As at 31 st December	Notes	2011 Rs.	2010 Rs.
7. Policyholders' Protection Fund			
Opening Balance		1,011,810,110	755,073,543
Cess Received during the year		216,837,328	144,666,577
Interest on Treasury Bill Investment		44,927,884	31,740,107
Interest on Repo and Call Account		35,463,880	44,466,546
Adjustment made with in the year		-	67,828,254
		1,309,039,202	1,043,775,027
Less:			
Transfers for Operational Expenses		27,262,344	30,472,838
Transfers for Capital Expenses		2,502,591	1,478,079
Total Transfers- Policyholders' Protection Fund		29,764,935	31,950,917
Bank Charges		19,400	14,000
		29,784,335	31,964,917
Closing Balance		1,279,254,867	1,011,810,110
8. Grant			
Balance at the beginning of the year		15,906,644	21,949,005
Capital Expenditure from Policyholders' Protection Fund		2,502,591	1,478,079
Less: Amortized during the year		(6,040,348)	(7,520,440)
Balance at the end of the year		12,368,887	15,906,644
Note - Recognition of Grant			
The grants has been accounted for in accordance with the SLAS 24. The grant is recognized in the income statement at the following rates.			
Motor Vehicle		25%	Per annum
Office Equipment - Others & EDP		25%	- do -
Furniture Fixtures & Fittings		12.5%	- do -
9. Retirement Benefit Obligations			
Balance at the beginning of the year		1,444,533	876,171
Provision made during the year		703,074	568,362
(-)Payment made during the period		(313,698)	-
Balance at the end of the year		1,833,909	1,444,533
10. Interest Bearing Borrowings			
Finance Lease Liability			
Lease Creditor		-	1,268,352
Less: Interest in Suspense		-	(143,911)
		-	1,124,441
Current Portion of Finance Lease Liabilities		-	(762,569)
		-	361,872

As at 31 st December	Notes	2011 Rs.	2010 Rs.
11. Other Current Liabilities			
Others		5,162,486	10,122,632
		5,162,486	10,122,632
12. Revenue			
Annual Fees from Insurance Companies		34,578,544	29,186,084
Registration and Renewal Fees		5,920,000	2,310,891
		40,498,544	31,496,975
13. Other Income			
Interest on Vehicle Loan		48,055	61,934
Interest on Distress Loan		102,196	106,300
Sale of publications		49,875	32,880
Profit on disposal		172,023	-
Sundry Income		43,097	23,054
		415,246	224,168
14. Excess/ (Deficit) Income over Expenditure			
Deficit for the year is arrived at after charging all expenses including the following:			
Staff Salaries		18,504,115	15,322,247
EPF and ETF		2,806,072	2,285,409
Provision for Retiring Gratuity		703,074	568,362
Staff Training - Overseas		3,087,200	2,792,680
Local Consultants		614,167	503,511
Foreign Consultants		719,121	572,678
Auditors Remuneration		585,252	200,000
Depreciation		6,237,563	8,220,340
Chairperson's Expenses - Allowance		457,500	356,000
Chairperson's Expenses - Fuel		268,920	158,010
Directors Vehicle Allowance		1,767,419	-
Attendance fee for Board Members		500,797	66,000
Public Awareness		3,318,217	3,677,305
Bank Charges		73,534	61,101
Debit Tax		25,816	151,807

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 2011.

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 which form part of the statutory income of the Board for that year of assessment.

Accordingly, the net income earned by the Board from the secondary market transactions in Government Securities had been grossed up in the Financial Statements and the resulting notional tax credit amounting to Rs. 14,392.29 for the year 2011 has been recognized in the Financial Statement for the year ended 31 December 2011.

Interest income from the secondary market transactions in Government Securities of the Cess Fund has been accounted at the net value.

16. Capital Commitments

There were no capital commitments as at 31st December 2011.

17. Contingent Liabilities

There were no contingent liabilities as at 31 December 2011.

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

Mrs. Indrani Sugathadasa (Chairperson), Mr. G. Gunawardhana, Mr. Nawaz Rajabdeen and Mr. Gamini Kohona (Members) held office of the Board during the whole year of 2011.

Mr. D.K. Hettiarachchi was appointed as an Ex-officio Member of the Board with effect from May 2011.

Mr. P.D.J. Fernando ceased to be a Member of the Board and Mr. B.D.W.A. Silva assumed duties as a Member in September 2011.

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

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Securities & Exchange Commission of Sri Lanka	Chairperson (till 05th Dec. 2011)
Mr. P.D.J. Fernando	Securities & Exchange Commission of Sri Lanka	Member (till Sept. 2011)
Mr. B.D.W.A. Silva	Securities & Exchange Commission of Sri Lanka	Ex-officio Member (w.e.f. Sept. 2011)
Mr. D.K. Hettiarachchi	Securities & Exchange Commission of Sri Lanka	Ex-officio Member
Mr. D. Widanagamachchi	Securities & Exchange Commission of Sri Lanka	Ex-officio Member

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

20. Staff Costs

For the Year Ended 31 December	Notes	2011 Rs.	2010 Rs.
Registration and Regulation		7,593,164	6,461,546
Supervision		11,563,369	10,518,351
Investigation		5,746,372	2,610,504
Public Relations		1,646,540	1,539,262
Finance and Administration		9,513,963	7,844,629
		36,063,408	28,974,292

21. Professional Charges

Local Consultants		867,167	503,511
Foreign Consultants		466,121	572,678
Others		286,496	-
		1,619,784	1,076,189

22. Operational Expenses

Registration and Regulation		9,493,344	10,634,394
Supervision		9,246,637	10,350,944
Investigation		6,848,294	7,786,004
Public Relations		3,384,915	4,051,993
Finance and Administration		7,594,529	8,367,167
		36,567,719	41,190,502

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
எனது இல } FB/I/IBSL/2/2011/04
My No }

ඔබේ අංකය }
உமது இல }
Your No }

දිනය }
திகதி } 31 August 2012
Date }

The Chairman,
Insurance Board of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka for the year ended 31 December 2011 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 2011 comprising the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 8(3) of the Regulation of Insurance Industry Act, No. 43 of 2000. My comments and observations which I consider should be published with the Annual Report of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Board on 15 August 2012.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

අංක 306/72 පොල්දූව පාර,
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය }
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Telephone }

இல. 306/72, பொல்துவ வீதி,
பத்தரமுல்லை இலங்கை

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#- மெயில் } oaggov@slt.net.lk
E-mail. }

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though the allowance payable for unavailed leave should be paid on the basis of the basic salary, the Board had paid the allowance based on the gross salary, thus resulting in an overpayment of Rs.580,842.
- (b) Even though the sum of Rs.2,701,825 spent in the years 2008 and 2009 for the partitioning the office premises of the Board maintained in the World Trade Centre Building on rental basis at an annual rent of Rs.20,211,966 should be depreciated proportionately over the lease period, it had been depreciated at a lesser proportion.

2.2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

Financial benefits which had not been approved by the Treasury in terms of the Public Enterprises Circular No. 95 of 14 June 1994 had been paid by the Board to its staff.

2.2.3 Transactions not Supported Adequate Authority

The following observations are made.

- (a) The Board had not obtained the appropriate approval for the sum of Rs.308,019 spent on a religious ceremony held by the Board on 11 and 12 May 2011.
- (b) The Board had recruited 04 officers on contract basis and the salaries and allowances paid to them totaled to Rs.607,431. The formal approval in this connection had not been obtained.
- (c) Even though the Board had spent a sum of Rs.513,713 in the year under review to insure 33 employees of the Board and their family members, the formal approval had not been obtained in this connection.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Board during the year under review had resulted in a deficit of Rs.27,251,415 as compared with the corresponding deficit of Rs.29,177,024 for the preceding year, thus indicating an improvement of Rs.1,925,609 or 7 per cent.

The total income of the Board as compared with that of the preceding year, had increased by 11 per cent and the total expenditure as well had increased by 4 per cent. A summary of the financial result is given below.

	2011 Rs.	2010 Rs.
Total Income	47,099,011	42,306,072
Total Expenditure	(74,350,426)	(71,483,097)
Net Deficit before Tax	(27,251,415)	(29,177,025)
Transfers from the Policyholders Protection Fund	*27,262,345	30,472,839
Income Tax	(10,930)	(1,295,814)
Net Surplus	-	-

*A sum of Rs.27,262,345 had been transferred from the Insurance Policyholders Guarantee Fund to ameliorate the adverse status of the financial results.

4. Operating Review

4.1 Performance

Even though the Board had spent a sum of Rs.1,332,015 in the years 2010 and 2011 for the educational activities of the officers, a methodology had not been formulated to secure the benefits from the expenditure incurred on training of such officers, if they leave the service after one year in accordance with the agreements entered into with the officers.

4.2 Operating Inefficiencies

The provisions made in the year 2011 for the residential training programme for employees had been increased to Rs.870,000 and a sum of Rs.865,355 out of that had been spent on a pleasure trip for the officers and the members of their families.

4.3 Uneconomic Transactions

The following observations are made.

- (a) Floor area of 8,741 square feet had been procured on rent from level 11 of the World Trade Centre Building for the Head Office of the Board and a sum of Rs.20,211,966 had been paid as rent in the year under review. The Board had only 36 officers and as such expenditure on rent amounting to Rs.561,444 had been incurred per officer. Attention had not been paid to reduce such cost or to take an alternative course of action.
- (b) A sum of Rs.36,233 had been paid as the fixed charges on 06 telephone connections not used by the Board during the period 01 January to 30 June 2011.
- (c) Even though monetary provision had been made for the local training such as Seminars, Workshops and Training Programmes, a sum of Rs.606,881 had been spent in the year 2011 for educational activities of 06 officers.
- (d) Sums of Rs.60,820 and Rs.725,134 had been spent in the years 2009 and 2010 respectively on the education of 11 officers while Seminars, Workshops and Training Programmes had not been conducted in those years as well.

4.4 Staff Administration

Out of the approved cadre of the Board 07 posts had been vacant since the year 2009.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of 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.

- (a) Training Programmes and Performance
- (b) Obtaining formal approval for transactions



H.A.S. Samaraweera
Auditor General

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

Auditor General's Report	IBSL Responses
2.2.1 Accounting Deficiencies	
(a) Even though the allowance payable for unavailed leave should be paid on the basis of the basic salary, the Board had paid the allowance based on the gross salary, thus resulting in an overpayment of Rs. 580,842.	The Board decided to allow encashment of leave in order to discourage the staff to avail leave as IBSL operates with a very limited staff. From 2011 the leave encashment has been done based on the basic salary, and not on the gross salary.
(b) Even though the sum of Rs. 2,701,825 spent in the years 2008 and 2009 for the partitioning the office premises of the Board maintained in the World Trade Centre Building on rental basis at an annual rent of Rs.20,211,966 should be depreciated proportionately over the lease period, it had been depreciated at a lesser proportion.	The lease agreement originally signed in 2005 had to be extended from time to time during the past 7 years. Assuming that the useful life of partitions is 8 years they have been depreciated according to SLAS 18.
2.2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions	
Financial benefits which had not been approved by the Treasury in terms of the Public Enterprises Circular No. 95 of 14 June 1994 had been paid by the Board to its staff.	All benefits to IBSL employees are provided with prior approval of the Board. Action is being taken to obtain the concurrence of the Treasury.
2.2.3 Transactions not Supported Adequate Authority	
(a) The Board had not obtained the appropriate approval for the sum of Rs. 308,019 spent on a religious ceremony held by the Board on 11 and 12 May 2011.	The government organized many programmes to commemorate the Sri Sambuddhathwa Jayanthiya in 2011. IBSL too participated by organizing a Pirith Ceremony on 11 th May 2011 and alms giving on 12 th May 2011 on the approval of the Board.
(b) The Board had recruited 04 officers on contract basis and the salaries and allowances paid to them totaled to Rs.607,431. The formal approval in this connection had not been obtained.	These officers have been recruited with the approval of the Board due to the exigency of service. Three of the above posts have been approved by the Department of Management Services. Applications were called for the two posts of Directors through newspaper advertisements, but it was not possible to recruit suitable officers. The Term of two Contracts end in December 2012. The other two Contracts terminate in May 2013 and December 2013. Further the salaries and benefits paid to contract officers are much lower than the amounts paid to permanent officers and therefore no financial loss has occurred to IBSL.
(c) Even though the Board had spent a sum of Rs.513,713 in the year under review to insure 33 employees of the Board and their family members, the formal approval had not been obtained in this connection.	IBSL employees and their family members have been insured since April 2005 on the approval of the Board.
4.1 Performance	
Even though the Board had spent a sum of Rs. 1,332,015 in the years 2010 and 2011 for the educational activities of the officers, a methodology had not been formulated to secure the benefits from the expenditure incurred on training of such officers, if they leave the service after one year in accordance with the agreements entered into with the officers.	It has now been decided by the Board to increase the bond period to two years. In the event the candidate is unsuccessful, resigns or abandon the course for whatever reason prior to completing the study programme, he will be called upon to refund the cost incurred by the IBSL. In the event the officer serves only a part of the bond period, the officer has to pay back the pro-rated value of the bond.

Auditor General's Report	IBSL Responses
4.2 Operating Inefficiencies	
The provisions made in the year 2011 for the residential training programme for employees had been increased to Rs.870,000 and a sum of Rs.865,355 out of that had been spent on a pleasure trip for the officers and the members of their families.	This expenditure has been incurred on an annual training and motivation programme, regularly conducted since 2006 with Board approval. The training programme for year under review was conducted by Smart Quest Pvt Ltd. This event has been included in the annual budget of IBSL.
4.3 Uneconomic Transactions	
(a) Floor area of 8,741 square feet had been procured on rent from level 11 of the World Trade Centre Building for the Head Office of the Board and a sum of Rs. 20,211,966 had been paid as rent in the year under review. The Board had only 36 officers and as such expenditure on rent amounting to Rs. 561,444 had been incurred per officer. Attention had not been paid to reduce such cost or to take an alternative course of action.	Being the regulator of the insurance industry IBSL needs space not only to house workstations of officers but also for industry meetings etc. Accordingly the present space is utilized for the auditorium, board room, reception, lunch room, Chairpersons room, meeting room, computer server room, computer tables, file cupboards and photocopiers. Although we have tried our best to find an alternate space to house IBSL a suitable place was not found at an economical rent.
(b) A sum of Rs.36,233 had been paid as the fixed charges on 06 telephone connections not used by the Board during the period 01 January to 30 June 2011.	These telephones were not used for some time due to vacancies but they are in use now. These connections were retained by paying fixed charges in order to avoid re-connecting charges.
(c) Even though monetary provision had been made for the local training such as Seminars, Workshops and Training Programmes, a sum of Rs.606,881 had been spent in the year 2011 for educational activities of 06 officers.	Budget allocations in 2009, 2010 and 2011 for local training were intended to send IBSL officers for conferences, workshops and training programmes. On the request of the officer and approval of the head of the division they have been sent for relevant training programmes to assist them to perform their day to day duties more efficiently and effectively.
(d) Sums of Rs.60,820 and Rs.725,134 had been spent in the years 2009 and 2010 respectively on the education of 11 officers while Seminars, Workshops and Training Programmes had not been conducted in those years as well.	The Board has also approved a sum of Rs. 250,000/- to sponsorships for higher studies in respect of an employee for a period of 3 years. This sponsorship will contribute to the productivity of the employee. This benefit has been given to the employees since 2007.
4.4 Staff Administration	
Out of the approved cadre of the Board 07 posts had been vacant since the year 2009.	Filling of these posts during the year under review was not possible due to the non availability of suitable officers.

Appendix I

Insurance companies registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2011

No	Name of the Insurer	Class of Insurance Business
1	Allianz Insurance Lanka Ltd.	General Insurance
2	Allianz Life Insurance Lanka Ltd.	Long Term Insurance
3	Amana Takaful PLC	Long Term Insurance General Insurance
4	Arpico Insurance Ltd.	Long Term Insurance
5	Asian Alliance Insurance PLC	Long Term Insurance General Insurance
6	AVIVA NDB Insurance PLC (Formerly Eagle Insurance PLC)	Long Term Insurance General Insurance
7	Ceylinco Insurance PLC	Long Term Insurance General Insurance
8	Ceylinco Takaful Ltd. *	General Insurance
9	CHARTIS Insurance Ltd. (Formerly Hayleys AIG Insurance Company Ltd.)	General Insurance
10	Continental Insurance Lanka Ltd.	General Insurance
11	Cooperative Insurance Company Ltd.	Long Term Insurance General Insurance
12	HNB Assurance PLC	Long Term Insurance General Insurance
13	Janashakthi Insurance PLC	Long Term Insurance General Insurance
14	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
15	LOLC Insurance Company Ltd.	Long Term Insurance General Insurance
16	MBSL Insurance Company Ltd.	Long Term Insurance General Insurance
17	National Insurance Trust Fund	General Insurance
18	Orient Insurance Ltd.	General Insurance
19	People's Insurance Ltd.	General Insurance
20	Seemasahitha Sanasa Rakshana Samagama	Long Term Insurance General Insurance
21	Sri Lanka Insurance Corporation Ltd.	Long Term Insurance General Insurance
22	Union Assurance PLC	Long Term Insurance General Insurance

* is prohibited from engaging in insurance business since 5th August 2009.

Appendix II

Insurance brokering companies registered under the Regulation of Insurance Industry Act, No.43 of 2000 as at 31st December 2011

No	Insurance Broker	Class of Insurance Business
1	A. M. W. Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
2	A S G Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
3	ADZ Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
4	Aitken Spence Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
5	Alfinco Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
6	Allion Insurance Brokers (Pvt) Ltd.	General Insurance
7	Assetline Insurance Brokers Ltd.	General Insurance
8	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
9	Ceyexxe Insurance Brokers Ltd.	General Insurance
10	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance
11	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
12	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
13	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
14	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
15	Essajee Carimjee & Co. (Pvt) Ltd.	Long Term and General Insurance
16	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
17	Global Insurance Services (Pvt) Ltd.	General Insurance
18	Industrial & Commercial Insurance Brokers (Pte) Ltd.	Long Term and General Insurance
19	JAY Insurance Consultants (Pte) Ltd.	Long Term and General Insurance
20	JF Insurance Brokers (Pvt) Ltd.	General Insurance
21	Kelani Uni Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance
23	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
24	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance
25	Mackwoods Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
26	Maxwell Enterprises (Private) Ltd.	Long Term and General Insurance
27	Mercantile Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
28	Nations Insurance Brokers Ltd.	Long Term and General Insurance
29	Pioneer Insurance Brokers (Pvt) Ltd.	General Insurance
30	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
31	Procure Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
32	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
33	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
34	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
35	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
36	Ro-Pa Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
37	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
38	Senaratne Associates (Pvt) Ltd.	Long Term and General Insurance
39	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
40	Sun Insurance Brokers Lanka (Pvt) Ltd.	Long Term and General Insurance
41	UN Insurance Brokers (Pvt) Ltd.	General Insurance
42	United Insurance Brokers (Pvt) Ltd.	General Insurance
43	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
44	Victor Emmanuel Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
45	Volanka Insurance Services (Pvt) Ltd.	Long Term and General Insurance
46	Zenith Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance

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 and equipment.

Admissible Assets

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

Annuity

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

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the 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 premium received or due from all sources, including premiums for reinsurance assumed in respect of general insurance business, during an accounting period.

Insurance Risk

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

Insurer

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

Long Term Insurance Business

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

Maturity

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

Net Claims Ratio or Net Loss Ratio

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

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

Net Combined Ratio - General Insurance Business

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 - General Insurance Business

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 - General Insurance Business

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

Non - Participating Policy - Long term Insurance Business

Long Term 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 long term 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 policy obtained.

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 - Long Term Insurance

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 - 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 long term 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).

General Information

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Web site : www.ibsl.gov.lk

Legal Form

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

The Object and Responsibility of the Board

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

Accounting Year

31st December

Auditors

The Auditor General

Bankers

Bank of Ceylon

Audit Committee

Mr. D. Widanagamachchi – Chairman

Mr. Nawaz Rajabdeen

Mr. Gamini Kohona



Annual Report 2011

Taking Aim... REACHING TARGETS

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