

2018



# ANNUAL REPORT

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LEADING THE WAY TO SUCCESS



INSURANCE  
REGULATORY  
COMMISSION OF  
SRI LANKA

# Contents

Highlights of the Year	4
Director General's Review	6
Members of the Commission	12
Profiles of Members of the Commission	13
Senior Management Team	15
Staff Members	16
Reviews	
General Review	20
Statistical Review	26
Review of Operations	
- Supervisory Review	63
- Regulatory Review	67
- Investigatory Review	71
- Market Development and External Relations Review	75
- Administrative Review	78
- Financial Review	79
Financial Information	
- Statement of Financial Position	82
- Statement Financial Performance	83
- Statement Changes in Equity/ Net Assets	84
- Statement of Cash Flows	85
- Policyholders' Protection Fund Statement of Cash Flows	86
- Accounting Policies	87
- Notes to the Financial Statements	89
Auditor General's Report	96
Matters raised by the Auditor General and the Responses made by the Commission for 2018	102
Appendix I	110
Appendix II	111
Appendix III	113
Glossary	114



# Vision

To be the benchmark Insurance  
Regulator in Asia.



# Mission

To protect policyholders' interests whilst regulating, supervising and facilitating the development of the insurance industry



## Highlights of the Year

- No. of Insurance Companies - 25
- No. of Insurance Brokers - 63
- No. of Insurance Agents - 44,919
- Insurance awareness reached 773 Grama Niladhari Divisions in 12 Divisional Secretariats

### Performance of Insurance Industry

	2018	2017	Change %
Gross Written Premium (Rs. Millions)	181,506	164,960	10.03%
Total Assets (Rs. Millions)	623,477	581,685	7.18%
Penetration as a % of GDP	1.26	1.23	2.44%
Insurance Density (Rs.)	8,376	7,693	8.88%

### Performance of the Commission

	2018	2017	Change %
Policy Holders' Protection Fund (Rs. Millions)	5,042.8	4,110	22.7%
Cess Income (Rs. Millions)	479.09	418.23	14.6%
Annual Fees (Rs. Millions)	168.50	142.17	18.52%

**Rs. 623,477 Mn.**  
Total Assets of Insurance Industry

**Rs. 181,506 Mn.**  
GWP of Insurance Industry



# Management Information

## Director General's Review



“ Though in nominal terms the profitability of the sector has dropped from LKR 49,084 million in 2017 to LKR 37,017 million in 2018, the profitability after excluding the one off surplus was LKR 36,636 million in 2018 vs LKR 33,217 million in year 2017 showing an increase in profits by 10.29%. General insurance sector showed a remarkable growth in profits by recording a growth rate of 19.52% year on year. Other than 4 companies, the rest of the general insurers (10) have shown an increase in profits. However, the Life sector without considering the one off surplus had not performed very well. Out of 14 companies only 4 companies had recorded profit from operations during the year 2018. ”

## Director General's Review (Cont.)

It is indeed an honor for me to pen down the achievements of the Commission during the year 2018, being the 4th year of steering the Secretariat forward towards achieving the milestones planned with the guidance and assistance of eminent Commission Members and staff.

The year was filled with challenges, thus making us more resilient in our role of regulating, supervising and facilitating the development of the sector. The year saw three separate Boards functioning. The term of office of the long standing Commission ended in February 2018. The second succeeding Board functioned from April until 26th October and resigned due to change in Government and thereafter continued to function from year 2019. The third Board operated during the last quarter of year 2018, to facilitate the smooth functioning of the Commission. I am indeed thankful to all Commission Members served during the year, their guidance was invaluable.

### Key Regulatory Initiatives

The Commission during the year 2018 amended certain Rules, Regulations and Determinations and issued new Directions to the industry. They can be classified as revisions to reporting formats and revisions to certain fee structures to accommodate the growing regulatory requirements.

Revisions to reporting formats were done to the Quarterly Return format, the Annual Return format and Actuarial Abstract of Insurers to incorporate requirements of the one off surplus and inclusion of requirement of certification of

External Auditor quarterly, and to the Quarterly Return format of insurance brokers.

Certain fee structures were revised during the year. They are the fee for registration as an insurance broker, increased from LKR 100,000/- to LKR 150,000/-, per class of insurance brokering business.

The Commission having also considered the comments of the Sri Lanka Insurance Brokers' Association carried out a downward revision to the revised renewal of registration fee of Insurance Brokers. The revised fee was applicable from 13th August 2018.

The Annual Fee paid by Insurers too underwent an upward revision from 0.10% to 0.125% on gross written premium, mainly due to increased operational expenditure of the Commission as a result of expansion of the talent pool.

As for new Directions, the Commission with a view to restricting persons who have been terminated due to fraud or financial misappropriation from being employed in the insurance industry issued Direction # 14 prohibiting industry players from employing such persons. This initiative was with the sole intention of safeguarding the interests of policyholders and upholding the integrity of the industry.

Another Direction was setting procedures on management of insurance funds of Long Term Insurance Business. This Direction sets out uniform procedures for companies to

adopt in the management of their funds. The Direction aims to bring transparency and separation of funds of different sub classes of long term insurance business.

Direction # 16 was on the one off surplus created in long term insurance business when migrating from Solvency Margin Rules to Risk Based Capital Rules in year 2016. The Direction sets out the methodology for the identification and treatment of this surplus, which also restricts its usage until capital requirements are redefined with the implementation of new accounting standards.

Another long awaited Direction was on Corporate Governance for the insurance sector. In the preparation of this Direction, we have considered appropriate rules on governance applicable to the Banking Sector, Corporate Governance Rules applicable to listed companies and some specific rules relevant to the sector. The Governance framework is applicable to all licensed insurers, whether they be listed or not on the Colombo Stock Exchange and is applicable from July 2019. The framework also requires disclosure on compliance in the respective insurers Annual Reports.

### Performance of the Insurance Industry

#### Gross Written Premium (GWP)

With the GDP growth rate being on the downward trend in year 2018, the insurance industry too witnessed the growth rate in GWP declining from 15.3% (2017)

## Director General's Review (Cont.)

to 10.03% (2018). The additional premium generated during the year was around LKR 16,546 million and recorded a GWP at year end of LKR 181,506 million. The reason for the decline could be the impact on business confidence due to economic and political uncertainties prevailed during the year. This is evident by the sharp decrease of growth rate recorded in the general insurance segment from 17.3% in 2017 to 8.3% in 2018, declining by around 50 basis points, thus contributing to low GWP towards the total GWP, in contrast to year 2017. The low GWP growth in the fire, motor, miscellaneous and the negative growth in health insurance sectors contributed to the decline in GWP in the general insurance segment. Concentration of certain life insurers in the health sector could be a factor for the negative growth in GWP in the health sector for general insurance companies.

Motor insurance business, which contributed to around 61% of the total GWP of the general insurance segment has shown a downward growth rate from year 2015 onwards, from a growth rate of 19.10% in 2015 to 11.47% in 2018.

Another notable development is the increase of the market share of the top 5 companies to 74% from 69% (2017), thereby other general insurers' contribution to total GWP has decreased to 26% from 31% (2017).

However, on the other hand the growth momentum of the life insurance sector has remained steady with 12% plus growth rate recorded in year 2017 & 2018. Year

2018 witnessed the long term insurance business contributing 44% to the total GWP with GWP amounting to LKR 80,303 million. The contribution of Par, Non-Par and Linked to total GWP of long term business is LKR 20,588 million, LKR 57,660 million and LKR 2,053 million respectively. Further, par business and linked long term business have grown at a pace of 7.3% & (0.13%) respectively in year 2018 when compared to year 2017, thus showing that insurers are more focused in selling non-par, where the growth rate was 14.6% in 2018. One reason can be due to the high tax that is charged on policyholders on surplus transfers.

Further, there is only a slight increase in the top 5 contribution to total GWP of long term business from 80.26% (2017) to 80.95% (2018), compared to the top 5 general insurance companies share, which saw a significant increase.

Number of new long term policies issued was 712,013 increasing by 10.65% compared to 643,483 new policies issued in 2017. Total life insurance policies in force reached 3,215,911 and grown by 4.79% reflecting positive perception of the life insurance sector.

Number of general insurance policies too have increased by 5.94% to 6,492,003 policies in 2018. Out of motor insurance policies of 5,614,901, 3rd party policies constituted the highest compared to comprehensive cover. Third party policies had grown by 14.6% as opposed to a negative growth rate of 7% for comprehensive cover.

### Profitability

Though in nominal terms the profitability of the sector has dropped from LKR 49,084 million in 2017 to LKR 37,017 million in 2018, the profitability after excluding the one off surplus was LKR 36,636 million in 2018 vs LKR 33,217 million in year 2017 showing an increase in profits by 10.29%. General insurance sector showed a remarkable growth in profits by recording a growth rate of 19.52% year on year. Other than 4 companies, the rest of the general insurers (10) have shown an increase in profits. However, the Life sector without considering the one off surplus had not performed very well. Out of 14 companies only 4 companies had recorded profit from operations during the year 2018. This can be due to the high claims incurred in year 2018, which amounted to LKR 34,337 million and recorded the highest claims incurred within the last five years.

### Key Regulatory Reforms underway

The Commission has been selected as one of the key regulatory institutions in the financial sector by the Government and allocated US\$ 9 million from the loan obtained under the Financial Sector Modernization Project, to enhance its efficiency towards financial sector growth. The project has commenced and will continue till 2022 with phased out reforms planned for the sector. One such significant reform is the migration to a fully-fledged Risk Based Supervisory system with IT support to make the supervisory process more

## Director General's Review (Cont.)

robust. The Commission will also focus on transition towards IFRS 17 implementation, a new Insurance Regulatory Act with wider powers in line with the Insurance Core Principles of the International Association of Insurance Supervisors, micro insurance regulation & supervision and product development review are some of the key reforms considered.

I am indeed thankful to the Chairman and Commission Members, for guiding us in the right direction in many policy

initiatives. I also wish to place on record my appreciation to the insurance industry associations for continued support to develop the industry and lastly, my appreciation goes to the staff of the Insurance Regulatory Commission for their efforts to achieve the objectives of the Commission.



**Damayanthi Fernando**

*Director General*





# Commission Members and Staff

## Members of the Commission



- [1] Mr. Mano Tittawella - Chairman
- [2] Mr. A. M. P. M. B. Atapattu
- [3] Mr. H. A. Karunaratne
- [4] Mr. D. N. R. Siriwardena
- [5] Mr. Yudhishtan Kanagasabai
- [6] Mr. Errol Perera
- [7] Mr. Upul Deshapriya

## Profiles of Members of the Commission

### [1] Mr. Mano Tittawella Chairman

Mr. Mano Tittawella is the Chairman of the Insurance Regulatory Commission of Sri Lanka.

Mr. Tittawella is also the Secretary General of the Secretariat for Coordinating Reconciliation Mechanisms (SCRM), which is entrusted with coordinating Transitional Justice Mechanisms in Sri Lanka and the Senior Adviser to the Hon. Minister of Finance.

Mr. Tittawella was the Senior Presidential Adviser on Economic Affairs and was the Senior Director General – President's Office from August 2003 to November 2005. He was the first Chairman and the Chief Executive Officer of the Strategic Enterprises Management Agency (SEMA), which was an initiative that he promoted to bring better accountability, good governance and enhanced performance to the largest public enterprises in Sri Lanka. Apart from serving on the Board of National Council for Economic Development (NCED), which was the apex body, coordinating all economic development activities in Sri Lanka, he served as Chairman of Task Force to Rebuild the Nation (TAFREN), which was set-up to handle Post-Tsunami Reconstruction and Recovery of the Country.

Mr. Tittawella has held many other key positions in the State Sector, such as Director General of Public Enterprises Reform Commission (PERC) – *the then Privatization Agency of the Government of Sri Lanka* and Chairman of People's Bank – *a state owned bank in Sri Lanka*, along with many Board positions in some of Sri Lanka's largest state sector enterprises.

Mr. Mano Tittawella has over 35 years of experience in senior positions in the Private Sector as well.

Mr. Mano Tittawella was educated at Royal College Colombo and has an MBA in Capital Markets & Finance, from the University of Edinburgh and a Post-graduate Diploma in Human Computer Interaction from the British Open University. He was also a Member of the International Board of Trustees (IBT) of the Chartered Institute of Marketing (CIM) UK, from year 2000 to 2003.

### [2] Mr. A.M.P.M.B. Atapattu

Mr. A.M.P.M.B. Atapattu is a Deputy Secretary to the Treasury and he has over 25 years of work experience in the General Treasury in various departments. He is now a Special Grade Officer of the Sri Lanka Planning Service (SLPS).

During this period, he worked in different areas such as International Finance, Financial Market, Primary Sector Development, Microfinance Sector Development, SME Sector Development & Strategic Planning in Development Finance and held various positions of the General Treasury in the capacity of Assistant Director, Deputy Director, Director and Additional Director General. Before he assumed the duties of his current position as Deputy Secretary to the Treasury, he worked as Director General of the Department of Development Finance. As Director General of the Department of Development Finance he has implemented Refinanced Loan Schemes called "Small and Medium Enterprise Regional Development Project" (SMERDP) funded by the Asian Development Bank, "Small and Medium Enterprise Development Facility Project" (SMEDeF) funded

by the World Bank, "Small and Medium Enterprises Line of Credit (SMELoC) funded by the Asian Development Bank. Further, he has executed the SME Development Programme funded by the German International Cooperation (GIZ) as well as the "Rooftop Solar Power Generation Line of Credit Project" (RSPGLOC) funded by the Asian Development Bank.

At present, Mr. Atapattu is in charge of the "Enterprise Sri Lanka Loan Scheme" of the Government and he is also serving as the Treasury Representative on the Board of Directors of the Peoples' Bank, the Sri Lanka Tea Board and the National Lotteries Board.

Mr. Atapattu has a B.Sc. Management Degree in Public Administration from the University of Sri Jayewardenepura, Sri Lanka and he holds a Master's Degree in International Development from Flinders University, Australia and has completed two post graduate diplomas: Economic Development from University of Colombo and Development Economy from Institute of Development Economies, Japan.

### [3] Mr. H. A. Karunaratne

Mr. H. A. Karunaratne is currently functioning as the Deputy Governor of the Central Bank of Sri Lanka and has extensive experience in the financial services sector in Sri Lanka and overseas. He is a Member of the Monetary Policy Committee and Chairman of the Financial System Stability Committee, National Payments Council and EPF Investment Oversight Committee of the Central Bank. He serves as the Chairman of Credit Information Bureau of Sri Lanka and the Institute of Bankers of Sri Lanka. In addition, he also serves in the Boards of Securities and

Exchange Commission, Colombo Dockyard and West Coast Power (Pvt) Ltd., among others. During his thirty-three years' career, some of the key positions held by him have been Assistant Governor and Secretary to the Monetary Board, Secretary to the Monetary Board Advisory Audit Committee, Director - International Operations Department, Director - Financial Intelligence Unit of Sri Lanka, Additional Director - Domestic Operations Department and Chief Dealer of the Central Bank of Sri Lanka.

Mr. Karunaratne served as a Vice President - Fixed Income Department, Refco Singapore Pte. Ltd. and Vice President - Prime Risk Monitoring, Man Financial Pte. Ltd., Singapore, during which he obtained the license from the Monetary Authority of Singapore to trade futures, options and other derivative products.

Mr. Karunaratne was a Member of the Foreign Reserves Management Committee and Market Operations Committee of the Central Bank of Sri Lanka from May 2009 to October 2015. He holds a B.Sc. Business Administration Degree from the University of Sri Jayawardenapura, Sri Lanka and an M A in Economics from the Ohio University, USA. He is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Mr. Karunaratne is a regular speaker at various local and international forums on reserves and portfolio management.

#### [4] Mr. D. N. R. Siriwardena

Mr. D.N.R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (LL.B) from the Open University of Sri Lanka and holds a Master's in Law Degree in International Business with

Information Technology and Intellectual Property from the Cardiff Metropolitan University, United Kingdom. He is an Attorney-At-Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988. Currently he is working as the Registrar General of Companies. He has over 30 years of experience in the Department of Registrar of Companies. Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka, an ex-officio member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and also an ex-officio member of the Securities and Exchange Commission of Sri Lanka.

#### [5] Mr. Yudhishtan Kanagasabai

Mr. Y. Kanagasabai is a Non-Executive Member and Chairperson of the Audit Committee and member of Remuneration and Compensation Committee of the Insurance Regulatory Commission of Sri Lanka, since 1st February 2018.

He is the Chairman of the Board Audit Committee of Ceylon Tobacco PLC, Non - Executive Director and member of the Board Audit Committee of Millennium Information Technologies (Pvt) Ltd., Cargills Food Company Limited, Hunters Limited PLC and Lanka Canneries Limited.

He was the Chairman of the Audit Committee of Union Bank PLC (a Texas Pacific Group Subsidiary) from August 2016 to 31st December 2018 and a Senior Partner / Chief Executive Officer of PricewaterhouseCoopers in 2006. He retired on 31st March 2017.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, worked at PricewaterhouseCoopers, since its inception.

#### [6] Mr. Errol Perera

Mr. Errol A. D. Perera has held Senior Management positions in varying types of businesses in England, Malaysia and Sri Lanka. On his return to Sri Lanka he focused on promoting joint venture projects with foreign investment and technology transfers. He was successful in obtaining Board of Investment approvals with Pioneer Status for Directory Publishing, Pay Phones and Paging Joint Venture Projects. He was also instrumental in promoting Venture Capital and Unit Trust 'start-ups' in Sri Lanka with Commercial Bank & Foreign Collaboration. Mr. Perera was the proud winner of the GTE (now Verizon USA) Presidents International Trophy in 1990. In 1995 under his stewardship, the Directory Publishing Team won the first-ever Sri Lanka National Quality Award. He was a Founder Member of the American Chamber of Commerce (AMCHAM). He is at present an Independent Director of several Public and Private Companies in Sri Lanka.

#### [7] Mr. Upul Deshapriya

Mr. Upul Deshapriya is an Attorney-At-Law and holds an LL.B (Hons.) Degree from the University of Colombo. He was a Working Director of Sri Lanka Bureau of Foreign Employment during years 2015 to 2018 and former Treasurer of the BAR Association of Sri Lanka during years 2014-2016.

## Senior Management Team



- [1] Mrs. Damayanthi Fernando (Director General)
- [2] Mrs. Chamarie Ekanayake (Director Supervision)
- [3] Mr. Sathiesh Kumar (Director Finance and Administration)
- [4] Mrs. Kasuni Pinnawela (Director Legal and Enforcement)
- [5] Mr. Rajan Nirubasingham (Assistant Director Legal)
- [6] Mr. Bimsara Wijesinghe (Assistant Director Market Development and External Relations)
- [7] Mrs. Sarika Wattuhewa (Assistant Director Supervision)

## Staff Members



*Left to Right*

Mrs. Thushari Wijegunawardana, Mrs. Pavithra Punchihewa, Mr. Ethirraj Srikanthan,  
Mrs. Kaushali Dayaratne, Mrs. Priyangi De Silva



*Left to Right*

Mrs. Nilanka Walisundara, Ms. Jayani Rajapathirana, Ms. Upalakshi Ranasinghe, Mr. Roshan De Costa,  
Mrs. Chandima Kamburugamuwa, Mrs. Kokila Siriwardana, Mr. Luxman Wijesinghe

## Staff Members



*Left to Right*

Ms. Chathuni Thalpavila, Mrs. Shanika Nanayakkara, Mrs. Decika Rathnayaka,  
Mr. Nayana Ravindra, Mrs. Thilini Wakista, Mr. Chanaka Lankanatha



*Left to Right*

Ms. Shiromi Rathnayaka, Mrs. Upendra Senevirathne, Mrs. D.W.S.S. Supulee,  
Mrs. Shashini Premalal, Mr. Kalana Pushpakumara, Mrs. Vindyani Thulapitiya

## Staff Members



*Left to Right*

Mrs. Lasanthi Thotahewa, Mr. Chaminda Lal Kumara, Mrs. Ruvini Liyanage,  
Mr. Charitha Wickramasinghe, Mr. Anushka Bandara, Mrs. Shyamalie Attanayaka, Mrs. Merina Dias



*Left to Right*

Mr. Nalin Thalagala, Mrs. Veena Senevirathne, Mr. Lakmina Pathiraja, Mrs. Malhari Wickramasinghe,  
Mrs. Sujeewa Ranasinghe, Mr. Sanath Udayanga, Ms. Sadamalie Karunathissa, Mr. Saman Senadeera



# Reviews

General Review	20
Statistical Review	26
Review of Operations	63

## General Review

### Administration of the Act and Regulatory Reforms

#### Legislation

The object and responsibility of the Insurance Regulatory Commission of Sri Lanka (hereinafter referred to as "the Commission") is to ensure that insurance business in Sri Lanka is transacted with integrity and in a professional and prudent manner with a view to safeguarding the interests of policyholders and potential policyholders.

The Regulation of Insurance Industry Act, No. 43 of 2000 (hereinafter referred to as "the Act") provides the relevant legal framework for the regulation and supervision of insurance companies, insurance brokering companies, insurance agents and loss adjusters.

The Act is amended by the Regulation of Insurance Industry (Amendment) Acts, No's. 27 of 2007, 3 of 2011 and 23 of 2017.

#### Subordinate Legislation

Subordinate legislation made under the Act during the year is described below under Regulatory Reforms.

#### Regulatory Reforms

##### Rules

##### i) Increasing the registration fee to obtain registration as an insurance broker

The registration fee to obtain registration as an insurance broker was increased from LKR

100,000/- to LKR 150,000/- (per class of insurance brokering business). The Rule came into effect from 1st May 2018.

##### ii) Revised quarterly returns format of insurance brokering companies

The Commission revised the quarterly returns format of insurance brokers, to obtain additional information. The Rule came into effect from 08th October 2018.

##### Directions issued under Section 96A of the Act

##### i) Direction # 14 - Industry to refrain from employing persons whose service had been terminated on the grounds of financial misappropriation or fraud

The Commission issued Direction # 14 to the industry to refrain from employing persons (in any capacity of employment) whose services have previously been terminated on the grounds of financial misappropriation or fraud. The Direction came into effect from 09th January 2018.

##### ii) Direction #15 - Procedures on Management of Insurance Funds - Long Term Insurance Business

Having considered the comments of the Insurance Association of Sri Lanka (IASL), the Commission issued Direction # 15 to all long term insurance companies. The Direction came into effect from 16th February 2018.

##### iii) Direction # 16 - Identification and Treatment of One-Off Surplus

The Commission issued Direction # 16 to all long term insurance companies, on the methodology for the identification and treatment of One-Off Surplus. The Direction came into effect from 20th March 2018.

##### iv) Direction # 17- Corporate governance for Insurance Companies

In order to ensure greater transparency in the conduct of the affairs of Insurance Companies, the Commission issued Direction #17 to the industry. The Direction comes into effect from 01st July 2019.

#### Amendments to Determinations

##### i) Revision of existing Determination # 9

Having considered the comments of the Insurance Brokers Association of Sri Lanka (SLIBA), the Commission revised Determination #9 in respect of renewal of registration fee of Insurance Brokers. The renewal of registration fee is applicable from 13th August 2018.

##### ii) Revision of existing Determination # 12

The formats of Quarterly Returns of Insurers were amended to incorporate requirements of Direction # 16 and other amendments.

Every insurer shall, for every quarter commencing from the first day of April 2018, furnish to the Commission, its quarterly returns in accordance with the revised Quarterly Returns Formats.

Insurers who are required to report on a monthly basis are required to comply with the above from the month ended 31st July 2018 and furnish to the Commission within such period of time as directed.

### iii) Revision of existing Determination #14

The formats of Annual Returns of Insurers were amended to incorporate requirements of Direction # 16 and required certification of External Auditor on Determination # 14 and # 15. The new format is applicable from 31st December 2017 onwards.

### iv) Revision of existing Determination # 15

The formats of Actuarial Abstract of Insurers were amended to incorporate requirements of Direction #16 and certification of External Auditor on Determination # 14 and # 15. The new format is applicable from 31st December 2017 onwards.

### Amendment to the Regulation to increase the Annual Fee of Insurers

The Commission provided the relevant documents to the Ministry of Finance and sought their assistance to amend the existing annual fee percentage from 0.10% to 0.125% on gross written premium of insurers.

The said amendment has been approved by the Cabinet and is effective from 31st December 2018.

## Market Structure

### Insurers

Subject to the provisions of Section 12 of the Act, no person shall carry on insurance business in Sri Lanka unless such person is for the time being registered or deemed to be registered under the Act to carry on insurance business.

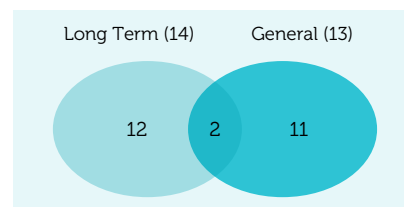
In terms of Section 13 of the Act, any person who desires to engage in insurance business in Sri Lanka, should incorporate a public company under the Companies Act, No. 7 of 2007 and register and obtain a license as an insurer under the Act after having fulfilled all statutory requirements specified.

25 companies were in operation as insurers as at the end of the year. The registration granted to MBSL Insurance Company Limited to carry on Long Term and General Insurance Businesses, has been suspended with effect from 28th June 2017. Further, AIG Insurance Ltd. is no longer accepting any new insurance business and is in the process of exiting from Sri Lanka by appointing a liquidator in terms of the provisions of the Companies Act, No. 07 of 2007.

Chart 1 depicts the classes of Insurance Business, Companies had been engaged in. Out of the 25 companies in operation, 2 companies were composite insurers, carrying on both long term insurance business and general insurance business, 12 companies were carrying on long term insurance business and

11 companies were carrying on general insurance business.

**Chart 1**  
Classes of Insurance Business Carried on by Insurers



### Insurance Brokers

An insurance broker is a company incorporated under the Companies Act, No. 7 of 2007 and registered under the Act to carry on insurance brokering business. Insurance Brokers function as intermediaries for the placing of insurance business for or on behalf of an insurer, a policyholder or a proposer for insurance or reinsurance, with an insurance company or reinsurance company, in expectation of a payment by way of brokerage or commission.

At the end of the year, there were 63 companies registered as insurance brokers. Out of the said companies, 45 companies were registered in both long term and general insurance brokering business while 18 companies were registered only in general insurance brokering business.

**Chart 2**  
Classes of Insurance Brokering Business Carried on by Insurance Brokers

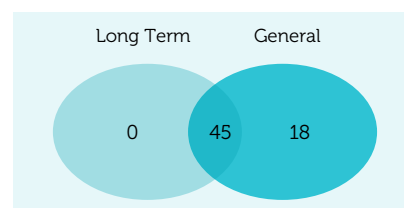


Chart 2 depicts the classes of insurance brokering business,

Insurance Brokers had carried on during the year.

### Insurance Agents

Insurance Agents are persons registered with an Insurer or an Insurance Broker registered under the Act and who in consideration of a commission solicits or procures insurance business for such insurer or insurance broker. Qualifications for registration have been specified by the Commission. As per Section 34 of the Act, Insurance Agents are an important distribution channel through which insurers procure insurance business.

As per information given by Insurers, the total number of individuals recruited as Insurance Agents during the year was approximately 15,798 which is a 8.24 % increase from the previous year (14,595).

The total number of individual insurance agents representing insurers as at the end of year was approximately, 44,919, a 0.68 % decrease from the previous year (45,228).

The total number of institutional agents representing insurance companies as at the end of year was approximately 53.

**Chart 3**  
**Total Agents as at 31.12.2018**

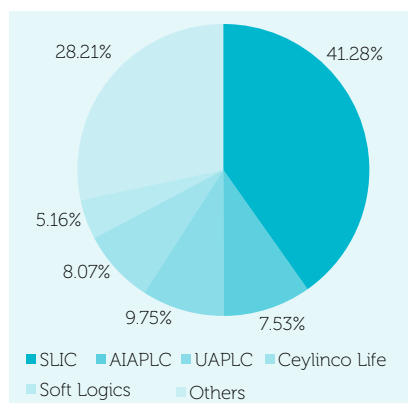


Chart 3 depicts individual Insurance Agents registered with Insurance Companies.

The total number of individual insurance agents representing insurance brokering companies as at the end of year was approximately 456.

### Loss adjusters

10 individuals were in operation as Loss Adjusters as at the end of the year.

The Loss Adjuster Registration Rules were published in Extraordinary Gazette Number 2026/27 dated 5th July 2017.

The Act was amended in 2011, by the Amendment Act, No. 3 of 2011, to prohibit any person from acting or holding out as a Loss Adjuster [as defined in Section 114(1) of the Act], unless registered as a Loss Adjuster by the Commission. There is a limited exception from the requirement to register in Section 89A (2) of the Act.

Under Section 89B of the Act, the Commission may make rules requiring applicants to have specified qualifications and experience to be eligible to be registered as Loss Adjusters. Under Section 89 C (1) of the Act, the Commission shall make rules specifying the documents, information, and fee that applicants for registration must provide.

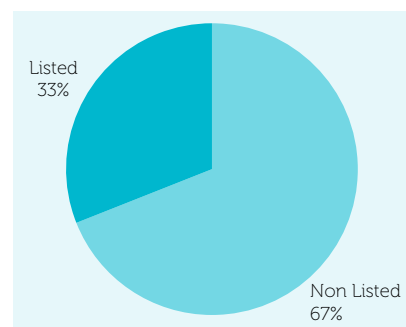
Accordingly, the Commission has specified in the aforesaid Rules the qualifications and/or experience required for a person to be registered as a Loss Adjuster.

### Company Status and Changes in Capital

Of the insurers registered with the Commission, 09 companies were listed on the Colombo Stock Exchange, namely: AIA Insurance Lanka PLC, Union Assurance PLC, Softlogic Life Insurance PLC, HNB Assurance PLC, Amana Takaful PLC, Amana Takaful Life PLC, Janashakthi Insurance PLC, Arpico Insurance PLC and People's Insurance PLC.

Chart 4 depicts the percentage of listed and non-listed Insurers.

**Chart 4**  
**Status on 'listed/non listed' insurers**



The Amendment Act, No. 3 of 2011 requires insurers to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987. Composite insurance companies were required to segregate its business into two separate companies on or before February 2015 and obtain a listing on or before February 2016.

A new company registered as an insurer after the Amendment Act, No. 3 Of 2011 came into effect is required to be listed 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 of being issued a licence by the Commission.

The stated capital of insurers registered prior to June 2011 has been required by the Commission to be increased to a minimum of LKR 500 million, for a particular class of insurance business on or before February 2015.

Insurance companies registered subsequent to June 2011 have a stated capital not less than LKR 500 million.

### Levy of a Cess from Insurers

In terms of Section 7 of the Act, an order was made by the Hon. Minister of Finance and Planning for the levy of Cess for the creation of the Policyholders' Protection Fund. By Gazette Notification No. 1244/5 on 9th July 2002 it has specified that 0.2% of the total net premium income of long term insurance business and 0.4% of the total net premium income of general insurance business 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 2018 was LKR 479 million. Chart 5 depicts the movement of the Cess and the Policyholders' Protection Fund.

### Policyholders' Protection Fund

The Cess collected from insurers is deposited into the Policyholders' Protection Fund, established in terms of Section 103 of the Act.

This Fund may be utilized, for the general protection of policyholders and for any other specific purposes, in so far as

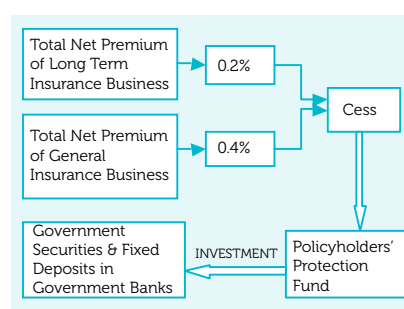
it would be for the benefit of the policyholders and potential policyholders -

- 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 Commission 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 and in Fixed Deposits of Government Banks.

The accumulated amount in the Fund, as at 31st December 2018, is LKR 5,043 million; a 22.70% increase from the previous year (LKR 4,110 million).

**Chart 5**  
Cess and the Policyholders' Protection Fund



### Insurance Tariff

There are no tariffs at present on any class of general insurance business. Tariffs which existed for motor insurance, fire insurance and workmen's compensation insurance were removed with effect from 1st January 2002, 2005 and 2007 respectively.

### Exemptions to the application of the Act

In terms of Section 12(3) 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 Commission by the Amendment Act, No. 3 of 2011.

In terms of the NITF Act, the NITF absorbed the Strike, Riot, Civil Commotion and Terrorism Fund maintained by the Ministry of Finance. Insurers issuing insurance covers against strike, riot, civil commotion and terrorism risks on behalf of the NITF are required to remit premiums collected on same to the NITF.

The Act, as amended by Act No. 27 of 2007, requires every insurer, who reinsures, to reinsure with the NITF a percentage, not exceeding 50%, as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured. In terms of Gazette Notification No. 1791/4, dated 31st December 2012, every insurer is required, with effect from 1st

January 2013, to reinsure 30%, on the total liability arising out of every general re-insurance policy, with the NITF, excluding long-term re-insurance contracts entered into by the insurer. Prior to this the percentage was 20%.

### 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 and Civil Aviation. Every insurer providing motor insurance cover is required to contribute 1% of third-party insurance premium to the Road Safety Fund created under the NCRS. The Commission is represented on the Board of NCRS.

The contribution is used to compensate hit and run victims of motor vehicle accidents.

#### Financial System Oversight Council (FSOC)

The Financial System Oversight Council was set up by the Central Bank of Sri Lanka (CBSL) and Senior representatives of financial sector regulators are members of this Council. The Council is chaired by the Governor of the CBSL. This high-level committee was set up to ensure that appropriate policy directions are set out for the orderly development of the financial markets, and that all financial regulatory agencies co-ordinate and exchange information in the interests of the entire financial system. The Chairman and Director General represent the Commission on the FSOC.

#### Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka (IASL) was established in 1989 and every insurer registered under the Act is eligible for membership.

The Executive Committee of IASL, which comprises of CEO's of all insurance companies, is responsible for the overall management of activities, and is assisted by the following committees which make recommendations to the Executive Committee on subjects relating to their respective areas :

- Life Insurance Forum
- General Insurance Forum
- Finance Technical Sub-Committee
- Legal Advisory Forum
- HR Sub Committee
- IT Sub Committee
- Marketing and Sales Forum
- Actuarial Sub Committee

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

The Insurance Brokers who are registered with the Commission, represents the Sri Lanka Insurance Brokers' Association (SLIBA). The SLIBA was set up for the interest of the Insurance Brokers.

#### 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 insurers and annual subscriptions from its members.

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 India and the Institute of Actuaries of India. The Institute conducts short term diploma courses in insurance for persons employed in the insurance industry.

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

#### Insurance Ombudsman

The Insurance Association of Sri Lanka appointed Dr. Ranjith Ranaraja as the Insurance Ombudsman with effect from February 2019. According to the MOU entered in with IASL, the Insurance Ombudsman and the Insurance Companies, who are members of IASL, will do their utmost to mediate and settle disputes brought to the notice of the Insurance Ombudsman by Policyholders.

#### International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors (IAIS), the Commission 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 Commission for effective supervision and monitoring of the Insurance Industry in Sri Lanka.

#### **Asian Forum of Insurance Regulators (AFIR)**

The Asian Forum of Insurance Regulators (AFIR) is a regional insurance regulatory cooperation mechanism which was founded in 2006 at the initiative from China Insurance Regulatory Commission. The Commission is one of the members of AFIR.

AFIR has become a significant regional cooperation platform for Asian insurance regulators

to strengthen cross-border supervision.

AFIR is expected to reinforce its role and be shaped into a key platform for promoting the exchange of regulatory information and technologies, the sharing of regulatory experiences, and the exchange of industry professionals, a key platform for promoting regulatory cooperation and coordination to prevent and respond to cross-border risks, a key platform for enhancing regulatory systems and capacities, so as to participate in the global insurance regulatory reform in a more effective manner.

## Statistical Review

### Abbreviations for Insurance Companies

	Full Name	Abbreviation
1	AIA Insurance Lanka PLC	AIA Life
2	AIG Insurance Ltd.	AIG
3	Allianz Insurance Lanka Ltd.	Allianz Gen.
4	Allianz Life Insurance Lanka Ltd.	Allianz Life
5	Amana Takaful PLC	Amana Gen.
6	Amana Takaful Life PLC	Amana Life
7	Arpico Insurance PLC	Arpico
8	Ceylinco General Insurance Ltd.	Ceylinco Gen.
9	Ceylinco Life Insurance Ltd.	Ceylinco Life
10	Continental Insurance Lanka Ltd.	Continental
11	Cooperative Insurance Company Ltd.	Cooperative Gen.
12	Cooplife Insurance Ltd.	Cooplife
13	Fairfirst Insurance Ltd.	Fairfirst
14	HNB Assurance PLC	HNB Life
15	HNB General Insurance Ltd.	HNB Gen.
16	Janashakthi Insurance PLC	Janashakthi Life
17	Janashakthi General Insurance Ltd.	Janashakthi Gen.
18	Life Insurance Corporation (Lanka) Ltd.	LIC
19	LOLC General Insurance Ltd.	LOLC Gen.
20	LOLC Life Assurance Ltd.	LOLC Life
21	MBSL Insurance Company Ltd.	MBSL
22	National Insurance Trust Fund	NITF
23	Orient Insurance Ltd.	Orient
24	People's Insurance PLC	People's
25	Seemasahitha Sanasa Rakshana Samagama	Sanasa
26	Softlogic Life Insurance PLC	Softlogic Life
27	Sri Lanka Insurance Corporation Ltd.	SLIC
28	Union Assurance PLC	Union Life

### Following General Notes Supplement when Interpreting the Data of Tables and Charts of the Statistical Review:

- Tables and Charts depicted in this report are based on the statistics provided by the Insurance Companies and Insurance Brokering Companies.
- AIA General Insurance Lanka Limited and Janashakthi General Insurance Limited have been amalgamated in 2016 and known as "Janashakthi General Insurance Ltd."
- Janashakthi General Insurance Ltd. was acquired by Allianz Insurance Lanka Ltd. in year 2018 and amalgamated with effect from 28th September 2018 and known as "Allianz Insurance Lanka Ltd."
- Softlogic Life Insurance PLC was known as Asian Alliance Insurance PLC prior to 2016.
- Asian Alliance General Insurance Limited was acquired by Fairfax Asia Limited in year 2015 and known as "Fairfirst Insurance Limited".
- Union General Limited was acquired by Fairfirst Insurance Limited and amalgamated with effect from 28th February 2017 and known as "Fairfirst Insurance Limited".
- AIG Insurance Limited has withdrawn the business operation in year 2014 and is in the process of voluntary liquidation. Hence, statistics of AIG was not considered in 2018.
- Data submitted by NITF with regard to the Risk Based Capital had not been considered in order to maintain the comparability since NITF handles different types of insurance schemes.
- Financial data of crop & loan protection scheme of NITF has been eliminated from statistics from 2014 onwards since the said operation has not been considered as 'Insurance'.
- Figures in some tables have been rounded off to the nearest final digit. Hence, there may be a slight discrepancy between the total as shown and the sum of its components.
- Differences as compared to previously published figures are due to subsequent revisions.
- Values indicated within parenthesis are negative values.
- The terms "life" and long term" are used interchangeably in the report.
- The following symbols have been used throughout: -  
(a) = Reinstated and Audited figures  
(b) = Provisional figures  
- = nil

## An Overview of the Sri Lankan Insurance Industry

### Global Insurance Market at a Glance

Global insurance industry recorded a steady growth with positive economic momentum by reporting premium growth of around of 3 - 4 % in real terms during the year 2018. Sustained improvement in advanced markets along with the contributions by emerging markets has driven the global insurance premium growth during the year. Nevertheless, profitability of the insurance industry remained under pressure in relatively low interest rate environments.

Among many other factors, trade war between the United States and China, Chinese hard landing, geopolitical uncertainty & tightened monetary policies adopted by all major Central Banks continued to remain significant headwinds for insurers in 2018.

Technology is rapidly transforming the global insurance industry. The number of blockchain applications for fraud prevention, improve efficiency through process simplification, smart underwriting & digital-first policy administration, record keeping, automated codified payouts etc. will reshape the insurance landscape completely. Insurers increasingly invest in data analytics and initiatives to influence behaviors and costs of health providers. Cyber insurance has emerged as a response to growing number of data breaches worldwide which perceived as one of the leading risks to businesses.

The world is in search of more solutions to manage the catastrophe events with greater use of drones, satellite imageries which improve the efficiency in claims management and also risk prevention and assessment. As per Munich Re publications, extreme storms, wildfires and droughts caused heavy Nat Cat losses in 2018 as well. These included the most expensive natural catastrophes occurred such as wildfire in Northern California and hurricane "Michael" in USA, tsunami and earthquake that took place in Indonesia, number of typhoons and two earthquakes that caused billions of losses in Japan etc. 2018 was the fourth costliest year since 1980 for the insurance industry in terms of natural disaster losses. Reinsurers role in managing climate and natural disaster risk is also visible in 2018.

Several insurers are experimenting with connectivity and advanced analysis based on digitally available medical data, drug prescription information and potentially even facial analysis technology that can be used to estimate an applicant's life expectancy and eliminate traditional medical tests. As published by Swiss Re, the incidence of chronic diseases such as cardiovascular disease (CVD), cancer, and diabetes is rising. In India, CVDs, cancer and other chronic diseases caused 53% of total deaths in 2005 and this is forecasted to rise to 67% by 2030. Insurers play a crucial role in increasing awareness and providing attractive medical insurance solutions.

Worldwide mergers & acquisitions activities continue in the insurance

sector and up by 9% (approx.) in 2018 compared to previous year. (Source: publications of <https://www.lexology.com>)

### Sri Lankan Economy at a Glance

During the year, the country's total Gross Domestic Product (GDP) reported at LKR 14,450 billion. Growth of Sri Lankan economy was highly disturbed with the constitutional crisis, sharp depreciation of the Rupee against major currencies, transitory price pressures due to upward revisions to prices of domestic petroleum products and other administratively determined prices, slowdown in industry related activities etc. which resulted in growth rate declining to 17 years lowest of 3.2% in 2018. Meanwhile, the growth was largely supported by service activities that expanded by 4.7% and the recovery in agriculture activities, which recorded a growth of 4.8%.

Further, poor performance in the Colombo Stock Exchange was evident by the significant decline in share prices, market turnover, market capitalization and Price to Earnings ratios throughout the year.

(Source – Central Bank Annual Report 2018)

### Sri Lankan Insurance Market

Sri Lankan insurance industry in 2018 operated with twenty-six registered insurance companies (excluding MBSL which was suspended from 28th June 2017 to 2nd April 2019). Six insurance companies operated with major shareholding of foreign equity

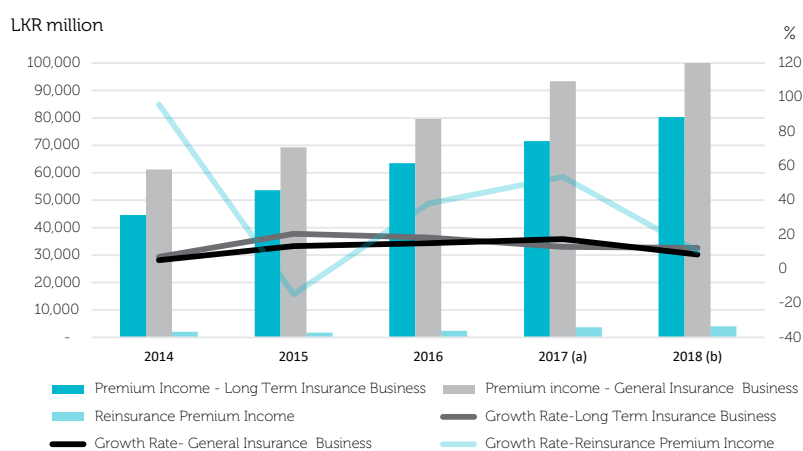
collaborations. Many companies are organized into conglomerates, subsidiaries and associates of groups. Further, nine companies were listed in the Colombo Stock Exchange as at 31st December 2018.

Several acquisitions and mergers were recently experienced specially in the general insurance sector subsequent to the segregation of life and general insurance businesses of composite insurers in the year 2015. Recent trends in acquisitions and mergers have seen a shift in ownership to global insurance firms who are eyeing to diversify their global business models. During the year, one large acquisition took place that has turnaround the general insurance industry. Allianz General which recorded a market share of approximately 6% (in 2017) in Sri Lanka has acquired Janashakthi General which is double in size in terms of market share with the backing of Allianz SE.

The concept of "Micro-insurance" is a main discussion topic in Sri Lanka due to its conceptual importance of simple and affordable insurance products to reach large number of people. The trend in increasing dependency ratio with demographic transition, together with non-availability of sufficient coverage of pension schemes and low penetration levels create more opportunities to insurers and micro-insurers.

Heavy monsoon rains reported in mid May 2018 caused severe damages due to floods and landslides. Further, in late December heavy thunder storms hit the Northern province in Sri Lanka causing damages. However,

**Chart 1**  
**Premium Income & Growth Rate of the Insurance Industry**



impact on insurance industry due to catastrophe risk event in 2018 was not serious compared to year 2017.

As per the Central Bank Annual report 2018, based on the business surveys conducted by them, delayed implementation of structural reforms and policy uncertainty that prevailed throughout the year together with the heightened political tension prevailed in the latter part of the year had an adverse impact on much-needed business confidence and investor sentiment. Despite these economic and political uncertainties, overall insurance industry reported total Gross Written Premium (GWP) of LKR 181,506 million in 2018 compared to LKR 164,960 million reported in 2017 and has grown at a moderate phase of 10.03% in nominal terms in 2018 compared to 15.30% recorded in 2017. Similar to previous years, motor insurance largely contributed to the GWP. However, general insurance industry grew at a slow phase (8.37%) compared to double digit growth recorded since 2015. Life

insurance industry also managed to record premium income of LKR 80,303 million in 2018 with a moderate growth rate of 12.20% year on year. Chart 1 illustrates the premium income and growth rate of the insurance industry during the last five years.

The contribution of insurance towards country's total GDP remains low as 1.26% (2017: 1.23 %). Level of disposable income has a direct impact on the level of insurance penetration. Certain negative perceptions on insurance and available social security benefits are some of other factors that contribute to the low penetration levels.

Insurance density which is calculated based on the total GWP to country's population amounted to LKR 8,376. In year 2018, Sri Lanka reported 8 million employed persons (Source – Central Bank Annual Report 2018). Accordingly, total GWP to country's employed persons stood at LKR 22,688. Table 1 provides details on GWP, insurance penetration and insurance density during the last five years.

Table 1

## Premium Income &amp; Penetration

	2014	2015	2016	2017 (a)	2018 (b)
Premium Income - Long Term Insurance Business (LKR millions)	44,596	53,691	63,477	71,571	80,303
Premium Income - General Insurance Business (LKR millions)	61,202	69,271	79,590	93,389	101,203
Total Premium Income - Insurance Business (LKR millions)	105,798	122,962	143,067	164,960	181,506
Growth Rate in Total Premium Income - Insurance Business (%)	5.84	16.22	16.35	15.30	10.03
Reinsurance Premium Income (LKR millions)**	2,041	1,738	2,397	3,683	4,056
Gross Domestic Product at Current Market Price (LKR billions)*	10,361	10,951	11,996	13,418	14,450
GDP Growth Rate % *	4.90	4.84	4.50	3.40	3.20
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.02	1.12	1.19	1.23	1.26
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.43	0.49	0.53	0.53	0.56
Penetration % (Premium of General Insurance Business as a % of GDP)	0.59	0.63	0.66	0.70	0.70
Insurance Density - (Total Premium Income - Insurance Business/ population) LKR.	5,094	5,865	6,747	7,693	8,376
Population '000 (Mid Year) *	20,771	20,966	21,203	21,444	21,670

\* Source: Central Bank of Sri Lanka and Department of Census and Statistics

: Gross Domestic Product at current market price has been updated from 2014 onwards based on the Annual Report of Central Bank of Sri Lanka 2018.

\*\* Reinsurance premium income represents the compulsory cession of reinsurance premiums of General Insurance Business ceded to NITF.

## Total Assets of Insurance Companies

The assets held by insurance companies provide the strength to the ultimate security offered to policyholders. Table 2 and Chart 2 present the details relating to total assets of the insurance industry where average growth rate was 11.29% during the last five years. Total assets reported by insurers amounted to LKR 623,477 million as at 31st December 2018. The growth of total assets of industry has adversely impacted due to the

increased vulnerability prevailed in the Sri Lankan economy which was discussed earlier in this report. Accordingly, during the year, insurance industry has recorded a declining growth rate of 7.18% in 2018 compared to 10.73% recorded in 2017.

Similar to previous years, long term insurance industry has driven the growth of assets by posting a moderate growth rate of 9.65% while general insurance industry showed a drop in asset growth rate of 2.43% in 2018

compared to 2017 (2017: 6.67%). Total assets reported by life and general insurers amounted to LKR 429,706 million and LKR 190,088 million respectively in 2018 (2017: LKR 391,890 million & LKR 185,583 million).

A Composite insurer, SLIC was the main contributor to the asset portfolio followed by long term insurers' namely Ceylinco Life, AIA Life and Union Life. General insurers' namely Allianz General and Ceylinco General also positively contributed to the asset

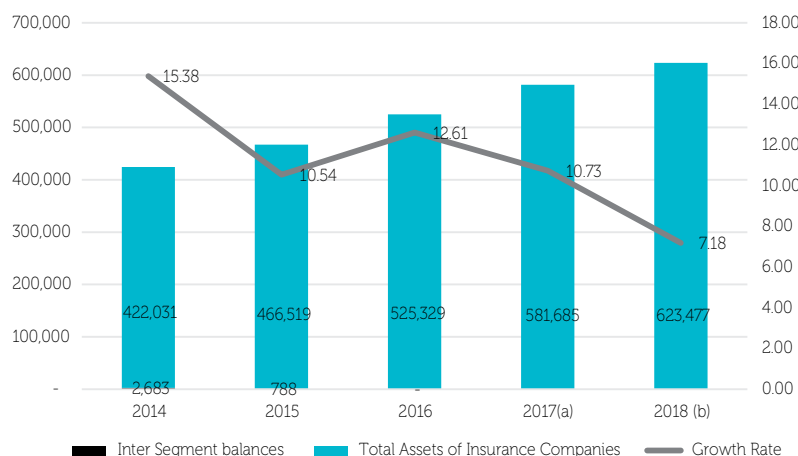
Table 2

## Total Assets of Insurance Companies

	2014	2015	2016	2017 (a)	2018 (b)
Long Term Insurance (LKR millions)	247,061	312,713	345,589	391,890	429,706
General Insurance (LKR millions)	174,588	151,177	173,985	185,583	190,088
Reinsurance (LKR millions)	3,065	3,417	5,755	4,212	3,683
<b>Total (LKR millions)</b>	<b>*422,031</b>	<b>*466,519</b>	<b>525,329</b>	<b>581,685</b>	<b>623,477</b>

\* Inter segment transactions have been eliminated.

**Chart 2**  
**Total Assets and Assets Growth Rate of the Insurance Industry**



portfolio of general insurance business.

The national reinsurer, NITF reported assets amounting to LKR 3,683 million relating to their reinsurance business and recorded a decrease of 12.54% year on year. Further, there was significant reduction in the financial investments relating to the reinsurance business of NITF.

### Distribution of Total Assets of Major Financial Sectors

The interaction between Financial Intermediaries such as Banks, Finance companies,

Insurers, Leasing Companies, Pension Funds etc. has been growing considerably over time. Table 3 and Chart 3 represent total asset distribution between major financial sectors. The overall asset portfolio of the sector recorded a growth of 10.8% at the end of 2018.

Despite sharp depreciation in Rupee against major currencies, financial sector showed moderate performance particularly the Banking sector in 2018. However, according to Central Bank Annual Report 2018, increase in non-performing loans and advances

have adversely impacted performance of Banking, Licensed Finance Companies and Specialized Leasing Companies. Further, other factors such as low credit growth, high operational and administration costs and taxes have resulted in deteriorating finance sector profitability during the year.

The Banking sector which comprised of 33 licensed banks continued to expand the asset portfolio in 2018 as well. Total asset portfolio of Banks increased by 15.22% to LKR 13,708 billion including the Central Bank assets worth LKR 1,914.3 billion in 2018. Accordingly, Banking Sector represents 72.4% of total asset portfolio of major financial sector in 2018.

Other Deposit Taking Financial Institutions mainly comprised of Licensed Finance Companies also positively contributed to the economy by expanding the asset portfolio from LKR 1,370.4 billion in 2017 to LKR 1,542.7 billion in 2018. Accordingly, asset base of Other Deposit Taking Financial Institutions increased by 12.57 % in 2018.

**Table 03**  
**Distribution of Total Assets of Major Financial Sectors**

Financial Sectors	Distribution of Assets									
	2014		2015		2016		2017		2018	
	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%
Banking Sector	8,442.0	70.3	9,503.7	68.7	10,575.8	69.5	11,897.4	69.7	13,708.3	72.4
Other Deposit Taking Financial Institutions	857.0	7.1	1,044.2	7.6	1,246.7	8.2	1,370.4	8.0	1,542.7	8.2
Specialized Financial Institutions	441.0	3.7	557.8	4.0	335.4	2.2	388.9	2.3	240.0	1.3
Contractual Savings Institutions	1,853.6	15.4	2,257.5	16.3	2,536.6	16.7	2,838.0	16.6	2,807.7	14.8
Insurance Companies*	422.0	3.5	466.5	3.4	525.3	3.5	581.7 (a)	3.4	623.5 (b)	3.3
<b>Total</b>	<b>12,015.6</b>	<b>100.0</b>	<b>13,829.6</b>	<b>100.0</b>	<b>15,219.8</b>	<b>100.0</b>	<b>17,076.4</b>	<b>100.0</b>	<b>18,922.2</b>	<b>100.0</b>

Source: Central Bank of Sri Lanka

Specialized Financial Institutions recorded reduction in assets from LKR 388.9 million in 2017 to LKR 240 million in 2018. Specialized Leasing Companies and Unit Trusts / Unit Trust Management companies have contributed to the reduction in assets of this category.

Contractual Saving Institutions which comprised of Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) and other than the Approved Pension and Provident Funds, assets portfolio represented LKR 2,808 billion in 2018 (2017: LKR 2,838 billion). Though EPF and ETF asset portfolio has shown an improvement, Approved Pension and Provident Funds asset portfolio showed a reduction.

The insurance sector plays an important role in the financial services industry by recording assets worth LKR 623.5 billion in 2018 compared to LKR 581.7 billion in 2017. Similar to previous years' insurance companies held 3.3% of the total assets of finance sector in 2018.

## Profitability

The volatility in the interest rate environment and other economic disturbances prevailed during the year impacted the profitability of the insurance industry and reported total profit before tax of LKR 37,017 million (2017: LKR 49,084 million). Total profit of the insurance industry after excluding One-off Surplus amounted to LKR 36,636 million in 2018 compared to LKR 33,217 million reported in 2017.

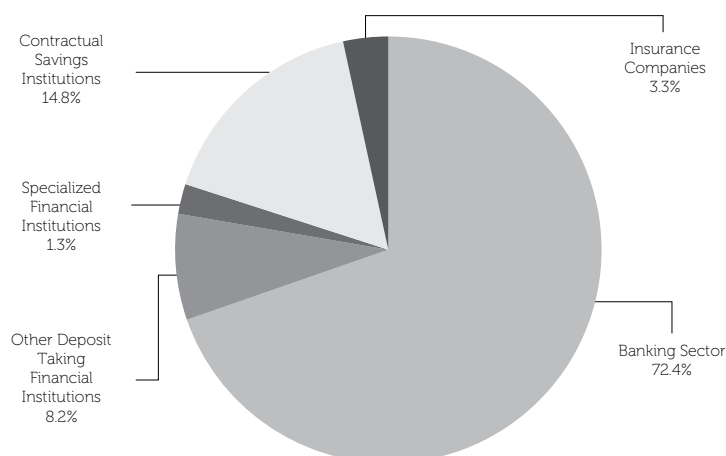
In 2017, the Commission issued Direction # 16 for the purpose of identification and treatment of One-off Surplus. Accordingly, few major long term insurance companies had transferred the One-off Surplus other than participating business to shareholders' fund for the year ended 31st December 2017 after complying with the requirements stated in the Direction. As a result of One-off Surplus transfer, long term insurers' profitability significantly improved by 67.57 % in 2017 to LKR 39,349 million as depicted in Table 4. In 2018, only HNB Life had transferred the One-

off Surplus which amounted to LKR 381 million (2017- Rs. 15,867 million).

Long term insurance business has reported profit before tax of LKR 24,127 million in 2018 mainly driven by Janashakthi Life with the significant profit earned from the disposal of its subsidiary investment of Janashakthi General. Overall profitability of life insurers showed an upward trend in last two years due to the release of reserves other than One-off Surplus. At the end of the year 2018, certain life insurers namely AIA Life, Ceylinco Life, HNB Life, Janashakthi Life, Softlogic Life, SLIC, Union Life have transferred surpluses other than participating business to Shareholders with the recommendations of their Appointed Actuaries.

General insurance industry has reported profits before tax of LKR 11,318 million in 2018 compared to LKR 9,469 million reported in 2017 despite the fierce competition and price pressure prevailed among industry players. Accordingly, profitability of general insurance industry grew by 19.52% year on year. SLIC and Ceylinco General together contributed to 54.19% of the total profits before tax reported by the general insurance industry in 2018.

**Chart 3**  
**Distribution of Total Assets of Major Financial Sectors as at 31<sup>st</sup> December 2018**



## Shareholders' Funds of Insurance Companies

As illustrated in Table 5, total shareholders' funds reported by insurance companies amounted to LKR 191,273 million and grew by 8.19% year on year. Total reserves reported by the industry amounted to LKR 150,390 million as at 31st December 2018. This represents

Table 04

## Profitability of Insurance Companies

Insurer	2017 (a)			2018 (b)			
	Long Term Insurance (LKR '000)		General Insurance (LKR '000)	Total (LKR '000)	Long Term Insurance (After One-off Surplus transfer) (LKR '000)	General Insurance (Rs. '000)	Total (Rs. '000)
	Prior to One-off Surplus transfer	After One-off Surplus transfer					
AIA Life	7,597,097	13,677,945		13,677,945	1,616,851		1,616,851
Allianz Gen.			184,346	184,346		573,717	573,717
Allianz Life	104,026	104,026		104,026	95,177		95,177
Amana Gen.			62,722	62,722		22,987	22,987
Amana Life	50,592	50,592		50,592	(61,520)		(61,520)
Arpico	206,013	206,013		206,013	65,694	-	65,694
Ceylinco Gen.			1,702,653	1,702,653		2,335,822	2,335,822
Ceylinco Life	6,351,351	9,807,535		9,807,535	7,157,389		7,157,389
Continental			275,529	275,529		436,349	436,349
Cooperative Gen.			399,111	399,111		417,169	417,169
Cooplif	54,880	54,880		54,880	42,678		42,678
Fairfirst			720,450	720,450		724,809	724,809
HNB Life*	725,665	725,665		725,665	1,297,848		1,297,848
HNB Gen.			201,361	201,361		282,805	282,805
Janashakthi Life	(104,193)	1,691,635		1,691,635	9,378,738		9,378,738
Janashakthi Gen.			1,361,882	1,361,882		-	-
LIC	24,643	24,643		24,643	(68,290)		(68,290)
LOLC Gen.			272,157	272,157		205,466	205,466
LOLC Life	144,595	400,730		400,730	(263,142)		(263,142)
MBSL	-	-	(46,437)	(46,437)	-	(149,232)	(149,232)
NITF**			812,150	1,077,186		1,717,284	3,288,840
Orient			65,874	65,874		94,740	94,740
People's			866,691	866,691		847,016	847,016
Sanasa	2,384	2,384	15,313	17,697	(20,636)	12,280	(8,356)
Softlogic Life	1,106,517	1,904,521		1,904,521	1,094,762		1,094,762
SLIC	3,216,447	3,314,683	2,575,519	5,890,202	1,658,851	3,796,991	5,455,843
Union Life	4,002,194	7,384,128		7,384,128	2,132,392		2,132,392
<b>Total</b>	<b>23,482,211</b>	<b>39,349,380</b>	<b>9,469,323</b>	<b>49,083,739</b>	<b>24,126,794</b>	<b>11,318,204</b>	<b>37,016,554</b>

\*Includes one -off surplus transfer of LKR 381 million in 2018.

\*\*Total Profit includes profit before tax of crop and reinsurance amounting to LKR 229 million (2017: LKR 128 million) and LKR 1342 million (2017 : LKR 136 million) respectively.

One-off Surplus amounted to LKR 16,248 million which is maintained as "Restricted Regulatory Reserve" in the shareholders' fund by certain life insurers in terms of the Direction #16. Few life and general insurance companies reported losses during the year which resulted in reporting declined reserve positions at the end of the year.

Despite the slight drop in shareholders' funds due to dividend payments, SLIC reported a very strong position in terms of shareholders' funds by reporting LKR 58,806 million. However, SLIC is yet to segregate general and life insurance businesses. Ceylinco Life also reported healthy reserve position by reporting shareholders'

funds of LKR 26,426 million followed by AIA Life and Union Life.

With regard to the general insurance companies, Allianz General's stated capital and reserve position has improved significantly due to the acquisition of Janashakthi General during the year. Ceylinco General has maintained a very healthy reserve position with years of

Table 5

## Total Shareholders' Funds of Insurance Companies

Insurer	2017 (a)		2018 (b)				
	Total Shareholders' Funds (LKR '000)	%	Stated Capital (LKR '000)	Restricted Regulatory Reserve (LKR '000)	Total Other Reserves (LKR '000)	Total Shareholders' Funds (LKR '000)	%
AIA Life	17,358,916	9.82	511,922	6,080,848	12,106,094	18,698,864	9.78
Allianz Gen.	1,574,375	0.89	8,079,529		3,315,595	11,395,124	5.96
Allianz Life	883,746	0.50	739,624	-	(21,563)	718,060	0.38
Amana Gen.	1,816,088	1.03	1,950,165		(22,600)	1,927,565	1.01
Amana Life	573,788	0.32	532,051	-	14,694	546,745	0.29
Arpico	933,197	0.53	675,565	-	323,327	998,891	0.52
Ceylinco Gen.	9,774,455	5.53	500,200		10,645,123	11,145,323	5.83
Ceylinco Life	20,646,897	11.68	500,001	3,456,184	22,469,397	26,425,582	13.82
Continental	1,436,494	0.81	750,000		983,311	1,733,311	0.91
Cooperative Gen.	2,080,131	1.18	1,430,195		979,527	2,409,721	1.26
Cooplif	618,715	0.35	544,260	-	97,780	642,040	0.34
Fairfirst	4,530,086	2.56	3,131,949		2,006,139	5,138,088	2.69
HNB Life	3,776,277	2.14	1,171,875	381,156	3,962,849	5,515,880	2.88
HNB Gen.	1,170,220	0.66	1,150,000		228,434	1,378,434	0.72
Janashakthi Life	9,460,877	5.35	4,853,752	1,795,829	2,176,715	8,826,295	4.61
Janashakthi Gen.	7,878,355	4.46	-		-	-	-
LIC	652,425	0.37	500,000	-	(5,321)	494,679	0.26
LOLC Gen.	1,251,828	0.71	700,000		641,080	1,341,080	0.70
LOLC Life	984,033	0.56	800,000	256,134	(336,112)	720,022	0.38
MBSL	26,673	0.02	1,080,022	-	(1,202,514)	(122,492)	(0.06)
NITF	7,354,525	4.16	-		6,956,088	6,956,088	3.64
Orient	668,831	0.38	825,000		(56,857)	768,143	0.40
People's	3,057,239	1.73	1,350,000		2,025,147	3,375,147	1.76
Sanasa	789,445	0.45	1,044,979	-	46,748	1,091,726	0.57
Softlogic Life	3,886,129	2.20	1,062,500	798,004	4,810,459	6,670,963	3.49
SLIC	61,642,746	34.87	6,000,000	98,237	52,707,979	58,806,216	30.74
Union Life	11,964,714	6.77	1,000,000	3,381,934	9,289,754	13,671,688	7.15
<b>Total</b>	<b>176,791,205</b>	<b>100.00</b>	<b>40,883,587</b>	<b>16,248,326</b>	<b>134,141,272</b>	<b>191,273,185</b>	<b>100.00</b>

operation in the market by reporting shareholders' funds of LKR 11,145 million as at 31st December 2018.

### Analysis of Branches, Employees and Agents of Insurers

As depicted in Table 6 and Chart 4, the insurance sector plays an important role in the financial services industry by creating employment opportunities for 19,437 people in 2018. Accordingly, industry has created around 1,000 new job opportunities during the year compared to previous year. General insurance and long term insurance have generated 9,819 and 6,248 employments

respectively while employment of composite companies was 3,370. Similar to previous years, more than 60% of the total employees are located in the Western Province.

Further to employment, 44,904 agents serves the industry and plays an important role in fulfilling customers' insurance needs which is often seen as the key to a company's success and long-term competitiveness. Sales agents continued to play a valuable role in the Western province as number of agents have increased by 7.38% to 19,042 in 2018. Further, agents servicing in the Northern Western province has also increased by

259 to 4,497. However, reduction in agents was mainly seen in the Central Province and Northern Province in 2018. More than 90 percent of the agents are serving in the long term and composite companies.

Sri Lankan insurance industry has expanded services to customers through widespread branch network all over the island. Year on year new branches have been added. Total branches reported in 2018 were 2,147 compared to 2,079 branches reported in 2017. Total branches reported by long term and general insurance companies were 1,159 and 782 respectively. Remaining branches

Table 06

Number of Branches, Employees and Agents as at 31<sup>st</sup> December 2017 and 2018

Province	No. of Branches		No. of Employees		No. of Agents	
	2017	2018	2017	2018	2017	2018
Central Province	177	204	1,018	1,070	4,418	3,768
Eastern Province	153	166	652	682	2,286	2,272
North Central Province	139	144	724	753	2,468	2,257
North Western Province	224	233	1,116	1,151	4,238	4,497
Northern Province	161	162	547	622	3,171	2,683
Sabaragamuwa Province	161	160	822	866	3,117	3,166
Southern Province	266	274	1,470	1,554	5,000	5,015
Uva Province	121	124	583	632	2,435	2,204
Western Province	677	680	11,535	12,107	17,733	19,042
<b>Total</b>	<b>2,079</b>	<b>2,147</b>	<b>18,467</b>	<b>19,437</b>	<b>44,866</b>	<b>44,904</b>

belongs to composite insurance companies. Branches in Central Province have increased notably during the year. In order to provide better service new branches were located mainly in the provinces of North Western, North Central, Eastern, Southern and Western.

business slightly improved from 5.92 % in 2017 to 7.14% in 2018. Importance of exclusive sales and marketing officers was visible in general insurance business during the year as total GWP generated

by this segment accounted for 41.67% (2017: 43.72%). Institutional agents, finance and leasing companies and group business which categorized under agents is also an important source of generating premium income of general insurance business which accounted for 34.76% of the total GWP. Brokering companies also play an important role as a distribution channel which generate 17.57% of premium income. Direct insurance business mainly represents insurance schemes implemented by the government through NITF.

Chart 5 illustrates the contribution of different distribution channels to GWP of insurance companies.

## Distribution Channels of Insurance Companies

Today insurers are having multi distribution frameworks which integrates Agents, Marketing Officers, Banking and Other Financial Institutions. Further, value additions were observed with the support of digitalization by providing critical advices, cross-selling and up-selling which further tightened the client relationships. Despite value additions in certain integrated functions such as payments, marketing and claims processing insurance industry is yet to leverage the benefits of the online space as a distribution channel.

Agents continued to dominate the life insurance market by generating 86.93% of the total GWP. The contribution from bancassurance to GWP of long term insurance

Chart 4

Number of Branches, Employees and Agents as at 31<sup>st</sup> December 2018

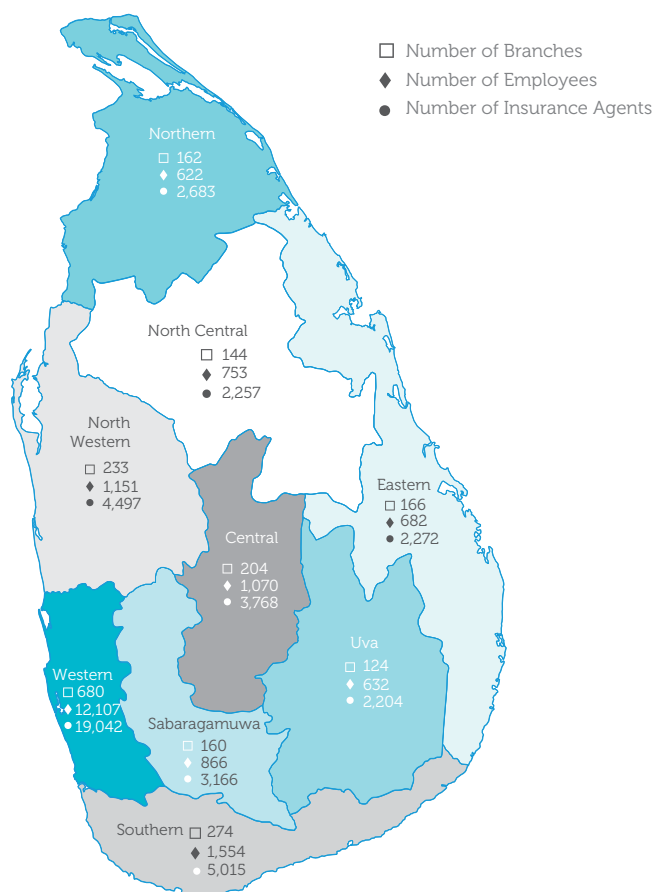
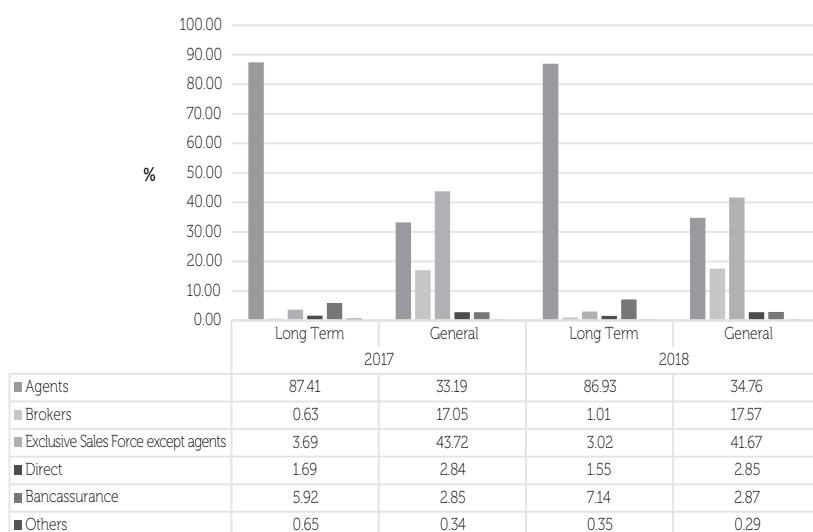


Chart 5  
Distribution Channels of Insurance Companies



## Long Term Insurance Business

### Gross Written Premium

Sri Lankan life insurance industry depicts enhanced competition

among twelve insurance companies who are registered to carry on only long term insurance business and three composite companies who are handling both general and long term insurance businesses.

Typically, 2018 has been a year with challenging global and local economic conditions such as relatively low economic growth than expected, continued uncertainty in socio-economic policy front resulting in further depreciation in the currency affecting the balance of payments situation and decrease in disposable income coupled with increases in direct & indirect taxes etc.

Regardless of the above challenges, Sri Lanka's life insurance industry continued its growth by recording a premium income of LKR 80,303 million with an outstanding year on year growth of 12.20% (2017: 12.75%) in comparison to LKR 71,571 million recorded in year 2017.

The life insurance market sustained its growth momentum

Table 7  
Company wise Gross Written Premium and Market Share - Long Term Insurance Business

Insurer	2014		2015		2016		2017 (a)		2018 (b)	
	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)
AIA Life	7,266,574	16.29	8,433,333	15.71	10,103,915	15.92	11,510,581	16.08	12,739,351	15.86
Allianz Life	823,456	1.85	919,144	1.71	1,040,269	1.64	1,178,817	1.65	1,301,254	1.62
Amana Life	679,029	1.52	928,294	1.73	820,727	1.29	792,174	1.11	822,261	1.02
Arpico	297,439	0.67	482,447	0.90	745,386	1.17	1,038,085	1.45	1,391,241	1.73
Ceylinco Life	12,002,524	26.91	13,456,828	25.06	15,027,600	23.67	15,765,484	22.03	17,812,774	22.18
Cooplif	402,046	0.90	494,598	0.92	466,997	0.73	626,972	0.88	624,600	0.78
HNB Life	2,342,867	5.25	2,788,715	5.19	3,554,078	5.60	3,963,642	5.54	4,420,513	5.50
Janashakthi Life	2,170,419	4.87	2,550,782	4.75	2,943,963	4.64	2,902,873	4.06	3,008,842	3.75
LIC	348,767	0.78	386,885	0.72	473,867	0.75	582,114	0.81	522,698	0.65
LOLC Life	592,422	1.33	1,209,578	2.25	1,896,558	2.99	2,467,166	3.45	2,610,785	3.25
MBSL	294,299	0.66	203,235	0.38	235,533	0.37	123,732	0.17	65,839	0.08
Sanasa	260,867	0.58	311,434	0.58	367,637	0.58	454,056	0.62	526,938	0.67
SLIC	8,121,159	18.21	10,470,079	19.50	11,893,640	18.74	12,517,119	17.49	13,205,802	16.45
Softlogic Life	3,048,148	6.84	4,091,042	7.62	5,635,701	8.88	7,530,935	10.52	10,005,733	12.46
Union Life	5,945,499	13.33	6,964,390	12.97	8,270,751	13.03	10,117,630	14.14	11,243,915	14.00
<b>Total</b>	<b>44,595,516</b>	<b>100</b>	<b>53,690,783</b>	<b>100</b>	<b>63,476,622</b>	<b>100</b>	<b>71,571,380</b>	<b>100</b>	<b>80,302,546</b>	<b>100</b>
<b>Growth Rate(%)</b>	<b>7.01</b>		<b>20.40</b>		<b>18.23</b>		<b>12.75</b>		<b>12.20</b>	

as a result of insurers' efforts to improve operational processes to assure quality service to customers, revamping existing products while introducing innovative life insurance products to cater to changing needs of customers, improve customer awareness on insurance and enhanced products on socio economic conditions of the country which in turn increased the demand for life insurance products.

Further, post segregation of insurance companies led all insurance companies to have a strong focus on their line of business and factors such as rising urbanization, customer sophistication levels and overall macrocosmic features in the country were positive factors which led to the growth of life insurance business during 2018.

Accordingly, the GWP of long term insurance business has witnessed a 80.07% improvement during the period 2014 to 2018 despite low penetration levels reported. As depicted below the industry witnessed a double digit GWP growth rate during the last four years though, there was a declining trend in the growth rate recorded from year 2015. Table 7 illustrates the company-wise GWP and market share of long term insurance companies.

Ceylinco Life has continued to maintain its dominance in the long term insurance market by generating GWP of LKR 17,813 million in 2018 (2017: LKR 15,765 million) and accounted for 22.18% of the total GWP. SLIC and AIA Life claimed the second and third positions in the market in 2018 similar to the previous year

by recording GWP worth of LKR 13,206 million (2017: LKR 12,517 million) and LKR 12,739 million (2017: LKR 11,511 million) with market shares of 16.45% and 15.86% respectively. These three companies' contribution towards total GWP has slightly dropped to 54.49% in 2018 compared to 55.60% in 2017.

Union Life and Softlogic Life had earned GWP worth of LKR 11,244 million (2017: LKR 10,118 million) and LKR 10,006 million (2017: LKR 7,531 million) respectively to become the fourth and fifth largest GWP generators in the long term insurance sector similar to the previous year by achieving market shares of 14.00% and 12.46% respectively. All long term insurers reported marginal reduction in their market shares except for Ceylinco Life, Arpico, Sanasa & Softlogic Life. Further, there was a noticeable growth in GWP of Arpico and Softlogic Life in terms of recording growth rates above 30% in 2018 when compared to 2017. The growth rate of LOLC Life had drastically reduced to 5.82% in 2018 compared to 30% growth rate recorded in 2017. Further,

Cooplife and LIC (excluding MBSL which was suspended from 28th June 2017 to 2nd April 2019) had reported negative growth rates coupled with decrease in GWP generated in 2018 compared to 2017. Chart 6 illustrates each life insurers performance in terms of GWP for the year ended 31st December 2018.

### Top Five Contributors to GWP and Other Insurers – Long Term Insurance Business

Chart 7 depicts details relating to market share of top five contributors and other insurers for the last five years. Similar to previous years, Ceylinco Life, SLIC, AIA Life, Union Life and Softlogic Life achieved the top five market shares in the long term insurance market in 2018. These companies collectively generated GWP of LKR 65,008 million and accounted for 80.95% (2017: 80.26%) of the total GWP in long term insurance business in 2018. As the leader in the long term insurance sector, the market share of Ceylinco Life has slightly improved in year 2018 compared

**Chart 6**  
**Company wise Market Share of Gross Written Premium - Long Term Insurance Business for the Year Ended 31<sup>st</sup> December 2018**

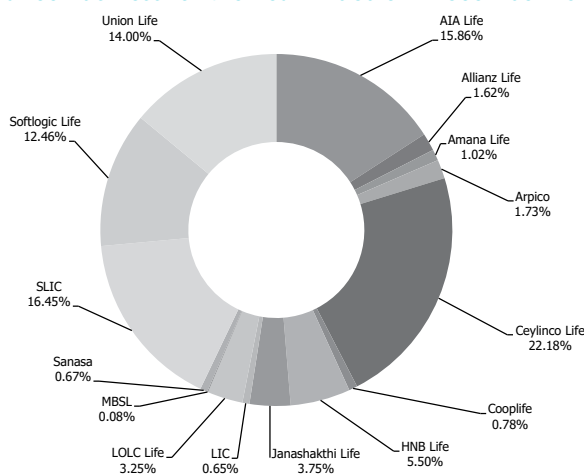
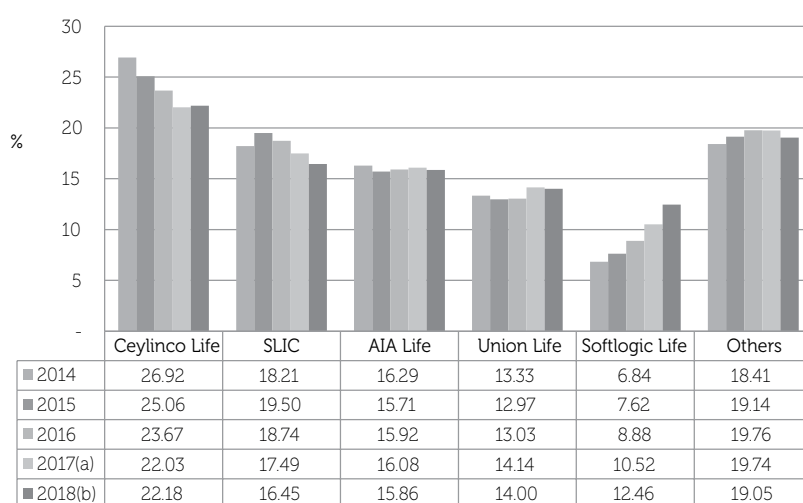


Chart 7  
Top Five Contributors and Other Insurers for the Years 2014 to 2018  
Long Term Insurance Business



to 2017 and the market shares of major contributors of long term insurance business namely SLIC, AIA Life and Union Life have gradually decreased in 2018 against 2017. Softlogic Life as the fifth contributor has captured 12.46% (2017: 10.52%) of the market and showed a continuous improvement in their market share during last five years. The other players of the long term insurance market recorded slight decrease of market share and generated 19.05% of the long term insurance GWP in 2018 (2017 : 19.74%).

### Category wise Analysis of Gross Written Premium, Premium Ceded to Reinsurers and Retention Ratio - Long Term Insurance Business

As illustrated in Table 8, participating and non-participating businesses had contributed to the GWP by 25.64% (2017: 26.81%) and 71.80% (2017: 70.32%) respectively in year 2018. Products which carried participating features have become less in supply since certain insurers have moved away from participating business. However, SLIC owned 45% worth

of participating business portfolio out of total GWP reported in 2018. Further, two leading insurers, namely SLIC and Ceylinco Life represented three fourth of GWP reported in participating business.

The contribution from non-participating business portfolio has grown by 14.57% and reported LKR 57,660 million in 2018. The demand for linked long term products in the market is due to low investor confidence and slow performance in the stock market generated a GWP of LKR 2,054 million in 2018.

As depicted in Table 8 overall retention ratio of life insurance business was 95.81% in 2018 (2017: 95.99%). Despite there is a year on year increase of 17% in premium ceded to reinsurers pertaining to non-participating business in 2018, which correspond to the reported GWP growth. The growth reported in premium ceded to reinsurers pertaining to linked long term business was due to enhancement of reinsurance arrangement of an insurer.

### Assets of Long Term Insurance Business

Effective asset liability management is key for insurers,

Table 8  
Category wise Analysis of Gross Written Premium, Premium Ceded to Reinsurers and Retention Ratio - Long Term Insurance Business

Class	2016			2017 (a)			2018 (b)		
	Gross Written Premium (LKR '000)	Premium ceded to Reinsurers (LKR '000)	Retention Ratio (%)	Gross Written Premium (LKR '000)	Premium ceded to Reinsurers (LKR '000)	Retention Ratio (%)	Gross Written Premium (LKR '000)	Premium ceded to Reinsurers (LKR '000)	Retention Ratio (%)
Participating	18,056,530	178,699	99.01	19,187,271	148,134	99.23	20,588,173	153,520	99.25
Non Participating	43,393,219	2,271,917	94.76	50,327,490	2,661,364	94.71	57,660,445	3,115,590	94.60
Unit Linked	2,026,873	30,069	98.52	2,056,618	59,872	97.09	2,053,927	98,672	95.20
<b>Total</b>	<b>63,476,622</b>	<b>2,480,685</b>	<b>96.09</b>	<b>71,571,380</b>	<b>2,869,370</b>	<b>95.99</b>	<b>80,302,546</b>	<b>3,367,781</b>	<b>95.81</b>

specially life insurers with their long duration liabilities. Table 9 and Chart 8 demonstrate the company wise total assets of long term insurers as at 31st December 2017 and 2018. Total assets of long term insurance business amounted to LKR 429,706 million as at 31st December 2018 (2017: LKR 391,890 million) and recorded an increase of 9.65% compared to total assets as at 31st December 2017.

Similar to previous years, majority of the assets held by SLIC amounted to LKR 128,642 million and represented 29.94% of the total assets. Ceylinco Life and AIA Life owned 27.47% (LKR 118,059 million) and 12.66% (LKR 54,405 million) worth of assets in the market securing second and third positions respectively. Accordingly, SLIC, Ceylinco Life and AIA Life collectively accounted for more than 70% of the total assets in the long term insurance business.

Union Life, Janashakthi Life and HNB Life were able to

Table 9

## Company wise Analysis of Total Assets - Long Term Insurance Business

Insurer	2017 (a)		2018 (b)	
	LKR '000	%	LKR '000	%
AIA	52,576,947	13.42	54,405,489	12.66
Allianz Life	4,015,838	1.02	4,648,594	1.08
Amana Life	2,809,627	0.72	2,844,544	0.66
Arpico	2,104,045	0.54	2,717,868	0.63
Ceylinco Life	106,094,508	27.07	118,059,390	27.47
Cooplif	2,214,565	0.57	2,369,515	0.55
HNB Life	15,419,280	3.93	18,678,274	4.35
Janashakthi Life	20,020,952	5.11	20,919,453	4.87
LIC	2,667,267	0.68	2,795,737	0.65
LOLC Life	4,102,317	1.05	4,683,738	1.09
MBSL	634,896	0.16	661,822	0.15
Sanasa	1,944,909	0.50	1,828,952	0.43
SLIC	121,739,739	31.06	128,642,499	29.94
Soft logic	12,478,446	3.18	17,332,967	4.03
Union Life	43,067,007	10.99	49,116,729	11.43
<b>Total</b>	<b>391,890,345</b>	<b>100.00</b>	<b>429,705,570</b>	<b>100.00</b>

increase their asset base and ensure fourth, fifth and sixth places respectively. Similar to previous year, all companies were able to enhance their total assets except Sanasa as at 31st December 2018.

### Concentration of Assets as at 31st December 2017 & 2018 - Long Term Insurance Business

Concentration of assets of long term insurance business among different asset categories as at 31st December 2018 and as at 31st December 2017 is reflected in Table 10 and Chart 9.

Similar to previous year, the life insurers have given priority for investments in government debt securities in order to comply with the regulatory requirements and to minimize the risk involved. Hence, out of the total assets, government debt securities accounted for LKR 176,437 million as at 31st December 2018 representing 41.06% (2017: LKR 183,350 million, 46.79%) and recorded a slight drop of share in year on year.

Corporate debts, bank deposits and equities represented the

Chart 8

## Company wise Analysis of Total Assets as at 31st December 2018 &amp; 2017 Long Term Insurance Business

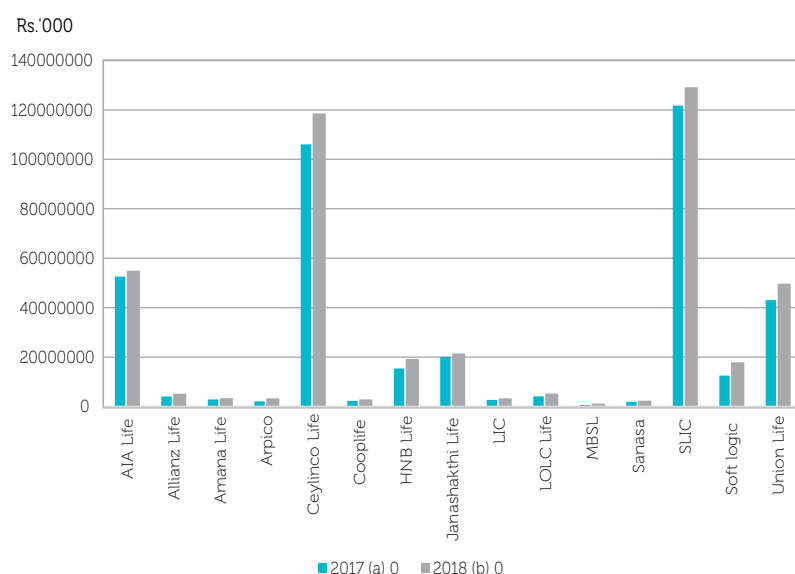


Table 10

**Concentration of Assets as at 31st December 2017 & 2018 - Long Term Insurance Business**

Type of Asset	2017 (a)		2018 (b)	
	LKR '000	%	LKR '000	%
Government Debt Securities	183,349,981	46.79	176,436,676	41.06
Equities	44,382,861	11.33	35,109,870	8.17
Corporate Debt	72,939,391	18.61	80,776,780	18.80
Land & Buildings	11,077,650	2.83	13,625,448	3.17
Deposits	41,048,688	10.47	66,962,746	15.58
Unit Trusts	6,881,290	1.76	6,884,885	1.60
Policy Loans	6,130,590	1.56	5,833,641	1.36
Other Assets	22,587,408	5.76	40,617,878	9.46
Cash and cash equivalents	3,492,486	0.89	3,457,646	0.80
<b>Total</b>	<b>391,890,345</b>	<b>100</b>	<b>429,705,570</b>	<b>100</b>

other main asset categories of long term insurance business and accounted for 18.80%, 15.58% and 8.17% of total assets respectively as at 31st December 2018. In the year 2018, there was an increase in Corporate debts up to LKR 80,777 million as at 31st December 2018 and had recorded a growth of 10.75% (2017: LKR 72,939 million).

The investments in equities recorded LKR 35,110 million as at 31st December 2018, a decrease of 20.89% compared to LKR 44,383 million recorded as at 31st December 2017. This reflects negative movement in domestic equity market due to unstable political conditions, inconsistent economic policies and adverse global developments for emerging markets which unfavorably affected the companies' equity investment portfolios.

Similar to investments of corporate debts, rising interest rates led the deposits to increase substantially as at 31st December 2018 which amounted to LKR 66,963 million and reported a noticeable increase of 63.13% compared to

LKR 41,049 million recorded as at 31st December 2017.

Further, there was a notable increase in other assets as at 31st December 2018 amounted to LKR 40,618 million and represented 9.46% of total asset portfolio. This category reported 79.83% increase compared to the previous year and, mainly comprised of deferred tax assets, accrued investment income, gratuity benefit assets and sundry debtors etc. In 2018

life insurers' have recognized deferred tax assets worth LKR 9,156 million as a result of implementation of amended tax law which can be used to offset future tax payments.

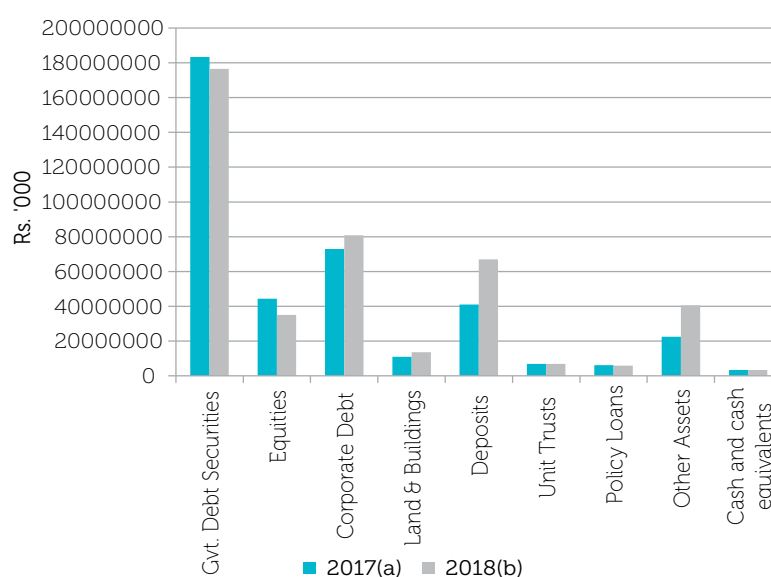
However, the main investment categories namely, government debt securities, corporate debts and deposits have accounted for 75.44% (2017: 75.87%) of the total assets held by long term insurers in 2018 and the balance 24.56% (2017: 24.13%) was held in equities, land & buildings, other assets, policy loans etc.

### Investment Income - Long Term Insurance Business

Despite increase in interest rates exhibited during 2018, total income generated from investments marginally improved by 8.65% to LKR 37,141 million compared to LKR 34,183 million reported in 2017. As depicted in Table 11, government treasury bonds, corporate debentures and bank deposits were the most

Chart 9

### Concentration of Assets as at 31st December 2017 & 2018 Long Term Insurance Business



attractive investment options which contributed to 89.76% of the total investment income.

Total investment income generated from government debt securities amounted to LKR 19,509 million in 2018 against average investments of LKR 179,893 million. Accordingly, government debt securities recorded investment yield of 10.84% for the year 2018. Further, interest income from deposits has increased by 44.62% compared to previous year. Corporate debt which represented a significant portion of the investment portfolio had generated investment income of LKR 9,528 million (2017: LKR 8,418 million) and grew by 13.19% year on year. Further, investment yield of corporate debt was 12.40% in 2018 compared to 11.67% reported in 2017. Accordingly, the highest investment yield ratio was

reported by corporate debts out of all financial investments.

The overall investment yield was 10.09% in 2018 compared to 10.20% in 2017.

### Solvency Position of Insurance Companies- Long Term Insurance Business

Table 12 demonstrates details of Total Available Capital (TAC), Risk based Capital Required (RCR) and Capital Adequacy Ratio (CAR) of long term insurance business as at 31st December 2017 and 2018. The average CAR of long term insurance business recorded for the years 2018 and 2017 was at 314% and 355% respectively. All insurance companies had satisfied the minimum CAR requirement of 120% as at 31st December 2018 and all companies except LOLC Life had recorded a CAR

exceeding 160% which is the Enforcement Level prescribed by the Commission. Further, insurers are required to maintain a minimum TAC of LKR 500 million in order to comply with the capital adequacy requirement. All life insurers except MBSL, Amana Life and LIC have not complied with the minimum TAC of LKR 500 million as at 31st December 2018. Accordingly, necessary action has been taken for those who had not complied with the minimum capital adequacy requirements in terms of the Solvency Margin (Risk Based Capital) Rules 2015.

Surrender Value Capital Charge (SVCC) addresses the risk of extreme adverse scenario if all life insurance contracts are surrendered simultaneously, where for some companies this value may be negative or zero. Accordingly, SVCC reported as at

Table 11

#### Breakup of Investment Income and Average Investments - Long Term Insurance Business

Category	2017 (a)			2018 (b)		
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	19,677,088	172,823,351	11.39	19,509,213	179,893,329	10.84
- Treasury Bonds	18,321,109			17,876,498		
- Treasury Bills	108,711			296,332		
- Others (REPO)	1,247,268			1,336,382		
<b>Equity</b>	1,013,995	33,899,535	2.99	1,071,240	31,041,750	3.45
- Capital Gain / Losses	(294,173)			(173,346)		
- Dividend	1,308,167			1,244,586		
<b>Corporate Debts</b>	8,417,610	72,160,137	11.67	9,528,146	76,858,085	12.40
- Debentures	8,324,681			9,450,032		
- Commercial Papers & others	92,929			78,114		
- Other Similar Financial Instruments	-			-		
<b>Land and Buildings</b>	88,147	10,541,592	0.84	80,109	12,351,549	0.65
<b>Deposits</b>	4,535,278	34,667,120	13.08	6,558,766	54,005,717	12.14
- Bank	4,080,779			6,013,545		
- Finance Companies	454,499			545,221		
<b>Unit Trust</b>	104,828	4,410,341	2.38	235,590	6,883,088	3.42
<b>Policy Loans</b>	288,435	5,927,562	4.87	106,230	5,982,116	1.78
<b>Others</b>	57,868	721,486	8.02	52,091	1,135,697	4.59
<b>Total</b>	<b>34,183,249</b>	<b>335,151,124</b>	<b>10.20</b>	<b>37,141,384</b>	<b>368,151,330</b>	<b>10.09</b>

Table 12

## Company wise Analysis of Solvency Position - Long Term Insurance Business as at 31st December 2017 and 2018

Insurer	As at 31 <sup>st</sup> December 2017 (b)				As at 31 <sup>st</sup> December 2018 (b)			
	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)
AIA Life	23,866,513	3,853,018	4,010,591	595	19,221,556	2,934,346	974,079	655
Allianz Life	1,208,658	172,560	79,873	700	1,214,542	293,397	100,329	414
Amana Life	555,105	312,338	-	178	493,210	278,560	-	177
Arpico	1,417,242	163,944	-	864	1,618,804	413,912	406,492	391
Ceylinco Life	52,476,848	13,984,914	-	375	53,627,152	14,983,052	8,129	358
Cooplif	644,898	421,572	-	153	776,624	318,802	-	244
HNB Life	6,038,377	1,689,029	483,048	358	6,636,693	2,082,131	451,835	319
Janashakthi Life	5,178,103	2,151,085	717,405	241	9,663,465	2,915,036	728,421	332
LIC	665,053	253,998	-	262	476,371	248,126	-	192
LOLC Life	1,008,325	442,673	-	228	634,156	455,978	-	139
MBSL	155,065	78,956	-	196	219,364	57,412	-	382
Sanasa	522,525	289,799	54,773	180	594,237	290,923	2,953	204
SLIC	74,563,589	17,278,458	-	432	80,502,789	18,308,338	608,221	440
Softlogic Life	6,084,461	2,921,106	826,001	208	7,933,517	3,961,403	1,450,442	200
Union Life	16,532,023	4,701,641	-	352	14,382,478	5,495,855	164,406	262
<b>Total/Overall</b>	<b>190,916,785</b>	<b>48,715,089</b>	<b>6,171,691</b>	<b>355</b>	<b>197,994,959</b>	<b>53,037,271</b>	<b>4,895,307</b>	<b>314</b>

31st December 2018 amounted to LKR 4,895 million and reported a notably reduced amount compared to 2017.

### Total Available Capital (TAC) Requirement of Insurance Companies – Long Term Insurance Business.

Table 13 depicts the composition of TAC pertaining to long term insurers as at 31st December 2018. TAC of long term insurance companies accumulated to LKR 197,995 million (2017: LKR 190,917 million) as at 31st December 2018 and depicted a marginal growth of 3.71% year on year. Out of which massive improvement was noted in the TAC reported by Janashakthi Life compared to 2017 mainly due to the disposal of inadmissible investments in related parties which was considered as a deduction when determining TAC prior to the disposal. Further, TAC reported

by Union Life, AIA Life and LOLC Life had declined drastically by 13%, 19.46% and 37% respectively in 2018 against 2017 as a result of increase in inadmissible assets and significant losses reported by LOLC Life during the year under review coupled with increase in inadmissible assets.

Overall TAC comprised of Tier I, Tier II capital and Deductions. Tier I capital is the capital fully available to cover the losses plus retained earnings and adjustments to retained earnings. Tier I capital amounted to LKR 211,602 million as at 31st December 2018 compared to LKR 209,252 million as at 31st December 2017. Tier II capital which supports to absorb the loss to some extent on going concern basis amounted to LKR 18,660 million as at 31st December 2018 and increased notably compared to LKR 6,947 million reported as at 31st December 2017. As

per Direction # 16 issued by the Commission on the identification and treatment of One-off surplus, long term insurers are permitted to transfer the One-Off Surplus, other than participating business to shareholder funds and insurers were directed to maintain this surplus as 'Restricted Regulatory Reserve' in the shareholder funds. As per the requirements stated in the Direction, the 'Restricted Regulatory Reserve' is to be reported under Tier II capital, which resulted in improving the Tier II capital by 168.61% year on year.

The Deductions which mainly comprised of intangible or illiquid assets represented 16.30% of the TAC has grown by 27.63% to LKR 32,267 million compared to LKR 25,283 million in 2017 which is mainly due to the recognition of deferred tax assets of life insurers as a deduction during year 2018.

Table 13

## Total Available Capital (TAC) Requirement of Insurance Companies - Long Term Insurance Business

Insurer	As at 31 <sup>st</sup> December 2017 (a)	As at 31 <sup>st</sup> December 2018 (b)			
	TAC (LKR '000)	Tier 1 (LKR '000)	Tier II (LKR '000)	Deductions (LKR '000)	TAC (LKR '000)
AIA Life	23,866,513	18,475,920	6,548,764	5,803,128	19,221,556
Allianz Life	1,208,658	1,457,677	-	243,135	1,214,542
Amana Life	555,105	516,058	35,482	58,330	493,210
Arpico	1,417,242	1,883,431	-	264,627	1,618,804
Ceylinco Life	52,476,848	58,007,149	3,624,280	8,004,277	53,627,152
Cooplife	644,898	876,538	58,245	158,159	776,624
HNB Life	6,038,377	9,339,704	381,156	3,084,166	6,636,693
Janashakthi Life	5,178,103	9,897,367	1,795,829	2,029,730	9,663,465
LIC	665,053	572,026	9,050	104,704	476,371
LOLC Life	1,008,325	686,896	256,134	308,875	634,156
MBSL	155,065	220,695	-	1,331	219,364
Sanasa	522,525	849,357	1,221	256,341	594,237
SLIC	74,563,589	82,938,158	31,128	2,466,497	80,502,789
Softlogic Life	6,084,461	10,575,915	846,440	3,488,838	7,933,517
Union Life	16,532,023	15,304,859	5,072,672	5,995,053	14,382,478
<b>Total</b>	<b>190,916,785</b>	<b>211,601,749</b>	<b>18,660,402</b>	<b>32,267,190</b>	<b>197,994,959</b>

### Comparisons of Risk Based Capital Required (RCR) by Insurance Companies – Long Term Insurance Business.

Table 14 illustrates the company wise composition of various capital charges relating to the Risk Capital Required (RCR) as at 31st December 2017 and 2018. RCR is the aggregate of capital charges determined for material risk categories with appropriate allowances for diversification. Credit risk, concentration risk, market risk, reinsurance risk, liability risk and operational risk are considered as material risk categories for this purpose. In 2018, total risk capital charges after diversification amounted to LKR 53,037 million (2017: LKR 48,715 million) for long term insurance business. Prior to diversification same amounted to LKR 69,079 million in 2018.

Similar to prior year, market risk was the main risk amounted to LKR 39,320 million followed by liability risk and concentration risk respectively. Accordingly, these three risk categories represented 87.86% of total risk capital charges prior to diversification.

### Number of Insurance Policies Issued and Policies Inforce – Long Term Insurance Business

During the year 2018, long term insurers had issued 712,013 new life insurance policies, increasing by 10.65% compared to 643,483

**Chart 10**  
Number of Insurance Policies Issued and Policies in Force- Long Term Insurance Business

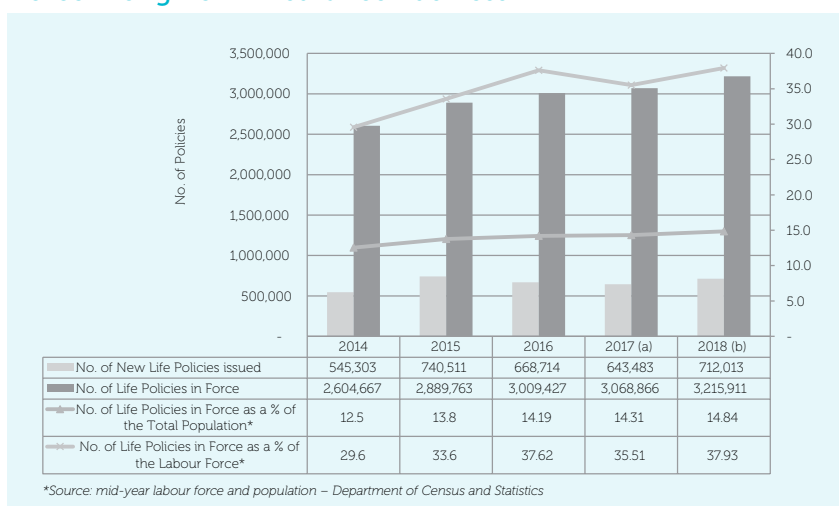


Table 14

## Company wise Analysis of Risk Capital Required (RCR) as at 31st December 2017 and 2018 – Long Term Insurance Business

Insurer	As at 31st December 2017 (a) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	544,451	474,348	2,267,270	-	1,941,588	527,000	5,754,658	3,853,018
Allianz Life	2,774	25,188	66,840	470	139,893	33,617	268,782	172,560
Amana Life	28,721	214,431	63,375	529	49,814	28,114	384,984	312,338
Arpico	23,827	54,087	61,596	-	83,571	20,747	243,828	163,944
Ceylinco Life	1,068,870	567,911	12,088,853	4,653	2,430,953	1,071,222	17,232,461	13,984,914
Cooplife	50,641	12,837	300,411	-	211,709	22,063	597,662	421,572
HNB Life	194,403	362,576	1,030,356	1,759	551,798	152,059	2,292,949	1,689,029
Janashakthi Life	247,394	53,919	1,700,189	1,082	760,967	194,302	2,957,852	2,151,085
LIC	25,835	44,139	174,420	82	63,257	27,289	335,022	253,998
LOLC Life	1,072	16,189	240,874	4,457	354,006	41,041	657,639	442,673
MBSL	4,428	14,432	47,136	5	42,863	6,357	115,223	78,956
Sanasa	27,824	166,080	84,412	307	77,346	19,275	375,241	289,799
SLIC	1,042,994	1,972,474	13,709,970	-	4,149,374	1,259,957	22,134,770	17,278,458
Softlogic Life	92,124	348,759	1,481,824	-	2,195,653	123,141	4,241,501	2,921,106
Union Life	196,407	471,272	3,837,662	276	1,270,902	435,499	6,212,016	4,701,641
<b>Total</b>	<b>3,551,764</b>	<b>4,798,642</b>	<b>37,155,187</b>	<b>13,620</b>	<b>14,323,694</b>	<b>3,961,683</b>	<b>63,804,590</b>	<b>48,715,089</b>

Insurer	As at 31st December 2018 (b) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	420,637	574,443	1,007,142	-	2,074,536	545,703	4,622,461	2,934,346
Allianz Life	2,380	7,035	215,230	779	184,040	37,356	446,819	293,397
Amana Life	18,882	153,823	102,350	512	28,509	29,076	333,153	278,560
Arpico	33,831	121,978	135,120	264	292,926	26,911	611,030	413,912
Ceylinco Life	1,426,249	733,458	12,532,563	4,393	2,679,805	1,148,284	18,524,753	14,983,052
Cooplife	54,053	41,797	190,285	-	138,573	23,635	448,344	318,802
HNB Life	239,892	405,478	1,352,803	2,235	547,326	184,588	2,732,322	2,082,131
Janashakthi Life	247,969	65,840	2,461,137	2,397	863,013	197,503	3,837,859	2,915,036
LIC	27,673	67,415	143,172	117	63,359	26,978	328,715	248,126
LOLC Life	15,260	26,772	202,240	-	382,183	46,723	673,179	455,978
MBSL	2,342	4,692	43,457	-	26,513	6,622	83,626	57,412
Sanasa	26,723	175,162	85,285	341	40,565	18,103	346,179	290,923
SLIC	1,264,435	2,185,672	14,278,384	-	4,391,860	1,267,836	23,388,188	18,308,338
Softlogic Life	167,517	608,112	2,027,729	-	2,793,684	170,954	5,767,996	3,961,403
Union Life	218,989	603,863	4,542,621	-	1,089,026	479,743	6,934,241	5,495,855
<b>Total</b>	<b>4,166,833</b>	<b>5,775,542</b>	<b>39,319,520</b>	<b>11,038</b>	<b>15,595,920</b>	<b>4,210,013</b>	<b>69,078,865</b>	<b>53,037,271</b>

new policies issued in 2017 due to certain creativities and innovations undertaken by life insurers such as offering life insurance through mobile applications, day claim settlements etc. Accordingly, the total life insurance policies in force reached to 3,215,911 as at the end of year 2018 (2017: 3,068,866). As depicted in Chart 10, the total life insurance policies

in force has gradually increased over the last five years reflecting that long term insurance business is continuously expanding in the country. Number of life insurance policies as a percentage of the total population was 14.84% in 2018 compared to 14.31% recorded in 2017. Further, number of life insurance policies as a percentage of the labour force has increased

to 37.93% in 2018 from 35.51% recorded in 2017.

### Product wise Policies in force and Sum Insured- Long Term Insurance Business

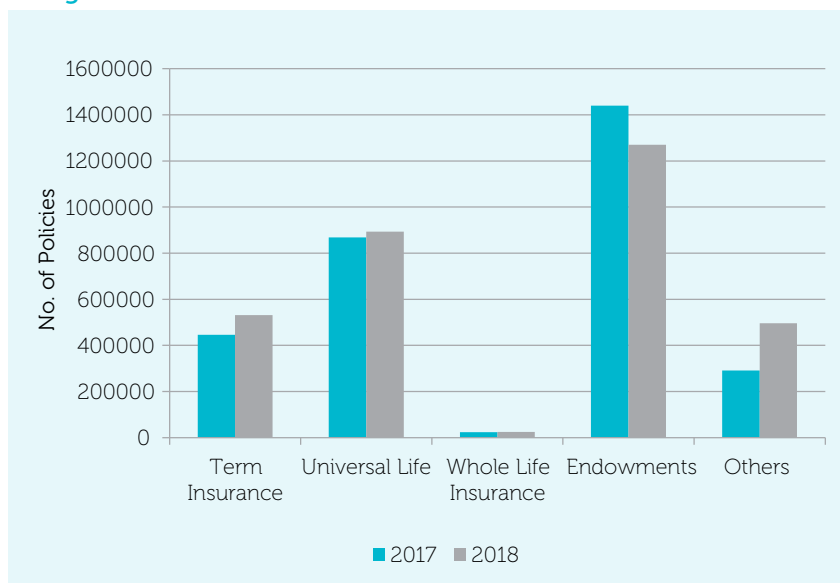
Table 15 provides details on number of life insurance policies in force and sum insured based on

the type of products for year 2017 and 2018. Mainly products were categorized in to endowment, universal life, term, whole and others. In 2018, total sum assured amounted to LKR 2,850,115 million and grew by 22.16% year on year.

Majority of policies in force represented endowment which amounted to 1,270,693 due to its inherent characteristics of maturity lump sum payment. However, endowment policies showed a slight drop during 2018 compared to 1,439,456 policies in 2017 with the changes in consumer demand. The demand towards 'other' includes health plans, unit linked, annuity & group life is growing by 71% year on year due to the certain characteristics embedded to such products including health care benefit, investment saving element, flexibility as well as retirement options provided to the policyholder etc.

Further, there was a marginal increase in the business volume from term insurance business in 2018 compared to 2017 resulting an increase in policies in force from 446,307 to 530,885 from 2017 to 2018 with a total sum assured amounted to LKR 922,955

**Chart 11**  
**Product wise Policies in Force for 2017 and 2018**  
**Long Term Insurance Business**



million (2017: LKR 835,316 million) and accounted for 16.51% of the total policies in force.

#### Insurance Policy Lapses – Long Term Insurance Business

As depicted in Chart 12, total insurance policies lapsed in 2018 has decreased to 272,547 policies from 275,039 policies recorded in 2017 which showed a reduction in lapsed policies by 2,492. Therefore, total insurance policies lapsed as a percentage of total insurance policies in force had declined to 8.47% in 2018 compared to 8.96%

recorded in 2017. New long term insurance policies lapsed during 2018 amounted to 85,253 and reduced by 5.64% compared to 90,350 lapsed policies reported in 2017. Therefore, new insurance policy lapses as a percentage of new policies issued had declined to 11.97% in 2018 compared to 14.04% recorded in 2017.

#### Claims incurred by Insurance Companies – Long Term Insurance Business

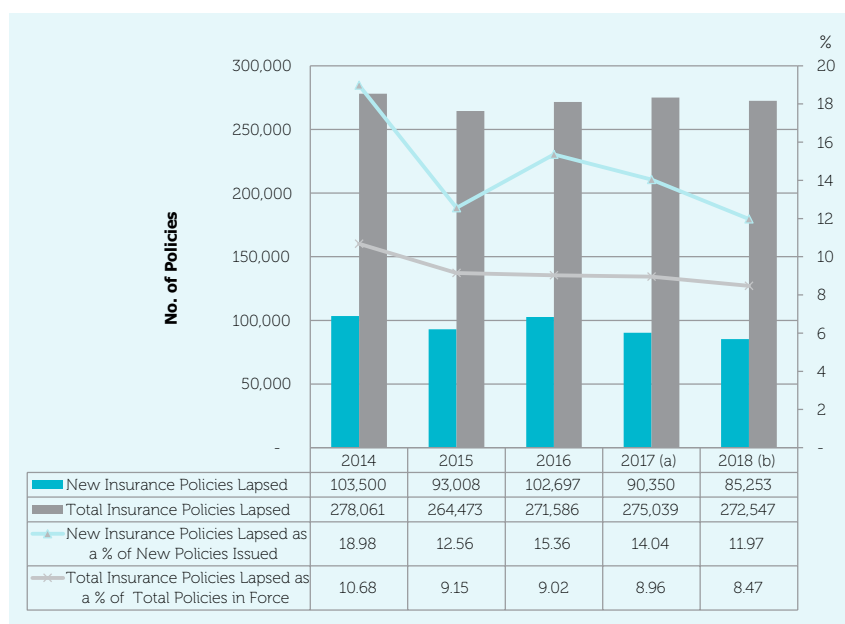
Total claims incurred by life insurers increased noticeably in year 2018 which amounted to LKR 34,337 million (2017: LKR 26,371 million) and has grown by 30.21% year on year. Within last five years this was the highest claims incurred by the life insurers in terms of value. As depicted in Chart 13, total claims incurred comprised of disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders.

**Table 15**

**Product wise Policies in Force and Sum Insured for 2017 and 2018 - Long Term Insurance Business**

Type of Product	2017		2018	
	No: of Policies in Force	Sum Insured (LKR 000')	No: of Policies in force	Sum Insured (LKR 000')
Term Insurance	446,307	835,316,103	530,885	922,955,498
Universal Life	868,702	281,070,589	893,710	393,408,191
Whole Life Insurance	23,835	1,525,598	24,435	1,635,183
Endowments	1,439,456	372,435,760	1,270,693	417,939,398
Others	290,566	842,829,068	496,188	1,114,176,834
<b>Total</b>	<b>3,068,866</b>	<b>2,333,177,117</b>	<b>3,215,911</b>	<b>2,850,115,104</b>

**Chart 12**  
Insurance Policy Lapses – Long Term Insurance Business



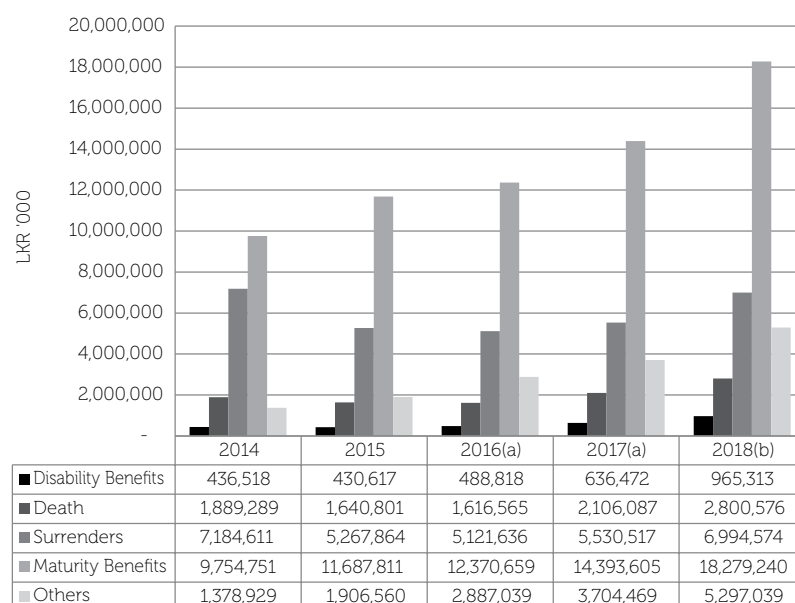
Out of the total claims incurred, maturity benefits represented 53.24% in 2018 (2017: 54.58%). However, maturity benefits have risen by 27% in year 2018 compared to year 2017 and this increase is mainly attributed to maturity benefits settled by few large companies. Surrenders also represented a significant portion of the claims incurred which amounted to LKR 6,995 million and represented 20.37% of the total claims and had grown by 26.47% year on year.

During 2018, disability benefits and death benefits have gone up by 51.67% and 32.98% respectively compared to 2017. Other benefits which include health benefits, advance payments, bonus, cancellations and refunds etc. amounted to LKR 5,297 million which is 15.43% of the total claims and recorded a significant growth year on year.

### Number of Insurance Claims - Long Term Insurance Business

Total number of claims for the year 2018 has risen by 15.03% to 394,434 as against improvement of 30.21% noted in value of the claims

**Chart 13**  
Claims Incurred by Insurance Companies – Long Term Insurance Business



in 2018. The number of maturity benefit claims was 153,856 (2017: 128,266) and represented 39.01% of the total claims. "Others" which is a combination of miscellaneous claims on health benefits, cancellations, refunds, partial withdrawals etc. had grown by 14.58% to 166,665 year on year. Other benefit claims and maturity claims together accounted for 81.26% of the total claims. Surrenders represented 14.84% of the total number of claims which insurers need to pay attention to minimize the same. The number of death benefits paid has marginally increased by 6.12% in 2018 against 2017. However, it is notable that all types of claims have increased in 2018 except disability claims which had declined significantly in 2018 and this reduction was mainly driven by one life insurer. Table 16 provides details on number of insurance claims for the years 2014 to 2018.

Table 16

## Number of Insurance Claims - Long Term Insurance Business

	2014	2015	2016	2017 (a)	2018 (b)
Disability Benefits	8,120	14,081	9,521	10,749	3,441
Death	5,795	6,747	8,418	11,247	11,935
Surrenders	46,312	42,814	46,484	47,191	58,537
Maturity Benefits	107,353	120,661	108,680	128,266	153,856
Other benefits	84,835	112,337	143,336	145,452	166,665
<b>Total</b>	<b>252,415</b>	<b>296,640</b>	<b>316,439</b>	<b>342,905</b>	<b>394,434</b>

## General Insurance Business

## Gross Written Premium

Sri Lankan general insurance industry comprised of fifteen insurance companies in 2018, of which eleven insurers solely operating in general insurance, three composite insurers handling both general and long term insurance businesses and an

insurer handling both general insurance and reinsurance businesses. These market players were expected to create competitive, coherent, transparent and regulated environment for the insurance industry in Sri Lanka.

Typically, the year was more competitive among the general insurers due to the opportunities and challenges in the industry

such as declined construction business, increase in vehicle registration which was largely witnessed in motor cars mainly due to favorable duty structure applicable to small engine capacity vehicles through the 2018 Budget etc. However, the industry experienced less adverse effects on unfavorable weather conditions in 2018 compared to previous years. Amalgamation of Allianz General and Janashakthi General further enhanced the competition in the industry while creating notable changes in top market shareholders.

General insurance business generated GWP amounted to LKR 101,204 million in 2018 compared to LKR 93,389 million recorded in the year 2017 and reported a single

Table 17

## Company wise Gross Written Premium and Market Share - General Insurance Business

Insurer	2014		2015		2016		2017 (a)		2018 (b)	
	Premium (LKR '000)	Market Share (%)	Premium (LKR '000)	Market Share (%)	Premium (LKR '000)	Market Share (%)	Premium (LKR '000)	Market Share (%)	Premium (LKR '000)	Market Share (%)
AIA Gen.	2,655,577	4.34	3,297,840	4.76						
AIG	414,805	0.68	3,141	0.00						
Allianz Gen.	2,723,406	4.45	3,244,844	4.68	4,247,691	5.34	5,956,142	6.38	18,610,471	18.39
Amana Gen.	1,285,418	2.10	1,438,732	2.08	1,474,186	1.85	1,686,270	1.81	1,841,067	1.82
Ceylinco Gen.	11,431,680	18.68	12,921,561	18.65	15,265,433	19.18	17,012,087	18.22	18,137,933	17.92
Continental	1,761,747	2.88	2,309,413	3.33	3,088,064	3.88	3,892,780	4.17	4,545,405	4.49
Cooperative Gen.	1,358,932	2.22	1,691,705	2.44	2,420,130	3.04	2,966,679	3.18	3,692,397	3.65
Fairfirst	1,638,126	2.68	1,908,901	2.76	2,361,614	2.97	9,610,990	10.29	10,946,602	10.82
HNB Gen.	2,182,915	3.57	2,577,224	3.72	2,982,385	3.75	3,662,008	3.92	4,062,172	4.01
Janashakthi Gen.	6,491,556	10.61	7,406,160	10.69	10,137,864	12.74	11,740,185	12.57	-	0.00
LOLC Gen.	1,815,486	2.97	2,476,961	3.58	3,096,834	3.89	3,795,106	4.06	4,318,721	4.27
MBSL	961,225	1.57	1,159,208	1.67	972,976	1.22	260,806	0.28	(512)	0.00
NITF	5,295,759	8.65	4,961,413	7.16	6,420,822	8.07	8,114,412	8.69	9,644,901	9.53
Orient	491,127	0.80	746,935	1.08	810,728	1.02	1,179,000	1.26	1,376,398	1.36
People's	3,286,063	5.37	3,637,404	5.25	4,166,727	5.24	4,587,432	4.91	5,354,367	5.29
Sanasa	344,041	0.56	349,527	0.50	384,481	0.48	569,509	0.61	768,120	0.76
SLIC	12,113,994	19.79	13,583,222	19.61	15,198,381	19.10	18,355,361	19.65	17,905,523	17.69
Union Gen.	4,950,741	8.09	5,557,189	8.02	6,561,571	8.23				
<b>Total</b>	<b>61,202,599</b>	<b>100</b>	<b>69,271,380</b>	<b>100</b>	<b>79,589,887</b>	<b>100</b>	<b>93,388,766</b>	<b>100</b>	<b>101,203,564</b>	<b>100</b>
<b>Growth Rate (%)</b>	<b>5.01</b>		<b>13.18</b>		<b>14.90</b>		<b>17.34</b>		<b>8.37</b>	

digit growth of 8.37% as depicted in Table 17. This growth is attributable to factors driven by the industry such as technology, new methods of marketing, distribution and payments which helped to boost the general insurance industry. However, the growth rate of GWP was at a slow pace compared to previous year growth rate of 17.34%. This is mainly due to lower GWP growth rate experienced in fire, motor, miscellaneous insurance businesses and negative growth recorded in the health insurance business.

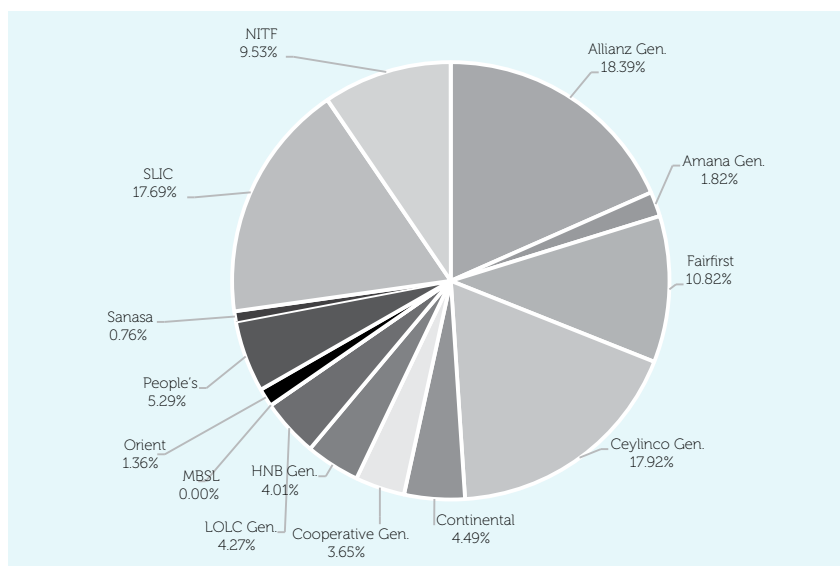
With the amalgamation of Janashakthi General, Allianz General has gained the leadership in the general insurance market by surpassing SLIC. As illustrated in Chart 14 and Table 17, Allianz General achieved a market share of 18.39% and recorded a premium income of LKR 18,610 million for the year 2018. Ceylinco General remained in the second position of the general insurance market by recording a premium income of LKR 18,138 million (2017: LKR 17,012 million) with a market share of 17.92% (2017: 18.22%).

SLIC achieved the third position in general insurance market by recording a premium income of LKR 17,905 million (2017: LKR 18,355 million). SLIC's market share reported as 17.69% in 2018 (2017: 19.65%) shows a decrease of 1.96% compared to year 2017. Fairfirst remained in the fourth position with a market share of 10.82% (2017: 10.29%) by recording a premium income of LKR 10,947 million in 2018 (2017: LKR 9,611 million).

NITF has improved its performance by generating a premium income of LKR 9,645

**Chart 14**

**Company wise Market Share of Gross Written Premium- General Insurance Business for the Year Ended 31st December 2018**



million in 2018 (2017: LKR 8,114 million) and achieved the fifth largest market share of 9.53% (2018: 8.69%). Accordingly, NITF's premium income has grown by 18.87% year on year.

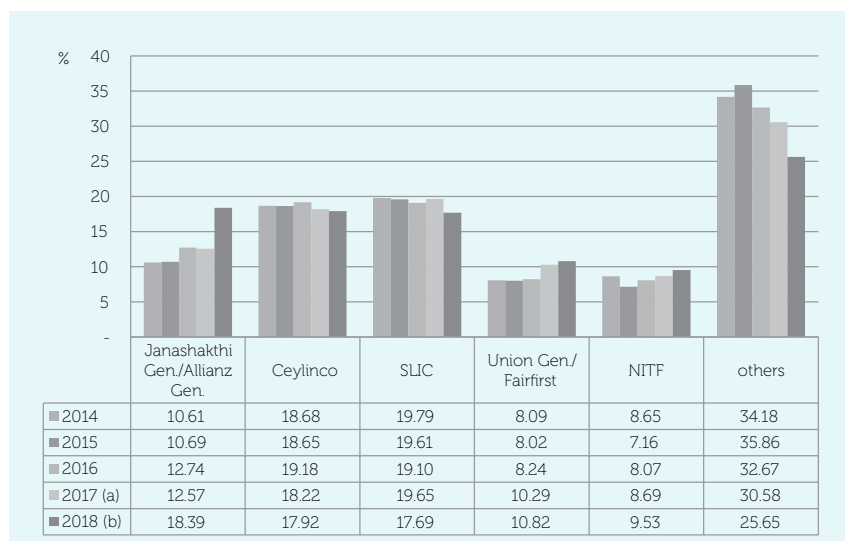
Only Sanasa and Cooperative General have recorded a growth rate above 20% compared to GWP recorded in the year 2017, except the growth recorded by Allianz General which is due to the amalgamation. The market position of all general insurance companies has slightly increased in 2018 except SLIC, Ceylinco General and MBSL.

**Market Share of Top Five Contributors to Gross Written Premium and Other Insurance – General Insurance Business**

Chart 15 illustrates the details of market share of five main contributors and other insurers during the last five years. Despite the competition among general insurance market players, Allianz General, Ceylinco General and

SLIC lead the market with an aggregate market share of 54% in 2018 (2017: 50.44%).

Allianz General has expanded their market share with the amalgamation of Janashakthi General and their combined strength has been able to secure the market leadership by recording 18.39% market share in 2018. Even though the premium income has increased by 6.62%, the market share of Ceylinco General has dropped to 17.92% in 2018 from 18.22% recorded in the year 2017. SLIC achieved the third position in the general insurance business by holding a market share of 17.69% in 2018 (2017: 19.65%). However, SLIC's premium income decreased from LKR 18,355 million recorded in 2017 to LKR 17,905 million in 2018. Fairfirst and NITF remained in the fourth and fifth positions in the general insurance market by achieving market shares of 10.82% (2017: 10.29%) and 9.53% (2017: 8.69%) respectively. These five players together contributed to 74.35%

**Chart 15****Market Share of Top Five Contributors to GWP and Other Insurers for the Years 2014 to 2018- General Insurance Business**

(2017: 69.42%) of the total GWP and recorded a growth of 4.93% year on year.

Similar to previous years, the remaining companies' aggregated market share has further decreased to 25.65% in 2018

from 30.58% recorded in the year 2017. This reduction is also due to amalgamation of Janashakthi General with Allianz General with effect from 28th September 2018.

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

Table 18 and Chart 16 depict gross written premium generated from the main sub-classes of general insurance business along with their growth rates and percentage share from the total GWP for the years 2014 to 2018. Fire, marine, motor, health and miscellaneous insurance businesses constituted the main sub classes of general insurance business including premiums pertaining to SRCC & T.

**Table 18****Class wise Analysis of Gross Written Premium - General Insurance Business**

Class	Gross Written Premium (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	6,353,292	6,604,074	7,479,910	8,597,489	9,274,723
Marine	1,911,944	1,996,862	2,086,394	2,191,654	2,403,187
Motor	35,786,941	42,622,205	49,333,000	56,047,640	62,478,575
Health	7,593,386	8,534,364	10,036,518	14,649,440	14,185,167
Miscellaneous	6,721,836	6,495,454	7,120,742	7,866,260	8,280,272
<b>Sub Total</b>	<b>58,367,399</b>	<b>66,252,959</b>	<b>76,056,564</b>	<b>89,352,484</b>	<b>96,621,924</b>
SRCC & T	2,835,200	3,018,421	3,533,324	4,036,283	4,581,641
<b>Total</b>	<b>61,202,599</b>	<b>69,271,380</b>	<b>79,589,888</b>	<b>93,388,766</b>	<b>101,203,564</b>

Class	Growth (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	0.79	3.95	13.26	14.94	7.88
Marine	6.40	4.44	4.48	5.05	9.65
Motor	7.37	19.10	15.74	13.61	11.47
Health	4.13	12.39	17.60	45.96	(3.17)
Miscellaneous	(4.19)	(3.37)	9.63	10.47	5.26
<b>Sub Total</b>	<b>4.71</b>	<b>13.51</b>	<b>14.80</b>	<b>17.48</b>	<b>8.14</b>
SRCC & T	11.46	6.46	17.06	14.23	13.51
<b>Total</b>	<b>5.01</b>	<b>13.18</b>	<b>14.90</b>	<b>17.34</b>	<b>8.37</b>

Class	Percentage Share (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	10.38	9.53	9.40	9.21	9.16
Marine	3.12	2.88	2.62	2.35	2.37
Motor	58.47	61.53	61.98	60.02	61.74
Health	12.41	12.32	12.61	15.69	14.02
Miscellaneous	10.98	9.38	8.95	8.42	8.18
<b>Sub Total</b>	<b>95.37</b>	<b>95.64</b>	<b>95.56</b>	<b>95.68</b>	<b>95.47</b>
SRCC & T	4.63	4.36	4.44	4.32	4.53
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

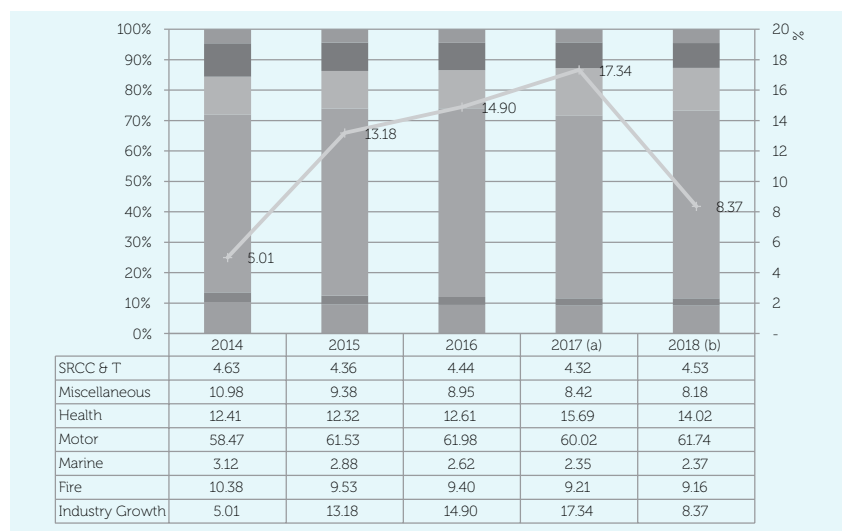
As reflected in Table 18, motor insurance had dominated the general insurance market by generating a GWP amounted to LKR 62,479 million in 2018 (2017: LKR 56,048 million) which represented 61.74% of total GWP (2017: 60.02%). Similar to previous year, there is a further drop in the growth rate of motor insurance business to 11.47% compared to the growth rate of 13.61% recorded in 2017 as a result of prevailing tight monetary conditions imposed during the year 2018.

Health insurance recorded 14.02% share of the total GWP by posting a GWP worth of LKR 14,185 million (2017: LKR 14,649 million) and recorded a negative growth of 3.17% compared to year 2017 (2017: 45.96%). This is mainly due to Suraksha free medical and personal accident cover introduced by the Education Ministry for all Sri Lankan school children in October 2017 has being expired in October 2018 and delay in reissuing for 2018/2019.

GWP of fire insurance business amounted to LKR 9,275 million in 2018 (2017: LKR 8,597 million) and recorded 9.16% (2017: 9.21%) share of the total GWP by indicating a growth of 7.88% (2017: 14.94%). Low construction volume in 2018 compared to 2017 has mainly driven the decrease growth rate recorded for fire insurance business.

Miscellaneous business excluding health insurance generated a premium income of LKR 8,280 million (2017: LKR 7,866 million) and represented 8.18% of the total GWP. Growth rate of miscellaneous insurance has decreased to 5.26% compared to

**Chart 16**  
**Class-wise Analysis of GWP from 2014 to 2018 –**  
**General Insurance Business**



10.47% recorded in the year 2017. Marine insurance recorded GWP amounted to LKR 2,403 million (2017: LKR 2,192 million) and accounted 2.37% (2017: 2.35%) of the total GWP, by recording a growth rate of 9.65% compared to 2017 (2017: 5.05%).

Premiums collected to cover the risk from Strike, Riot, Civil Commotion and Terrorism (SRCC & T) of NITF amounted to LKR 4,582 million (2017: 4,036 million) and represented 4.53% of the total GWP while recording a growth rate of 13.51% in year 2018 (2017: 14.23%).

### Category wise Analysis of GWP of Miscellaneous Insurance Business

Table 19 depicts the GWP generated from different insurance segments categorized under miscellaneous insurance business during the years 2017 and 2018. Main categories of miscellaneous insurance business include Personal Accident, Aircraft Hull, Other and Workmen's

Compensation Insurance, Travel Insurance etc. Total GWP generated from miscellaneous insurance excluding SRCC & T and coinsurance recorded LKR 8,280 million (2017: LKR 7,866 million) by reporting a 5.26% (2017: 10.47%) growth compared to previous year.

All categories of miscellaneous insurance business recorded positive growth during the year 2018 except categories such as Title insurance, Goods in transit, workmen's compensation insurance and Other category. Personal accident and Aircraft hull were the segments which generated the highest GWP under miscellaneous insurance business which amounted to LKR 1,667 million (2017: LKR 1,435 million) and LKR 1,051 million (2017: LKR 850 million) respectively.

Other category of miscellaneous insurance business became the third largest business category and recorded GWP amounted to LKR 903 million in 2018 showing a decrease of 23.21 % compared

**Table 19**  
**Category wise Analysis of GWP of Miscellaneous Insurance**  
**Premium for 2017 & 2018**

Category	GWP LKR '000	
	2017 (a)	2018 (b)
Title	502,357	487,470
Personal Accident	1,434,805	1,666,986
Contractors' All Risk	281,601	467,916
Professional Indemnity	275,178	334,498
Travel Insurance	497,729	531,208
Fidelity Guarantee	100,207	117,688
Burglary	374,946	407,106
Cash in transit including cash in safe	411,776	436,336
Goods in Transit	133,885	125,159
Products Liability	141,741	149,555
Public Liability	395,893	447,877
Bankers' Indemnity	396,087	397,635
Air Craft Hull	849,838	1,051,199
Workmen Compensation Insurance	734,274	717,806
National Natural Disaster Insurance Scheme	500,000	500,000
Others	1,176,498	903,390
<b>Subtotal</b>	<b>8,206,814</b>	<b>8,741,830</b>
Less: Total of SRCC & TTC due to NITF	(320,564)	(433,731)
Coinurance Premium	(19,990)	(27,827)
<b>Total</b>	<b>7,866,260</b>	<b>8,280,271</b>

to GWP worth of LKR 1,176 million generated in 2017 and mainly comprised of performance bonds, bid bonds etc.

### Gross Written Premium, Reinsurance Premium and Retention by Insurers- General Insurance Business

Table 20 and Chart 17 illustrate details of GWP generated by insurance companies, reinsurance premium ceded to reinsurers and retention levels of the main classes of general insurance business from 2014 to 2018. As indicated in Table 20, general insurance business has ceded reinsurance premium amounting to LKR 18,497 million, excluding SRCC & T in 2018 (2017: LKR 16,801 million) from total GWP of LKR 96,622 million, which had resulted in an overall retention

ratio of 80.86% (excluding SRCC & T) (2017: 81.20%).

Similar to previous years, the highest retention ratio of 93.20% (2017: 96.16%) has been

reported by the motor insurance business. However, the retention ratio shows a slight reduction compared to last year since the premiums ceded to reinsurers have increased from LKR 2,152 million to LKR 4,251 million in 2018 posting a growth rate of 97.53%. This was mainly due to the enhancement of reinsurance programs to address the risks associated with adverse weather conditions experienced in last few years in the country.

Health insurance recorded the second highest retention ratio of 88.18% in 2018 (2017: 81.69%) and indicated an increase of 6.49%. Accordingly, premium ceded to reinsurance for health insurance has decreased to LKR 1,677 million in 2018 from LKR 2,683 million recorded in 2017 by 37.50%.

The retention ratio of marine insurance had marginally increased by 1.35% compared to 46.28% recorded in 2017 by reporting premium ceded to

**Chart 17**  
**Reinsurance Premium and Retention by Insurers - General Insurance Business**

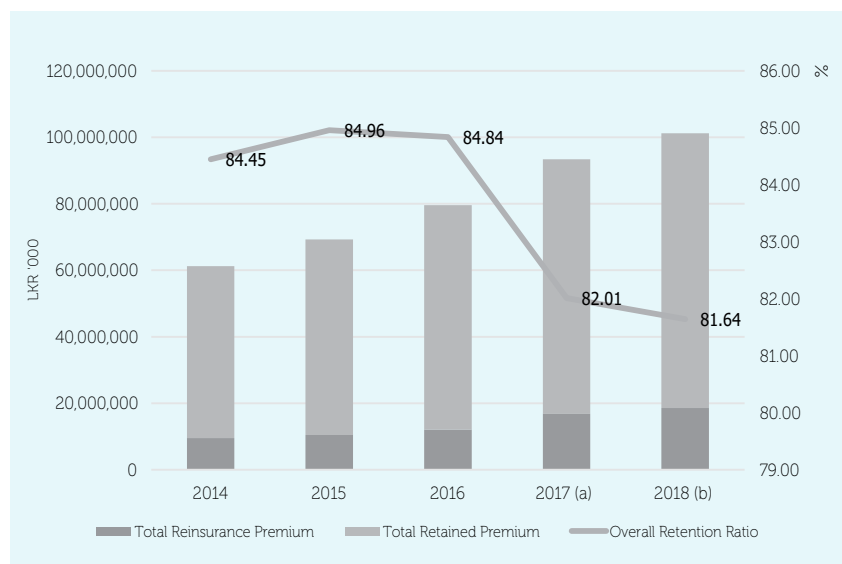


Table 20

## Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business

Class	Gross Written Premium (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	6,353,292	6,604,074	7,479,910	8,597,489	9,274,723
Marine	1,911,944	1,996,862	2,086,394	2,191,654	2,403,187
Motor	35,786,941	42,622,205	49,333,000	56,047,640	62,478,575
Health	7,593,386	8,534,364	10,036,518	14,649,440	14,185,167
Miscellaneous	6,721,836	6,495,454	7,120,742	7,866,260	8,280,272
<b>Sub Total</b>	<b>58,367,399</b>	<b>66,252,959</b>	<b>76,056,563</b>	<b>89,352,484</b>	<b>96,621,924</b>
SRCC & T	2,835,200	3,018,421	3,533,324	4,036,283	4,581,641
<b>Total</b>	<b>61,202,599</b>	<b>69,271,380</b>	<b>79,589,888</b>	<b>93,388,766</b>	<b>101,203,564</b>

Class	Reinsurance Premium (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	5,075,545	5,137,042	5,959,242	6,947,675	6,581,382
Marine	1,171,768	1,154,511	1,174,266	1,177,400	1,258,650
Motor	636,603	1,115,036	1,233,466	2,152,508	4,250,943
Health	2,634,795	3,012,362	486,984	2,682,617	1,676,719
Miscellaneous			3,213,645	3,840,459	4,728,932
<b>Sub Total</b>	<b>9,518,711</b>	<b>10,418,951</b>	<b>12,067,604</b>	<b>16,800,660</b>	<b>18,496,626</b>
SRCC & T	-	-	-	108,750	81,656
<b>Total Reinsurance Premium</b>	<b>9,518,711</b>	<b>10,418,951</b>	<b>12,067,604</b>	<b>16,909,410</b>	<b>18,578,282</b>

Class	Retention (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	1,277,747	1,467,033	1,520,667	1,649,814	2,693,341
Marine	740,176	842,351	912,129	1,014,254	1,144,536
Motor	35,150,338	41,507,169	48,099,534	53,895,132	58,227,632
Health	11,680,427	12,017,456	9,549,533	11,966,823	12,508,448
Miscellaneous			3,907,097	4,025,800	3,551,340
<b>Sub Total</b>	<b>48,848,688</b>	<b>55,834,008</b>	<b>63,988,960</b>	<b>72,551,823</b>	<b>78,125,298</b>
SRCC & T	2,835,200	3,018,421	3,533,324	3,927,533	4,499,984
<b>Total Net Written Premium</b>	<b>51,683,888</b>	<b>58,852,429</b>	<b>67,522,284</b>	<b>76,479,356</b>	<b>82,625,282</b>

Class	Retention as a Percentage of GWP (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	20.11	22.21	20.33	19.19	29.04
Marine	38.71	42.18	43.72	46.28	47.63
Motor	98.22	97.38	97.50	96.16	93.20
Health	81.59	79.96	95.15	81.69	88.18
Miscellaneous			54.87	51.18	42.89
<b>Sub Total</b>	<b>83.69</b>	<b>84.27</b>	<b>84.13</b>	<b>81.20</b>	<b>80.86</b>
SRCC & T	100.00	100.00	100.00	97.31	98.22
<b>Overall Retention Ratio</b>	<b>84.45</b>	<b>84.96</b>	<b>84.84</b>	<b>81.89</b>	<b>81.64</b>

reinsurers amounting to LKR 1,259 million in the year 2018 (2017: LKR 1,177 million).

Miscellaneous insurance indicated a retention ratio of 42.89% and decreased by 8.29% compared to 51.18% recorded in the year 2017. Similar to previous years, fire insurance recorded the lowest retention ratio in 2018 which amounted to 29.04 % and increased compared to the

retention ratio of 19.19% recorded in 2017.

### Company wise Analysis of Total Assets - General Insurance Business

Table 21 & Chart 18 depict the distribution of assets among general insurance companies as at 31st December 2018 and 2017. Total assets of general insurance business amounted to Rs. 190,088

million as at 31st December 2018 and recorded a growth of 2.43% compared to assets amounted to Rs. 185,583 million recorded as at 31st December 2017.

### Annexure 01

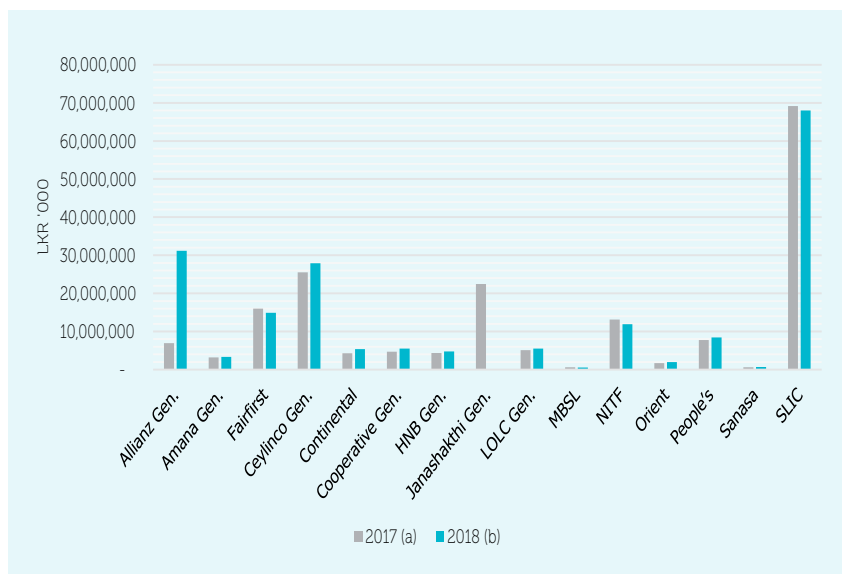
Similar to previous year, the largest portion of assets in the general insurance business was held by SLIC amounting to LKR 68,025 million (2017 : LKR 69,155

million) and represents 35.79% (2017 : 37.26%) of total industry assets, though their share of the assets had reduced by 1.47% compared to previous year.

Allianz General reported assets worth LKR 31,203 million (2017 : LKR 6,954 million) as at 31st December 2018 recording an increase of LKR 24,249 million compared to previous year due to amalgamation with Janashakthi General during 2018 and achieved the second position in terms of asset share of the industry.

Ceylinco General, Fairfirst and NITF represented 14.68% (2017: 13.77%), 7.85% (2017: 8.61%) and 6.27% (2017: 7.09%) of total assets and claimed third, fourth and fifth positions respectively in the year 2018. However, reduction in assets of NITF is visible in 2018 compared to 2017. As depicted in the Table 21, it is noted that 81.01% of total assets of general insurance companies are concentrated

**Chart 18**  
**Company wise Analysis of Total Assets- General Insurance Business**



among top five companies and balance 18.99% is owned by the other ten insurance companies.

### Concentration of Assets of General Insurance Business

Table 22 and Chart 19 demonstrate the concentration of assets of

general insurance business as at 31st December 2017 & 2018. Total assets of general insurance business amounted to LKR 190,088 million (2017: LKR 185,583 million) and recorded a growth of 2.43% compared to total assets as at 31st December 2017. The majority of assets was invested in Government Debt Securities as the main investment category in the general insurance sector and recorded LKR 53,188 million (2017: LKR 41,880 million) investments representing 27.98% of the total assets. This was mainly due to minimum risk associated with government debt securities and to comply with regulatory requirements. As stipulated by the section 25(1) of the Act, every insurer is required to invest at least 20% of Technical Reserves in government securities. Accordingly, the Commission ensures that insurance companies comply with the same and remaining assets are invested in accordance with Determination 1.

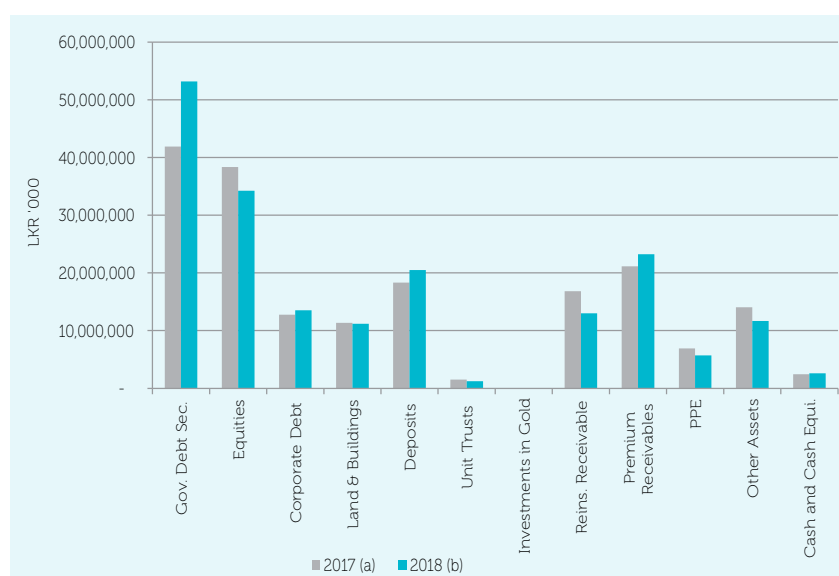
**Table 21**  
**Company wise Analysis of Total Assets - General Insurance Business**

Insurer	2017 (a)		2018 (b)	
	(LKR '000)	%	(LKR '000)	%
Allianz Gen.	6,954,152	3.75	31,203,197	16.42
Amana Gen.	3,201,348	1.73	3,309,045	1.74
Ceylinco Gen.	25,551,645	13.77	27,899,029	14.68
Continental	4,262,314	2.30	5,381,550	2.83
Cooperative Gen.	4,667,558	2.52	5,510,538	2.90
Fairfirst	15,975,791	8.61	14,917,948	7.85
HNB Gen.	4,385,775	2.36	4,773,910	2.51
Janashakthi Gen.	22,457,907	12.10	-	0.00
LOLC Gen.	5,077,102	2.74	5,531,511	2.91
MBSL	618,234	0.33	550,469	0.29
NITF	13,165,645	7.09	11,909,582	6.27
Orient	1,731,256	0.93	1,943,480	1.02
People's	7,745,115	4.17	8,417,568	4.43
Sanasa	633,678	0.34	715,143	0.38
SLIC	69,155,434	37.26	68,024,988	35.79
<b>Total</b>	<b>185,582,954</b>	<b>100</b>	<b>190,087,958</b>	<b>100</b>

Equity market in year 2018 has not performed due to various factors such as unstable political condition, inconsistent economic policies and adverse global developments etc. However, investments in Equities represented the second largest asset category in general insurance business and accounted for 18.02% of total assets as at 31st December 2018 (2017: 20.67%) while recording a negative growth of 10.7% from LKR 38,556 million recorded in the year 2017 to LKR 34,250 million recorded in 2018. Meanwhile, 58% of equity investment represents the investments in subsidiaries recorded by SLIC.

Premium receivable from policyholders and intermediaries amounted to LKR 23,256 million (2017: LKR 21,130 million) as at 31st December 2018 and represented the third largest asset category and increased by 10.06% compared to the year 2017. Deposits in Bank and Finance companies represented 10.78% of

**Chart 19**  
**Concentration of Assets as at 31st December 2017 & 2018 - General Insurance Business**



total assets and accounted for LKR 20,491 million (2017: LKR 18,322 million) while recording a growth of 11.84% compared to 2017 due to favorable interest rates prevailed. Corporate debts were the other main asset category of general insurance business which represented 7.11% (2017: 6.87%)

from total assets in 2018. There was a notable decrease around 23% in reinsurance receivables compared to previous year. This was mainly due to recovery of reinsurance receivables reported in previous year based on the adverse weather conditions prevailed in the country.

**Table 22**

**Concentration of Assets as at 31st December 2017 & 2018 - General Insurance Business**

Type of Asset	2017 (a)		2018 (b)	
	LKR '000	%	LKR '000	%
Government Debt Securities	41,879,803	22.57	53,188,206	27.98
Equities	38,355,540	20.67	34,249,739	18.02
Corporate Debts	12,755,297	6.87	13,506,161	7.11
Land & Buildings	11,369,560	6.13	11,206,996	5.90
Deposits	18,322,254	9.87	20,491,247	10.78
Unit Trusts	1,528,271	0.82	1,228,957	0.65
Reinsurance receivables	16,840,965	9.07	12,982,985	6.83
Premium receivable from policyholders and intermediaries	21,129,985	11.39	23,256,352	12.23
Property Plant and Equipment	6,907,186	3.72	5,693,812	3.00
Other Assets	14,069,946	7.58	11,672,189	6.14
Cash and cash equivalents	2,424,146	1.31	2,611,312	1.37
<b>Total</b>	<b>185,582,953</b>	<b>100</b>	<b>190,087,956</b>	<b>100</b>

## Investment Income- General Insurance Business

Table 23 depicts the investment income, average investment and investment yield ratios of different asset categories of general insurance business for the year 2017 and 2018. The average investment of general insurance business amounted to LKR 129,464 million, an increase of 8.22% compared to LKR 119,633 million recorded in the year 2017. The total investment income generated by general insurance business amounted to LKR 10,078 million in 2018 (2017: LKR 8,382 million) and resulted in an overall investment yield of 7.78% which is slightly higher than the 7.01% recorded in 2017.

Government securities were the largest investment category of the general insurance business with an average investment of

LKR 47,534 million (2017: LKR 40,990 million) and generated an investment yield of 10.13% decreasing slightly from 10.31% recorded in 2017.

Average investments in deposits in Banks and Finance companies amounted to LKR 19,407 million and increased noticeably compared to LKR 14,863 million recorded in 2017. Deposits generated an investment income of LKR 2,187 million (2017: LKR 1,605 million) recording a growth of 36.26% year on year and recorded an investment yield of 11.27% in 2018 (2017: 10.80%).

Corporate debt which represented a significant portion of the investment portfolio, recorded an average investment of LKR 13,131 million in 2018 (2017: LKR 12,207 million) grew by 7.57% year on year while recording an investment yield ratio of 11.75% in 2018 (2017: 10.88%).

Further, during year 2018 Equity and Unit Trusts recorded investment yield ratios of 2.39% and 4.60% respectively.

## Solvency position of Insurance Companies- General Insurance Business

Table 24 demonstrates details of Total Available Capital (TAC), Risk-based Capital Required (RCR) and Capital Adequacy Ratio (CAR) of general insurance business as at 31st December 2017 and 2018. Average CAR of industry recorded 171% as at 31st December 2018 which marginally decreased by 4% compared to 175% recorded in 2017. However, all general insurance companies except two insurers had complied with the minimum CAR requirement of 120% and minimum TAC requirement of LKR 500 million as at 31st December 2018. Accordingly, the Commission has taken appropriate actions

**Table 23**  
**Breakup of Investment Income and Average Investments - General Insurance Business**

Category	2017 (a)			2018 (b)		
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)
<b>Government Debt Securities</b>	4,226,868	40,990,441	10.31	4,817,017	47,534,004	10.13
- Treasury Bonds	2,749,548			2,714,401		
- Treasury Bills	634,201			1,322,853		
- Others (REPO)	843,119			779,763		
<b>Equity</b>	659,143	38,075,279	1.73	868,543	36,302,639	2.39
- Capital Gains/Losses	104,187			312,784		
- Dividend	554,956			555,759		
<b>Corporate Debts</b>	1,328,170	12,207,157	10.88	1,542,497	13,130,729	11.75
- Debentures	1,267,731			1,484,651		
- Commercial Papers	60,439			57,846		
<b>Land and Buildings</b>	1,425	11,471,351	0.01	(4,425)	11,288,278	(0.04)
<b>Deposits</b>	1,604,995	14,863,562	10.80	2,186,962	19,406,751	11.27
- Banks	1,193,953			1,579,012		
- Finance Companies	411,041			607,950		
<b>Unit Trusts</b>	97,978	1,335,332	7.34	63,388	1,378,614	4.60
<b>Gold</b>	-	1,353	-	-	-	-
<b>Others</b>	463,315	688,493		604,227	422,698	
<b>Total</b>	<b>8,381,895</b>	<b>119,632,968</b>	<b>7.01</b>	<b>10,078,210</b>	<b>129,463,713</b>	<b>7.78</b>

Table 24

## Company wise Analysis of Solvency Position - General Insurance Business as at 31st December 2017 &amp; 2018

Insurer	As at 31 <sup>st</sup> December 2017 (a)			As at 31 <sup>st</sup> December 2018 (b)		
	TAC (LKR'000)	RCR (LKR'000)	CAR (%)	TAC (LKR'000)	RCR (LKR'000)	CAR (%)
Allianz Gen.	1,263,160	883,784	143	9,608,042	4,086,855	235
Amana Gen.	686,816	366,596	187	514,583	276,025	186
Ceylinco Gen.	5,131,721	2,703,494	190	5,896,112	3,026,609	195
Continental	1,232,481	481,157	256	1,559,089	623,990	250
Cooperative Gen.	1,299,737	720,873	180	1,385,751	768,938	180
Fairfirst	2,785,001	1,714,025	162	3,188,311	1,723,550	185
HNB Gen.	945,419	530,948	178	1,171,520	585,201	200
Janashakthi Gen.	7,018,573	2,878,464	244			
LOLC Gen.	1,129,774	538,281	210	1,109,301	628,555	176
MBSL	(186,561)	148,193	-126	(249,255)	132,371	-188
Orient	565,891	311,104	182	627,959	241,239	260
People's	2,825,709	884,552	319	3,151,752	1,230,620	256
Sanasa	134,330	108,377	124	119,535	150,344	80
SLIC	27,050,916	13,501,434	200	24,404,446	11,733,987	208
<b>Total</b>	<b>51,882,966</b>	<b>25,771,281</b>	<b>175</b>	<b>52,487,146</b>	<b>25,208,285</b>	<b>171</b>

against the companies who did not comply with Solvency Margin (Risk Based Capital) Rules 2015. Further, the companies who had reported CAR below the enforcement level of 160% were closely monitored in terms of the Enforcement Strategy on RBC issued by the Commission.

adjustments for retained earnings amounted to LKR 77,217 million. As per the Solvency Margin (RBC) Rules, Tier 2 capital cannot exceed 50% of Tier 1 capital which amounted to LKR 8,604 million as at 31st December 2018.

Deductions from TAC amounted to LKR 33,334 million which comprised of inadmissible assets such as loans and advances, prepayments, inventory, pledged assets, deferred income tax etc.

### Total Available Capital (TAC) Requirement of Insurance Companies – General Insurance Business

Table 25 illustrates Tier 1 capital, Tier 2 capital, Deductions and TAC recorded by individual general insurance companies as at 31st December 2018. Total TAC of the general insurance business amounted to LKR 52,487 million as at 31st December 2018 and marginally increased by 1.16% compared to LKR 51,883 million recorded as at 31st December 2017. Tier 1 capital which represented companies' issued and fully paid-up ordinary shares, capital reserves and other

Table 25

Company wise Analysis of Total Available Capital (TAC) as at 31<sup>st</sup> December 2017 and 2018 - General Insurance Business

Insurer	TAC as at 31 <sup>st</sup> December 2017 (a) (LKR'000)	As at 31 <sup>st</sup> December 2018 (b)			
		Tier 1 (LKR'000)	Tier II (LKR'000)	Deductions (%)	TAC (LKR'000)
Allianz Gen.	1,263,160	10,803,392	-	1,195,350	9,608,042
Amana Gen.	686,816	1,768,692	120,495	1,374,603	514,583
Ceylinco Gen.	5,131,721	11,126,093	-	5,229,981	5,896,112
Continental	1,232,481	1,668,558	-	109,469	1,559,089
Cooperative Gen.	1,299,737	2,039,863	348,510	1,002,622	1,385,751
Fairfirst	2,785,001	5,068,134	-	1,879,823	3,188,311
HNB Gen.	945,419	1,323,636	-	152,115	1,171,520
Janashakthi Gen.	7,018,573				
LOLC Gen.	1,129,774	1,507,285	-	397,984	1,109,301
MBSL	(186,561)	(156,494)	(8,058)	84,704	(249,255)
Orient	565,891	747,926	-	119,967	627,959
People's	2,825,709	3,382,020	-	230,267	3,151,752
Sanasa	134,330	232,948	2,839	116,252	119,535
SLIC	27,050,916	37,704,829	8,140,049	21,440,431	24,404,446
<b>Total</b>	<b>51,882,966</b>	<b>77,216,881</b>	<b>8,603,835</b>	<b>33,333,568</b>	<b>52,487,146</b>

### Comparison of Risk Capital Required (RCR) by Insurance Companies – General Insurance Business

Table 26 depicts the company wise composition of various risk charges relating to the Risk Based Capital requirement as at 31st December 2017 & 2018. Total RCR recorded by general insurance companies after diversification

amounted to LKR 25,208 million in 2018, decreased by 2% compared to LKR 25,771 million recorded in 2017. Liability risk which comprises of premium and claim liabilities was the main risk category and represented 31.39% (2017: 29.94%) of the total risk capital charges before diversification in year 2018. Concentration risk charge was the second largest risk category of the industry, amounted to LKR 10,774 million in year 2018 and increased

by 6.81% compared to LKR 10,087 million recorded in 2017. Market risk represented 27.88% (2017: 31.83%) of the total risk capital charges before diversification and became the third largest risk category. However, market risk declined by 12.33% compared to 2017.

Operational risk, credit risk and reinsurance risk capital charges comparatively low in

Table 26

#### Company wise Analysis of Risk Capital Required (RCR) as at 31<sup>st</sup> December 2017 and 2018 - General Insurance Business

Insurer	As at 31 <sup>st</sup> December 2017 (a) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	3,424	482,833	118,166	21,050	621,642	58,455	1,305,571	883,784
Amana Gen.	24,375	266,822	43,262	5,366	134,244	29,837	503,906	366,596
Ceylinco Gen.	132,556	1,042,265	783,950	156,653	1,669,237	217,977	4,002,637	2,703,494
Continental	51,046	79,230	180,917	21,024	345,945	38,281	716,443	481,157
Cooperative Gen.	81,205	241,016	281,280	9,477	376,738	44,537	1,034,253	720,873
Fairfirst	36,803	799,580	413,767	102,860	1,046,642	108,549	2,508,202	1,714,025
HNB Gen.	42,774	198,031	73,910	18,212	411,933	37,108	781,968	530,948
Janashakthi Gen.	263,078	600,783	1,577,542	77,880	1,379,390	189,864	4,088,538	2,878,464
LOLC Gen.	2,519	94,195	124,446	24,104	476,997	45,443	767,705	538,281
MBSL	3,255	84,309	24,758	6,259	88,705	5,573	212,860	148,193
Orient	24,077	217,405	27,829	2,783	149,976	16,047	438,118	311,104
People's	118,529	139,463	215,990	8,342	738,073	71,025	1,291,421	884,552
Sanasa	3,170	43,930	53,022	1,718	36,620	5,755	144,216	108,377
SLIC	172,360	5,796,802	7,069,453	138,351	2,860,164	689,716	16,726,847	13,501,434
<b>Total</b>	<b>959,172</b>	<b>10,086,665</b>	<b>10,988,293</b>	<b>594,078</b>	<b>10,336,306</b>	<b>1,558,168</b>	<b>34,522,685</b>	<b>25,771,281</b>

Insurer	As at 31 <sup>st</sup> December 2018 (b) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	173,595	2,307,441	875,598	58,380	2,226,419	288,308	5,929,741	4,086,855
Amana Gen.	19,073	156,677	35,724	11,204	160,367	29,784	412,829	276,025
Ceylinco Gen.	235,220	1,268,380	763,755	168,351	1,780,155	242,373	4,458,234	3,026,609
Continental	111,429	70,679	240,595	23,111	434,004	47,477	927,295	623,990
Cooperative Gen.	102,980	216,716	296,849	19,332	429,092	52,975	1,117,944	768,938
Fairfirst	44,858	736,958	542,124	172,824	847,586	109,183	2,453,533	1,723,550
HNB Gen.	49,594	201,164	103,698	13,447	453,106	42,457	863,466	585,201
LOLC Gen.	12,200	120,281	185,426	21,123	526,920	49,947	915,898	628,555
MBSL	4,814	76,751	26,363	4,666	69,387	5,472	187,454	132,371
Orient	24,016	122,900	32,290	3,758	156,201	17,944	357,108	241,239
People's	139,493	498,126	285,793	6,239	802,455	79,001	1,811,106	1,230,620
Sanasa	5,969	90,275	42,690	1,855	52,300	6,839	199,927	150,344
SLIC	144,615	4,907,392	6,202,261	93,748	2,910,140	663,389	14,921,544	11,733,987
<b>Total</b>	<b>1,067,856</b>	<b>10,773,739</b>	<b>9,633,167</b>	<b>598,038</b>	<b>10,848,133</b>	<b>1,635,149</b>	<b>34,556,079</b>	<b>25,208,285</b>

the general insurance business and recorded as 4.73%, 3.09% and 1.73% respectively out of the total risk capital charge before diversification as at 31st December 2018.

### Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business

As depicted in Table 27 and Chart 20, total net earned premium of main sub-classes of general insurance business including SRCC & T amounted to LKR 80,549 million which recorded a growth of 11.33% compared to LKR 72,354 million recorded in year 2017. The growth rate in GWP favorably influenced the growth rate recorded in the net earned premium.

Total net claims incurred during year 2018 amounted to LKR 52,390 million excluding SRCC & T which increased by 9.56% compared to

LKR 47,818 million recorded in year 2017. Net claims incurred by all sub classes of general insurance business has increased in year 2018 compared to previous year except for Miscellaneous and Fire insurance businesses.

Similar to previous years, Motor insurance business as the driving force of the general insurance business has recorded the highest net earned premium excluding SRCC & T, which amounted to LKR 56,541 million and represented 73.89% (2017 : 73.71%) of the sub total of net earned premium while indicating an increase of 11.79% compared to same recorded in 2017 amounted to LKR 50,580 million. Further, Motor insurance business recorded the highest net claims incurred amounted to LKR 34,652 million (2017 : LKR 31,134 million) which represented 66.05% (2017 : 65.12%) of the total claims incurred including SRCC & T in 2018 which resulted in net claims ratio of 61.29% (2017 : 61.55%).

Health insurance business has

recorded the second highest net earned premium excluding SRCC & T amounted to LKR 12,683 million (2017 : LKR 11,435 million) and recorded a growth of 10.91% compared to the previous year. Moreover, health insurance business has recorded the second highest net claims incurred amounted to LKR 12,098 million (2017 : LKR 10,511 million) representing 23.06% (2017 : 21.99%) of the total net claims incurred including SRCC & T. High cost of Health insurance business is also a challenge for all insurance companies and recorded the highest net claim ratio of 95.39% in 2018 (2017 : 91.92%).

Miscellaneous insurance business recorded a net earned premium of LKR 4,238 million and increased by 8.92% compared to LKR 3,892 million recorded in year 2017. This class of business has recorded net claims ratio of 86.35% in 2018 which decreased by 21.24% compared to claims ratio of 107.59% recorded in year 2017. In 2017 NITF reported significant claims incurred amounted to LKR 2,368 million under NNDIS which was introduced by the Sri Lankan government since 1st April 2016 as a protection scheme to cover damage caused to uninsured lives and properties, households and small business establishments due to cyclone, storm, tempest, flood, land slide, hurricane, earthquake, tsunami and any other similar natural perils, excluding drought. This figure has reduced to LKR 1,358 million in 2018 which resulted to decreased claims ratio of Miscellaneous insurance business in year 2018.

Chart 20

### Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business

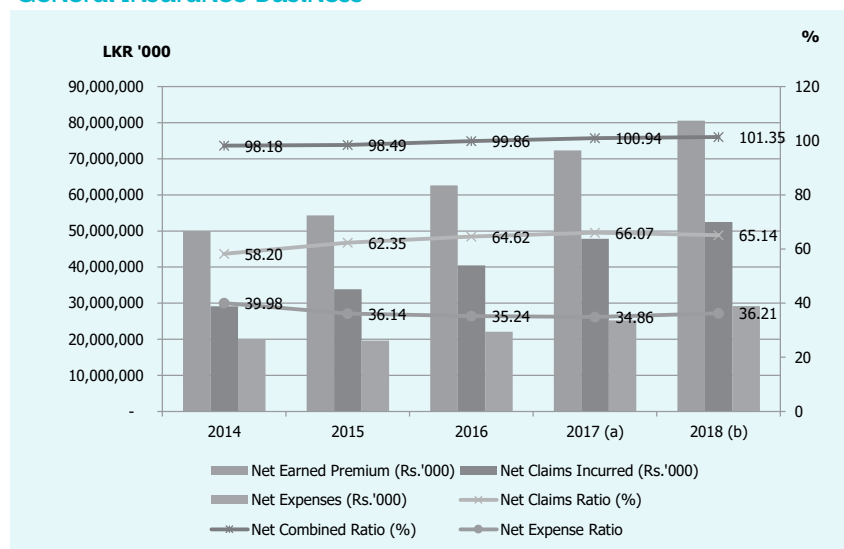


Table 27

**Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business**

Class	Net Earned Premium (LKR '000)				
	2014	2015	2016	2017(a)	2018(b)
Fire	1,241,985	1,283,463	1,213,542	1,721,159	1,926,656
Marine	753,643	797,026	903,170	991,573	1,127,969
Motor	33,826,829	37,958,834	44,593,900	50,580,010	56,540,998
Health	7,079,162	8,071,777	9,349,093	11,435,476	12,683,442
Miscellaneous	4,402,900	3,270,599	3,306,901	3,891,564	4,238,484
<b>Sub Total</b>	<b>47,304,518</b>	<b>51,381,699</b>	<b>59,366,606</b>	<b>68,619,783</b>	<b>76,517,549</b>
SRCC & T	2,692,730	2,914,630	3,274,297	3,734,321	4,031,846
<b>Total</b>	<b>49,997,248</b>	<b>54,296,329</b>	<b>62,640,903</b>	<b>72,354,104</b>	<b>80,549,396</b>

Class	Net Claims Incurred (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	717,626	645,231	1,024,290	1,640,062	1,561,223
Marine	266,560	295,624	266,057	345,331	418,810
Motor	20,281,109	24,274,415	28,966,019	31,134,209	34,651,820
Health	6,252,704	6,958,816	8,065,476	10,511,212	12,098,234
Miscellaneous	1,522,689	1,677,736	2,121,221	4,186,860	3,659,804
<b>Sub Total</b>	<b>29,040,687</b>	<b>33,851,822</b>	<b>40,443,063</b>	<b>47,817,674</b>	<b>52,389,891</b>
SRCC & T	56,897	780	33,677	(10,519)	76,068
<b>Total</b>	<b>29,097,585</b>	<b>33,852,602</b>	<b>40,476,740</b>	<b>47,807,154</b>	<b>52,465,959</b>

Class	Net Claims Ratio (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	57.78	50.27	84.40	95.28	81.03
Marine	35.37	37.09	29.46	34.83	37.13
Motor	59.96	63.95	64.96	61.55	61.29
Health	88.33	86.21	86.27	91.92	95.39
Miscellaneous	34.58	51.30	64.15	107.59	86.35
<b>Sub Total</b>	<b>61.39</b>	<b>65.88</b>	<b>68.12</b>	<b>69.68</b>	<b>68.47</b>
SRCC & T	2.11	0.03	1.03	(0.28)	1.89
<b>Total</b>	<b>58.20</b>	<b>62.35</b>	<b>64.62</b>	<b>66.07</b>	<b>65.14</b>

Description	Net Expenses (LKR '000)				
	2014	2015	2016	2017 (a)	2018 (b)
Net Expenses for all classes of General Insurance Business except SRCC & T	19,524,543	19,134,713	21,421,928	24,491,746	28,328,017
SRCC & T	466,435	486,985	653,706	732,786	842,515
<b>Total</b>	<b>19,990,978</b>	<b>19,621,698</b>	<b>22,075,634</b>	<b>25,224,532</b>	<b>29,170,531</b>

Description	Net Expense Ratio (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	41.27	37.24	36.08	35.69	37.02
Net Expense Ratio of General Insurance Business	39.98	36.14	35.24	34.86	36.21

Description	Net Combined Ratio (%)				
	2014	2015	2016	2017 (a)	2018 (b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	102.67	103.12	104.21	105.38	105.49
Net Combined Ratio of General Insurance Business	98.18	98.49	99.86	100.94	101.35

Net earned premium of fire insurance business has increased to LKR 1,927 million in year 2018 from LKR 1,721 million recorded in year 2017 by 11.93%. Net claims incurred for fire insurance business amounted to LKR 1,561 million which shows a reduction of 4.81% compared to LKR 1,640 million recorded in year 2017 and recorded a net claim ratio of 81.03% (2017: 95.28%).

Similar to previous years, marine insurance recorded the lowest net claims incurred amounting to LKR 419 million (2017: LKR 345 million) and lowest claims ratio of 37.13% (2017: 34.83%) which slightly increased by 2.3% compared to year 2017.

As reflected in Table 27 and Chart 20, general insurance companies have reported the highest expenses (including SRCC & T) amount in the year 2018 when compared to last five years. It amounted to LKR 29,170 million and shows an increase of 15.64% compared to LKR 25,225 million recorded in year 2017. Net expenses which considered for SRCC & T by NITF have increased to LKR 843 million in 2018 from LKR 733 million recorded in year 2017.

Net combined ratio which reflects the aggregate of net claims ratio and net expenses ratio has slightly increased to 101.35% in 2018 from 100.94% recorded in year 2017. However, the combined ratio which reflects the total claims and expenses incurred by the general insurance business recorded above 100% in the years 2017 & 2018.

### Number of Policies Representing Gross Written Premium- General Insurance Business

Table 28 illustrates the total number of insurance policies which had contributed to generate GWP of different sub classes of general insurance business during the period from 2014 to 2018. The total number of insurance policies related to all sub classes of general insurance business has increased by 5.94% to 6,492,003 in 2018 compared to insurance policies of 6,127,816 recorded in 2017. The total number of policies of general insurance business had increased gradually during the past five years. Similar to previous years' motor insurance business accounted for the largest number of policies representing 86.49% (2017: 87.96%) which comprised

of third party insurance policies of 3,190,988 (2017 : 2,784,920) and comprehensive insurance policies of 2,423,913 (2017: 2,605,302). From the significant number of third party policies it appears that insurance is obtained to fulfill the compulsory requirement rather than to cover total risks. Further, comprehensive insurance policies have decreased by 6.96% compared to 2017.

Insurance policies for Miscellaneous and Health insurance business have significantly increased by 37.41% and 45.19% respectively in 2018 compared to insurance policies recorded in 2017. Further other sub classes, such as Marine and Fire insurance businesses also slightly increased in 2018 compared to 2017.

### Details of New, Renewed and Policies in Force - General Insurance Business

Table 29 and Chart 21 depict the details of new insurance policies, renewed policies and policies in force for years 2017 and 2018 for all sub classes of general insurance business. The total number of policies in force of general insurance

Table 28

#### Number of Policies Representing Gross Written Premium - General Insurance Business

	No. of policies				
	2014	2015	2016	2017 (a)	2018 (b)
Fire	188,578	227,800	246,058	241,884	245,027
Marine	186,447	190,720	191,966	172,733	187,338
Motor	4,004,162	4,531,187	5,075,622	5,390,222	5,614,901
3 <sup>rd</sup> Party Only	2,229,153	2,460,596	2,628,255	2,784,920	3,190,988
Comprehensive	1,775,009	2,070,591	2,447,367	2,605,302	2,423,913
Health	13,716	15,053	16,040	11,893	17,267
Miscellaneous	204,285	202,038	238,921	311,084	427,470
<b>Total</b>	<b>4,597,188</b>	<b>5,166,798</b>	<b>5,768,607</b>	<b>6,127,816</b>	<b>6,492,003</b>

Table 29

## Details of New, Renewed and Policies in Force - General Insurance Business

	2017			2018		
	New policies	Renewed Policies	Policies in force at year end	New policies	Renewed Policies	Policies in force at year end
Fire	87,600	154,895	242,495	87,735	157,142	241,794
Marine	169,993	4,176	170,321	183,594	4,256	177,671
Motor	2,373,578	3,025,591	5,346,721	2,523,101	3,100,420	5,509,012
3 <sup>rd</sup> party only	1,289,174	1,484,083	2,775,671	1,483,047	1,708,415	3,188,605
Comprehensive	1,084,404	1,541,508	2,571,050	1,040,054	1,392,005	2,320,407
Health	4,589	6,211	10,300	9,790	7,465	16,554
Miscellaneous	230,571	62,810	286,637	262,811	125,492	379,556
<b>Total</b>	<b>2,866,331</b>	<b>3,253,683</b>	<b>6,056,474</b>	<b>3,067,031</b>	<b>3,394,775</b>	<b>6,324,587</b>

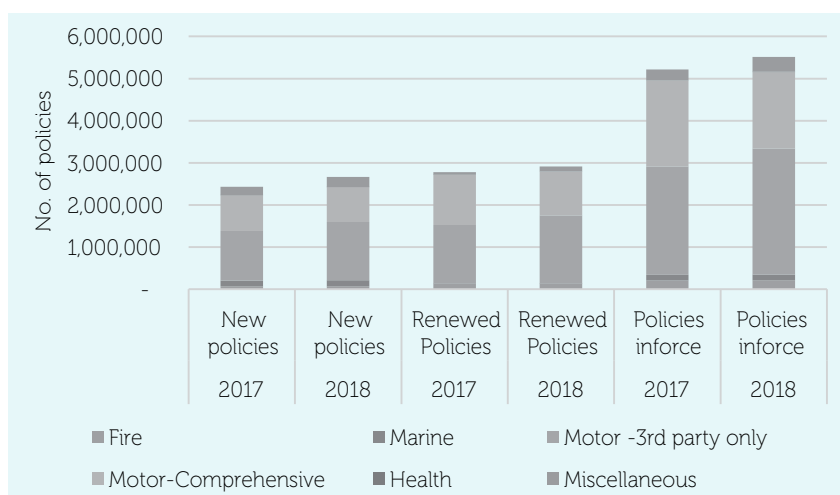
were 6,324,587 in year 2018 and increased by 4.43% compared to 6,056,474 insurance policies recorded in 2017. In 2018 motor insurance policies represented 87.10% (2017 : 88.28%) of the total policies in force and comprised of 3,188,605 third party policies (2017 : 2,775,671) and 2,320,407 comprehensive policies (2017 : 2,571,050). During the year, policies in force of all sub classes had marginally increased compared to 2017 except comprehensive motor insurance policies and fire insurance policies. In the year 2018, insurance companies had underwritten 3,067,031 new policies by recording 7% increase compared to previous year. Total renewed policies stood at 3,394,775, an increase of around 4% compared to 3,253,683 policies renewed in year 2017.

### Reinsurance Business

Reinsurance business of NITF was established with the purpose of develop a 'National Reinsurer'. Accordingly, all primary insurers are required to cede thirty percent of their total liability arising out of every general reinsurance to NITF since 2013 in terms of the Government Gazette Notification No. 1791/4 of 31st December 2012.

Chart 21

### Details of New, Renewed and Policies in Force General Insurance Business



In 2018, reinsurance premium income generated by the NITF amounted to LKR 4,056 million which grew by 10.13% year on year. In terms of retrocession arrangement, the NITF has ceded premium income of LKR 578 million during the year which significantly increased compared to LKR 175 million reported in 2017.

The NITF has incurred claims amounted to LKR 1,505 million in 2018 compared to LKR 2,326 million in 2017. However, effectiveness of retrocession arrangement of NITF needs to be revisited since no claims had been ceded to reinsurers in 2018.

Reinsurance operation showed a reduction in total assets by 12.54% to LKR 3,683 million in 2018 compared to 2017. Out of same long due reinsurance receivables represented 35.87% in 2018. Further, no adequate financial investments to support the reinsurance business of NITF.

### Insurance Brokering Companies

During 2018, sixty-five insurance brokering companies operated in the market and generated a Gross Written Premium (GWP) amounted to LKR 25,063 million. Accordingly, total GWP generated through insurance brokering

business recorded a growth of 16.69% in 2018 when compared to LKR 21,479 million recorded in 2017. Further, total GWP consists of premium income generated through long term insurance business and general insurance business which accounted for LKR 655 million and LKR 24,408 million respectively.

Similar to previous years, the contribution of insurance brokering companies towards long term insurance business was insignificant. As per the

details provided by the brokering companies, only 0.82% of the total GWP of long term insurance business (LKR 80,303 million) was generated through insurance brokering companies. However, insurance brokering companies have generated 24.12% of the total GWP of general insurance business amounted to LKR 101,204 million (including SRCC & T premium).

In 2018, twenty-eight insurance brokering companies procured GWP exceeding LKR 100 million

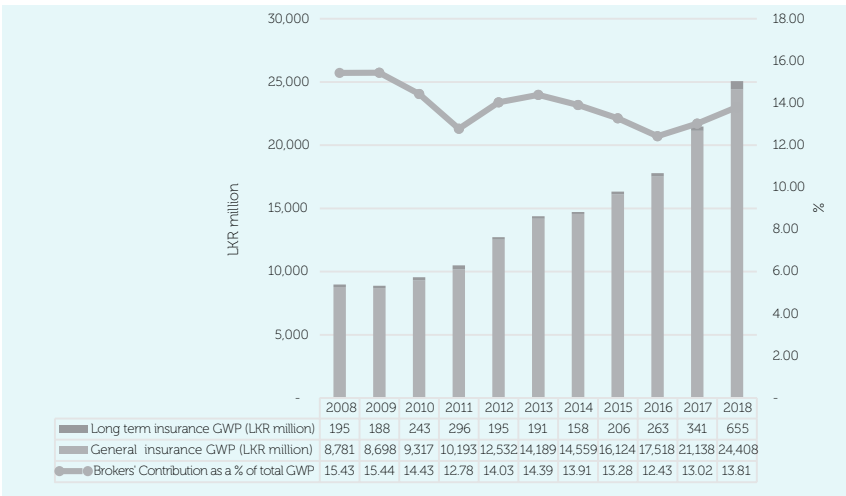
each and these insurance brokering companies collectively generated GWP amounted to LKR 23,566 million. The remaining thirty-seven insurance brokering companies generated LKR 1,497 million GWP as depicted in Table 30.

Table 30

Gross Written Premium Generated through Insurance Brokering Companies - 2018

Name of the Broker		Gross Written Premium					
		Long Term Insurance Business		General Insurance Business		Total	
		LKR ('000)	Market Share(%)	LKR ('000)	Market Share(%)	LKR ('000)	Market Share (%)
1	ADZ Insurance Brokers (Pvt) Limited	21,514	3.28	775,992	3.18	797,506	3.18
2	Aitken Spence Insurance Brokers (Pvt) Ltd.	4,588	0.67	645,412	2.64	649,800	2.59
3	Alfinco Insurance Brokers (Pvt) Limited	1,158	0.18	935,254	3.83	936,411	3.74
4	Allion Insurance Brokers (Pvt) Ltd.	31,637	4.83	96,121	0.39	127,758	0.51
5	AMTRUST Insurance Brokers (Pvt) Ltd.	1,585	0.24	150,183	0.62	151,768	0.61
6	Assetline Insurance Brokers Limited	24,829	3.79	2,078,907	8.52	2,103,735	8.39
7	Ceynergy Insurance Brokers (Pvt) Ltd.	6,265	0.96	137,744	0.56	144,009	0.57
8	CF Insurance Brokers (Pvt) Limited	2,246	0.34	3,112,256	12.75	3,114,502	12.43
9	Colombore Insurance Brokers (Pvt) Ltd.	6,333	0.97	285,613	1.17	291,946	1.16
10	Commercial Insurance Brokers (Pvt) Ltd.	20,621	3.15	2,725,715	11.17	2,746,337	10.96
11	Delmege Insurance Brokers (Pvt) Limited	135,901	20.75	1,270,081	5.20	1,405,982	5.61
12	Equity Insurance (Pvt) Limited	54	0.01	126,929	0.52	126,983	0.51
13	Essajee Carimjee Insurance Brokers (Pvt) Limited	11,148	1.70	564,448	2.31	575,596	2.30
14	Find My Insurance & Reinsurance Brokers (Pvt) Ltd.	17,390	2.65	134,625	0.55	152,015	0.61
15	Finlay Insurance Brokers (Pvt) Ltd	13,082	2.00	1,092,635	4.48	1,105,717	4.41
16	George Steuart Insurance Brokers (Pvt) Limited	7,951	1.21	244,469	1.00	252,421	1.01
17	Global Insurance Brokers and Services (Pvt) Ltd.	14,556	2.22	169,576	0.69	184,132	0.73
18	InsureMe Insurance Brokers (Pvt) Ltd.	72,556	11.08	214,194	0.88	286,749	1.14
19	Life & General Ins. Brokers Ceylon (Pvt) Ltd.	5,488	0.84	156,305	0.64	161,794	0.65
20	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	1,292	0.20	540,628	2.21	541,920	2.16
21	Mercantile Insurance Brokers (Pvt) Ltd.	4,466	0.68	345,266	1.41	349,732	1.40
22	Nations Insurance Brokers Limited	97,467	14.88	1,963,049	8.04	2,060,516	8.22
23	Procure Insurance Brokers (Pvt) Limited	7,025	1.07	361,978	1.48	369,003	1.47
24	Protection & Assurance Ins. Brokers (Pvt) Ltd.	885	0.14	1,296,616	5.31	1,297,501	5.18
25	Reliance Insurance Brokers (Pvt) Ltd.	33,836	5.17	868,568	3.56	902,404	3.60
26	Senaratne Insurance Brokers (Pvt) Ltd	33,248	5.08	1,298,179	5.32	1,331,427	5.31
27	Senkadagala Insurance Brokers (Private) Ltd.	-	-	1,147,463	4.70	1,147,463	4.58
28	Zenith Insurance Brokers (Pvt) Limited	960	0.15	249,765	1.02	250,724	1.00
	<b>Sub Total</b>	<b>577,880</b>	<b>88.23</b>	<b>22,987,971</b>	<b>94.18</b>	<b>23,565,851</b>	<b>94.03</b>
	<b>Other Insurance Brokering Companies (37)</b>	<b>77,124</b>	<b>11.77</b>	<b>1,419,672</b>	<b>5.82</b>	<b>1,496,797</b>	<b>5.97</b>
	<b>Grand Total</b>	<b>655,005</b>	<b>100.00</b>	<b>24,407,643</b>	<b>100.00</b>	<b>25,062,648</b>	<b>100.00</b>

Chart 22  
Gross Written Premium Generated through Insurance  
Brokering Companies from 2006 to 2015



## Review of Operations

### Supervisory Review Insurance Companies

#### 1. Review of Returns

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

Insurance companies are required to submit their Annual Statutory Returns and Audited Financial Statements to the Commission within four months following the end of the respective financial year in terms of Determination – 14 and 15 as amended on 13th March 2017. In addition, insurance companies carrying on Long Term Business are required to submit Actuarial Reports and Abstracts along with their Annual Statutory Returns.

In order to incorporate the disclosure requirements of Direction 16 (One-off Surplus) issued in March 2018, the required Certifications of External Auditor on Determination 14 and 15 were revised by the Commission.

Further, with the collaboration of relevant officials of the Institute of Chartered Accountants of Sri Lanka, the Commission has revised the reporting formats for insurers with regard to certification from External Auditors on Circular 29, to align with the regulatory changes and amendments of RBC Rules 2015.

The Commission monitored the timely submission of Returns and accuracy for compliance with the relevant Rules and Regulations. Insurance companies were

advised to rectify the deviations observed, within stipulated deadlines. Follow up actions were also taken by the Commission where necessary. In addition, certain matters observed during the reviews were addressed at the onsite inspections conducted.

##### b) Assessment of Financial Vulnerability of Insurance Company and Group

Insurance companies are required to submit their Risk Assessment Report (RAR) to the Commission each year, as a part of their Annual Returns. Accordingly, during the year the Commission reviewed the information disclosed in RARs pertaining to organizational structure and ownership, business profile, senior management, functions such as marketing and distribution, claims administration, risk management, etc. to obtain an overview of companies' operations.

##### c) Reinsurance Arrangements

All insurance companies are required to inform annually, their Reinsurance Arrangements to the Commission in terms of Section 31(1) of the Act and comply with the terms and conditions on reinsurance placements issued by the Commission. The Commission reviews the reinsurance arrangements to ensure that reinsurance covers are obtained from regulated reinsurers who satisfy the rating requirements prescribed by the Commission, availability of covers for all classes of business which insurer is engaged in, and

whether the compulsory cession to NITF had been ceded, etc. Any non-compliance or deviations observed by the Commission were informed to relevant companies to take corrective actions within stipulated timelines.

Further, all insurers are required to submit facultative reinsurance arrangements on quarterly basis. The Commission reviews the said arrangements and deviations observed are communicated to relevant insurance companies, to take corrective actions within stipulated timelines.

##### d) Quarterly Returns

Insurance companies are required to submit their Quarterly Returns to the Commission within forty-five days from the end of each quarter as per the provisions of the Act.

During 2018, Determination 12 which comprised of Quarterly and Monthly reporting formats was revised by incorporating requirements of Direction 16 (Identification and Treatment of One-off Surplus) and other amendments.

Quarterly Returns submitted during the year 2018 were reviewed by the Commission to assess their quarterly performance and to ensure compliance with relevant Rules and Regulations of the Act.

The financial position of every insurer for each quarter was continuously monitored during the year by analyzing their asset and liability position, capital adequacy (solvency), liquidity and

other risk areas. Any discrepancies, non-compliances and material variations observed during the review of Quarterly Returns were communicated to the relevant insurers and instructed to rectify within given time limits.

In order to evaluate the quarterly performance of each insurer, the Commission analyzed the returns based on premium income, underwriting profit and net profit. Further, a comprehensive ratio analysis on profitability, expenses and claims was carried out to assess the insurers' performance. These ratios are analyzed and compared with the industry averages as an early warning indicator.

Along with the Quarterly Returns, insurers are required to submit Compliance Certifications to demonstrate compliance with the provisions of the Act, Rules and Regulations prescribed by the Commission and the relevant provisions of the Financial Transactions Reporting Act, No. 6 of 2006.

#### **e) Monthly Returns**

During 2018, four insurance companies were required to submit Monthly Returns under RBC framework; three of them within twenty-one days from the end of each month, and one company within thirty days. This decision was taken to examine their financial stability and compliance in a frequent manner due to non-compliances reported.

## **2. Monitoring Compliance with Solvency Margin (Risk Based Capital) Rules**

According to the Solvency Margin (Risk Based Capital)

Rules 2015, every insurance company is required to maintain a minimum Capital Adequacy Ratio (CAR) and a Total Available Capital (TAC) for both General and Long Term insurance businesses and to submit the Solvency Margin (Risk Based Capital) computations together with the Monthly, Quarterly and Annual Returns. Such computations are reviewed and analyzed by the Commission to ensure compliance with the Solvency Margin Rules. If Insurers are unable to fulfill the Solvency Margin requirements or if the computations are inaccurate, the Commission instructs them to take immediate action to rectify the issues within stipulated timelines.

## **3. Monitoring Compliance with Investment Specifications**

### **a) Investments in Government Securities**

Insurance companies are required to invest in government securities not less than 20% of the assets of the Technical Reserve and not less than 30% of the assets of the Long Term Insurance Fund as per Section 25 of the Act. The Commission monitors compliance with the said provision on Monthly, Quarterly and Annual basis, based on the Returns and relevant supporting documents submitted.

Any non-compliance or deviations observed by the Commission were informed to relevant companies to rectify within stipulated timelines.

### **b) Other Investments as per the Determination 1**

Every Insurer needs to invest the balance assets of the Technical Reserve and the Long Term Insurance Fund in accordance with the Determination 1 of 1st March 2011 and its subsequent amendments. The Commission reviews the investment details of Technical Reserves and Long Term Insurance Fund on monthly, quarterly and annual basis, based on the returns submitted to ensure compliance with Determination 1.

During the year, the Commission observed non-compliances and deviations with the requirements of Determination 1 with regard to five companies. Accordingly, respective insurers were informed and were required to do necessary rectifications to comply with Determination 1 with immediate effect.

## **4. Enforcement Strategy on Solvency Margin (Risk Based Capital) Rules**

If an insurance company fails to maintain the capital adequacy requirements as stipulated in Solvency Margin (Risk Based Capital) Rules, the Commission will intervene and require companies to take corrective actions based on the Enforcement Strategy on RBC issued to the industry. The purpose of this is to identify troubled insurance companies at an early stage so that practical and effective regulatory action can be taken before they grow beyond control and become a significant enforcement issue. This will enable the Commission to closely monitor the performance of insurance companies, to prevent the occurrence of any significant

deterioration of financial condition or solvency which might lead to a crisis situation. During the year, three companies reported Capital Adequacy Ratio between 120% to 160% and accordingly the Commission took necessary actions based on the Enforcement Strategy.

## 5. Onsite Inspections

During the year 2018, the Commission conducted three onsite inspections at insurance companies based on the risk based supervisory methodology. These inspections comprised review of high level risks associated with insurers mainly in the areas of corporate governance, financial condition, investments, underwriting and other operational functions, risk management, etc.

Accordingly, the Commission reviewed the operations, systems, policies and procedures of insurers to assess their compliance with the provisions of the Act and other Rules and Regulations issued by the Commission. The impact of the existing risk mitigation strategies, systems, controls and procedures regarding key functional activities were examined. Further, interviews were conducted with the senior officials of the insurers, Internal/ External Auditors and the Actuaries in order to gather more information relating to insurers' operations, liability valuations, procedures and systems. Compliance with Anti Money Laundering (AML) guidelines were also verified during the course of onsite inspections.

Observations made during the onsite inspections were communicated to the respective insurers together with the Commission's

recommendations for areas which needed improvements in order to obtain their responses.

## 6. Submission of information to the Central Bank of Sri Lanka

The Commission submitted financial information relating to performance of the insurance industry on quarterly basis to the Macro-Prudential Surveillance Department of the Central Bank of Sri Lanka based on the information and statistics collated from the Quarterly Returns.

## 7. Industry Handbook 2017

Information and statistics of the insurance industry submitted by insurance companies for the year ended 31st December 2017 were collated and published in "Industry Handbook - 2017" by the Commission for the benefit of the insurance industry and its stakeholders. The Handbook contains detailed information of insurance companies such as total assets, gross written premium for different classes of insurance business and market share, underwriting results, total available capital, solvency position, and ratios such as combined ratio, retention ratio, etc.

## 8. Procedures on Management of Insurance Funds – Long Term Insurance Business (Direction 15)

The Commission issued Direction 15 to all Insurance Companies carrying on Long Term Business stipulating the requirements for proper attribution of assets and returns of assets, liabilities and expenses to insurance fund/s and

withdrawals from insurance funds. All such insurers are required to comply with the requirements of Direction 15. The Commission reviewed the status of compliance by reviewing the Returns submitted and further inquiries on relevant procedures were communicated to respective insurance companies in order to comply with the Direction.

## 9. Identification and Treatment of One-off Surplus (Direction 16)

After series of discussions held with the industry and with the expertise of Consultant Actuary from Willis Towers Watson, the Commission issued Direction 16 in March 2018 prescribing the methodology for the Identification and Treatment of One-off Surplus for insurers carrying on Long Term Business. Direction also contains the disclosures required to be made by insurance companies to the Commission. These disclosures have been reviewed by the Commission prior to approving One-off Surplus computed by the companies. Further, such insurance companies are required to maintain adequate assets as Restricted Regulatory Reserves to back the One-off Surplus.

## 10. Anti-Money Laundering and Combating Terrorist Financing (AML/CFT)

The Commission collected information/data from insurance companies to assess the insurance sector vulnerabilities on Money Laundering and Terrorist Financing. Collected information were forwarded to the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka to update the National Risk Assessment (NRA) on

Money Laundering and Terrorist Financing in the Insurance Sector in Sri Lanka.

Further, the Commission took actions in implementing risk based AML/CFT supervision in the insurance sector, such as developing a risk assessment questionnaire and updating the risk tool modified to suit the insurance industry. Comments were also made on the draft Customer Due Diligence Rules for Insurance Sector, which will be issued by the FIU to the sector for compliance.

### 11. Assessment of Readiness to Implement IFRS 17

The International Financial Reporting Standard (IFRS) 17 on Insurance Contracts was initially scheduled to be effective to insurance companies for reporting periods beginning on or after 1st January 2021. The time line for implementation was subsequently extended by one year. Considering the significant changes that are required for implementation of IFRS 17, the Commission informed the insurance companies to submit the status of readiness which includes, a gap analysis performed by companies for financial impact and system requirements of IFRS 17, plans/ road maps on way forward and main challenges identified by the companies such as budget estimates, etc.

## Insurance Brokering Companies

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

Insurance brokering companies are required to submit their Quarterly

Returns to the Commission within 45 days from the end of each quarter as per the Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010.

The Quarterly Returns formats were amended during the year, in order to capture more details on reinsurance brokering and foreign insurance placements.

During 2018, majority of insurance brokering companies submitted their Quarterly Returns to the Commission within the deadline. The Commission reviewed the Quarterly Returns submitted by companies, in order to evaluate their financial position, performance and compliance with the regulatory requirements. Non-compliance or deviations observed by the Commission were communicated to respective brokering companies for rectifications.

Audited Financial Statements of insurance brokering companies are required to be submitted within six months from the end of the financial year. The Commission reviewed the Audited Financial Statements submitted and the deviations from regulatory requirements and material observations in Financial Statements were communicated to the respective insurance brokering companies for clarification and rectification.

### 2. Monitoring Premium Collections

As per Section 89 of the Act, insurance brokering companies are required to remit the amounts of premium collected by them to relevant insurers within two weeks of collection. During the year, the Commission closely monitored

insurance brokering companies for compliance with Section 89 of the Act through the review of Quarterly Returns and this was assured during the onsite inspections. Corrective actions were taken against non-compliances.

### 3. Onsite Inspection

During the year 2018, the Commission carried out eight on-site inspections at insurance brokering companies to assess compliance with the Rules and Regulations. Observations made during the onsite inspections were brought to the notice of the respective brokering companies together with the recommendations for corrective actions. Further, appropriate regulatory actions were taken for any violations of rules and regulations.

### 4. Renewal of Registrations

Applications were received from the insurance brokering companies for renewal of their annual licenses for the year 2019. The Commission analyzed Audited Financial Statements and Quarterly Returns to ascertain their financial position and performance prior to renewal of licenses.

### 5. Registration of New Insurance Brokering Companies

During the year, applications were received from companies to obtain registration as insurance brokering companies. The Commission analyzed the applicant's business plan including sales and financial forecast, organizational chart, availability of infrastructure and External Auditor's certification prior to recommending for registration.

## Regulatory Review

### Registration of Insurance Companies

Applications for registration of insurance companies were not received by the Commission during the year. Accordingly, the number of registered insurers were 27. Out of same, AIG Insurance Ltd. is not accepting any new insurance business and is in the process of exiting from Sri Lanka. Further, MBSL Insurance Company Ltd. has been suspended with effect from 28th June 2017.

**Appendix I:** Provides names of insurance companies registered with the Commission and the class/classes of insurance business they are authorized to carry on.

### Enforcement Action Insurance Companies

#### Suspensions

The Commission, after considering the deteriorating financial status of an insurance company (where the financial viability of the company was in serious doubt and would adversely affect the policyholders of such insurer), suspended its registration granted to carry on both Long Term and General Insurance Businesses, with effect from 28th June 2017. Accordingly, the company was required to show cause in writing to the Commission, why such suspension should be removed and submit for the consideration of the Commission, a capital plan to immediately meet the regulatory requirements to comply with

the provisions of the Act. Since, the company failed to do so, the suspension imposed on the company was extended from 20th July 2017, until it demonstrated compliance with the regulatory capital requirement as per the Act. However, the said company has informed the Commission that it is in the process of achieving the regulatory capital requirement through a prospective investment.

The suspension imposed on Ceylinco Takaful Limited in year 2009 continues to date. Although Ceylinco Takaful Limited has settled all claims that have been identified as genuine claims by the Commission, the claim settlement process could not be concluded since there were ongoing Court cases against Ceylinco Takaful Limited.

In terms of Section 18 (1) of the Act, the Commission may cancel or suspend the registration of an insurer, either wholly or in respect of a particular class or sub-class of insurance business, *inter alia*, for failing to maintain the solvency margin of such amount as determined by the Commission or has contravened any provision of the Act or any regulation or rule made thereunder or any condition imposed or any direction given or determination made by the Commission under the Act.

#### Warnings

In terms of Section 57 of the Act, the Commission has issued a Direction, in year 2015, to an insurer prohibiting them from obtaining services from any

related party, including any associate, subsidiary or parent company or with members of a group company of which it is a part of, without obtaining prior written approval from the Commission. However, as the company has obtained such services without first seeking approval of the Commission, a warning was issued to all Directors and the Principal Officer of such company.

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

The Commission received 4 new business proposals during the year from persons who were interested to be registered as insurance brokers. The Commission granted name approvals to 7 persons during the year. The Commission also granted registration to 4 companies as insurance brokers during the year.

Applications from 59 insurance brokering companies, seeking renewal of registration for year 2019 were received by the Commission during the year, and renewal of registration was granted to 58 companies for the year 2019, in view of them fulfilling necessary requirements under the Act. The renewal of an insurance brokering company was pending as at 31st December 2018 as their net capital position was below the regulatory requirement prescribed by the Commission. However, such insurance broker later on fulfilled the necessary requirements under

the Act, and was granted renewal of registration. The registration granted to Foresight Insurance Brokers (Pvt) Limited has expired on 31st December 2018, as the company failed to submit its renewal application.

**Appendix II:** Provides names of all insurance brokering companies registered with the Commission, the class/ classes of insurance brokering businesses they are permitted to carry on and the period of registration.

## Enforcement Action

### Insurance Brokering Companies

#### Warnings

No warnings were issued to insurance brokering companies by the Commission during the year of review.

#### Directions

- Following a complaint made to the Commission, it was observed that certain insurers and brokers recruit persons whose services have been previously terminated on the grounds of financial misappropriation. Therefore, the Commission has issued a Direction to all insurers and insurance brokers under Section 96A of the Act, to refrain from employing persons (in any capacity of employment) whose services have been previously terminated on the grounds of financial misappropriation or fraud.
- Having observed that the net capital of four broker companies was less than the regulatory requirement of LKR

2.5 million, the Commission directed them to infuse the capital and to submit its returns on a monthly basis in addition to the Quarterly Returns the companies are required to submit to the Commission.

### Regulatory/Advisory Measures

- The approval of the Commission was sought for the amalgamation of two general insurance companies, in terms of Section 102 of the Act. Having reviewed the said proposal, the Commission has granted approval for the said amalgamation subject to the companies complying with conditions stipulated.
- The Commission has granted authorization to a number of insurance brokering companies on applications made to place foreign health insurance products in terms of Circular # 36.

Circular # 36 requires any insurance brokering company who wishes to place foreign health insurance covers, to seek authorization from the Commission for the product they wish to place.

Having reviewed the requests of a number of insurance brokers for authorization for renewal to place overseas health insurance products, the Commission has renewed the authorization period for a further year.

- Having considered the qualifications, the Commission has granted approval to a number of requests made by prospective insurance agents,

to sit for the pre-recruitment test conducted by the Sri Lanka Insurance Institute, in terms of Rule 2(c)(ii) of the Gazette No. 1255/3 of 23rd September 2002 as amended by Gazette Extraordinary No. 1674/4 of 5th October 2010.

In terms of Rule 2 (c) (i) of Insurance Agents qualification (Gazette No. 1255/3 of 23rd September 2002, as amended by Gazette Extraordinary No. 1674/4 of 5th October 2010), one of the minimum qualifications specified to be registered as an insurance agent is to pass the GCE (O/L) Examination with an ordinary pass in either Mathematics or Arithmetic and Sinhala or Tamil or English languages. However, in terms of the said Rule 2 (c) (ii), any person qualified in any other relevant discipline, at an equal or higher level than that specified in Rule 2 (c) (i), may be considered by the Commission on a case by case basis.

- The approval of the Commission was sought by a shipping entity, to continue placing hull, machinery and war risk insurance cover with a foreign insurer, for a certain fleet of ships, for a period of one year from 01st June 2018. The said cover was approved by the Commission, in terms of Section 101 of the Act, for a period of one year in 2018.

In terms of Section 101 of the Act, no person in Sri Lanka, shall without the prior written approval of the Commission, directly or indirectly place any insurance business with an

insurer not registered with the Commission, except in relation to reinsurance business. Further, such approval is granted only upon taking into consideration the policy of the Government in respect of the insurance industry and the national interest.

5. The Commission has granted approval to several brokering companies to conduct business other than Insurance Brokering Business. Direction # 10 requires all insurance brokering companies to seek prior approval of the Commission to provide ancillary services, other than insurance brokering business as defined in the Act.
6. The Commission has granted approval to a number of applications by insurance companies for appointment of Directors in terms of the provisions introduced by the Amendment Act, No. 03 of 2011.
7. The Commission has granted approval to a number of applications by insurance companies and insurance brokering companies seeking approval to appoint Principal Officers in terms of the provisions in the Act.
8. The Commission has provided responses to several applications received under the Right to Information Act, No. 12 of 2016.
9. The Commission has reviewed many insurance products and provided observations to respective insurers for their necessary action. Circular

# 39 requires all insurance companies to submit policy documents in relation to new insurance products to the Commission prior to launch of same.

10. Having reviewed the requests of a number of insurers, the Commission has granted exemption to such insurers from being listed on a licensed stock exchange in terms of the provisions of the Act. In terms of the Amendment Act, No. 03 of 2011, all insurance companies registered with the Commission are required to list itself on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987. However, an exemption to the above listing requirement was granted by the Amendment Act, No. 23 of 2017.

The following are the categories of insurers who could apply for the exemption, in terms of the said Amendment Act:

- (i) *A local subsidiary insurance company, which is owned by a foreign holding company owning over 85% of the shares of the said company, and the said foreign holding company is listed on a foreign stock exchange which is a member of the World Federation of Exchanges or such other organization recognized by the Commission.*

*Further, such company would have to also satisfy the Commission that the accounts of the said*

*company are included in the group consolidated accounts of the foreign holding company and that such foreign holding company is legally required to ensure group level compliance with all regulatory requirements of the foreign stock exchange - [Section 15B of the Regulation of Insurance Industry Act, No. 43 of 2000 (Act)].*

- (ii) *A local insurance company, whose parent company is listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act - [Section 15C (2) of Act].*

*Apart from the above two categories, the National Insurance Trust Fund and the Sri Lanka Insurance Corporation Ltd. or any insurers formed upon segregation are exempted from the listing requirement. This exemption would only be valid as long as such entities are owned by the Government of Sri Lanka - [Section 15C (1) and (3) of Act].*

11. Having reviewed the applications of several individuals seeking registration as Loss Adjusters, the Commission has granted approval to 10 individuals, as they have complied with the loss adjuster registration requirements in terms of the provisions of the Act. In terms of Section 89 C (1) of the Act, an application for registration as a loss adjuster shall be made to

the Commission in such form as shall be provided for that purpose by the Commission and be accompanied by such documents, information and fee as shall be determined by the Commission by rules made in that behalf.

**Appendix III:** Provides names of loss adjusters registered with the Commission and effective date of license.

In terms of Section 114 (1) of the Act, "Loss Adjuster" means a person who has specialized knowledge in investigating and who is assessing losses arising from insurance claims and registered as a loss adjuster under the provisions of the Act.

## Investigatory Review

The Commission, under its overall objective of safeguarding the interests of policyholders, is empowered to investigate into and resolve disputes between insurers and claimants relating to the settlement of insurance claims which are referred to the Commission by claimants. The Commission also investigates into complaints pertaining to market conduct of any insurer, broker or an agent.

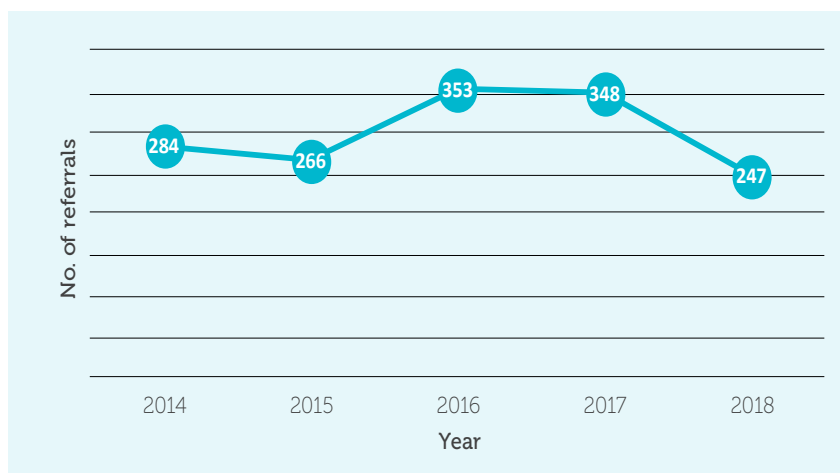
When a dispute or a complaint is referred to the Commission (against an insurer, broker or an agent), all the parties concerned are given an opportunity of being heard by the Commission before making a decision. The insurers are required to establish the basis for its decisions relating to claims, with supporting information and documents. Where required, third party verifications and expert opinions are also obtained and considered by the Commission in arriving at decisions.

### Analysis of Total Referrals

During the year under review, 247 new matters were referred to the Commission and 295 matters were settled or closed during the same period. 65 insurance claim disputes were settled in-favor of the claimants, based on the Commission's intervention. The approximate aggregate value of the claims settled by insurers, based on the Commission's intervention, is LKR 38 million.

During the past five (5) year period, a total of 1,498 matters have been referred to the Commission.

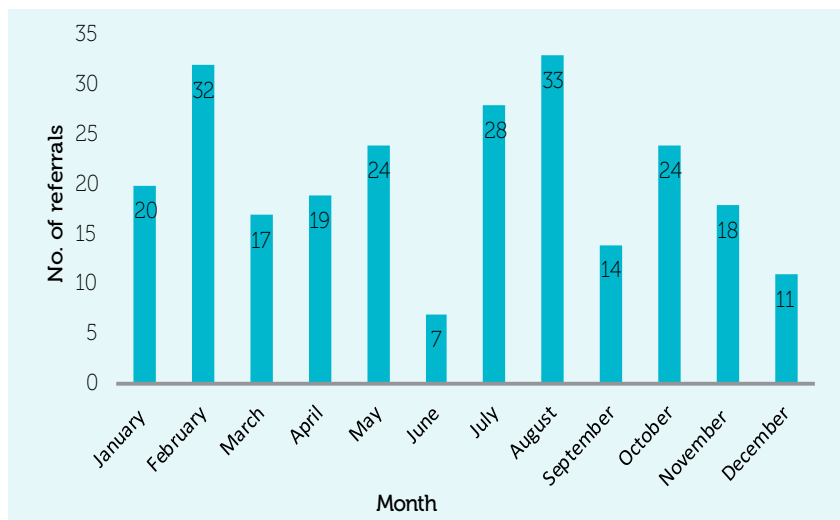
**Chart 1**  
Annual referrals in the last five (5) years

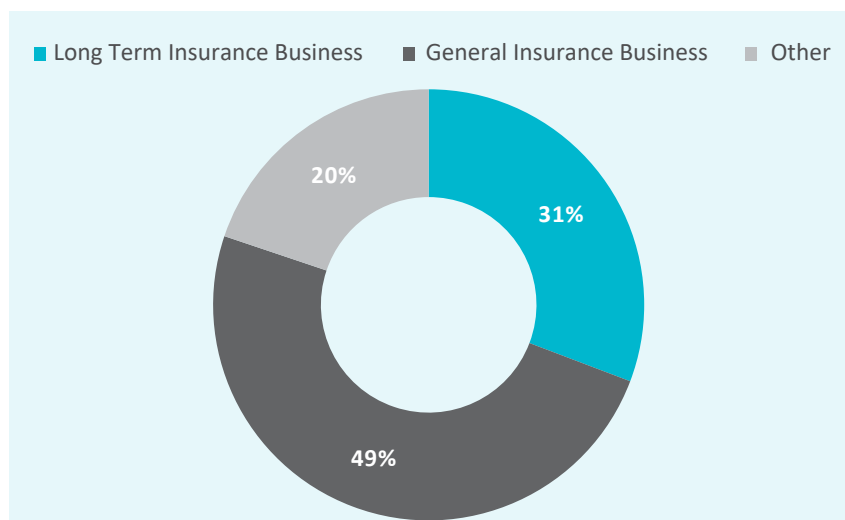


However, as illustrated in Chart 1, the number of matters referred to the Commission in the period under review (247) has decreased compared to the previous year (348). Effective resolution of consumer complaints by the insurance companies, in accordance with their complaints handling procedures, may have been a reason for the decrease in referrals to the Commission.

Chart 2 shows the monthly breakdown of the number of matters referred to the Commission during the year under review. Highest number of referrals (33) has been received in the month of August whereas the month of June has recorded the lowest number of referrals (7). This might have been due to the postal strike that lasted for more than two weeks in the month of

**Chart 2**  
Month-wise analysis of referrals during the period under review



**Chart 3****Classification of total matters referred to in the year 2018**

June. On average, 20.5 matters per month have been referred to the Commission and the months; February, May, July, August and October have recorded referrals above average.

Chart 3 portrays the composition of total matters referred to Commission in the year 2018. Majority of referrals i.e. 122 (49%) were with regard to general insurance business and 76 (31%) referrals were relating to long term insurance business. The other 49 (20%) referrals were general in nature and cannot be categorized into a specific line of business. When compared to previous year under review, the percentage of referrals with respect to general insurance business has significantly reduced from 60% (in 2017) to 49%, while the proportion of other referrals has increased from 11% (in 2017) to 20%.

### Analysis of Referrals on General Insurance Business

An issue-wise analysis of matters referred to the Commission on

general insurance business is given in Table 1.

As shown in Table 1, out of the total referrals (122) under the general insurance business, 113 (92.6%) were claims disputes while the balance 9 referrals (7.4%) were other complaints such as mid-term policy cancellations, not responding to queries, requests for premium refunds and non-receipt of policy documents. The main issue for referrals (73.4%) under the claims disputes were non-acceptance of liability i.e. claim repudiations.

The root-cause-analysis of referrals revealed that the main reasons of repudiation for motor insurance claims were; non-disclosure or misrepresentation

of material facts pertaining to accidents (due to excluded usage, drunken driving, driver not having a valid driving license or the insured having no insurable interest following the sale of vehicle), the damages caused being inconsistent with the description of the accident by insured/driver or the policy being cancelled as at date of the accident due to non-payment of full premium. Detailed inquiries were conducted with regard to claim repudiations by calling observations from the Government Analyst's Department, Police Stations, hospitals and witnesses (where required). The Commission assisted the claimants in instances where the policy covered the cause of loss and there were no fraud or deliberate misrepresentation of material facts relating to the claim.

Dissatisfaction with the claim offered/paid was the other main reason for referrals (18.6%) under the claims disputes. Misunderstanding of the policy wording and lack of clarity in explanations provided by insurers on loss adjustments/deductions were the main causes for referrals of this nature. Most of these disputes could be resolved by providing the required explanations to claimants in

**Table 1**  
**Referrals on general insurance business: issue-wise**

Issue	#	%
<b>Claims disputes</b>	<b>113</b>	<b>92.6</b>
Non-acceptance of liability	83	73.4
Dissatisfied with the claim offered/paid	21	18.6
Delays in settling claims	9	8.0
<b>Other complaints</b>	<b>9</b>	<b>7.4</b>
<b>TOTAL</b>	<b>122</b>	<b>100.0</b>

writing or at the discussions held at the Commission. The balance nine (9) disputes referred to the Commission were relating to the delay in settling the claims. It was observed that most of the delays had caused due to conducting further investigations on claims and the delays on the part of insureds or repairers in furnishing required information and documents to finalize the claims.

### Analysis of Referrals on Long Term Insurance Business

The Table 2 below shows an issue-wise analysis of the matters referred with regard to long term insurance business.

As per Table 2, the total referrals (76) under the long term insurance business consists of equal proportions (50% each) of claims disputes and other complaints.

The main cause (50%) for claims disputes was the non-acceptance of liability by insurer. Most of the claim repudiations have been based on non-disclosure or misrepresentation of material facts at the commencement or revival of the policy. The fundamental legal principle of

insurance contracts, *uberrimae fidei* (utmost good faith) acts *vice versa* on the both parties of the contract i.e. insurer as well as insured. An insurer decides on the acceptability of risk of proposer's life and the relevant terms and conditions, based on the information disclosed by the proposer in the proposal form. As such, any non-disclosure or misrepresentation of material facts would amount to the breach of *uberrimae fidei* principle by the insured.

In some instances, it was observed that the cause for non-disclosure and misrepresentation of facts by proposers has been the lack of awareness on relevant insurance principles and the obligation to disclose material information. Therefore, the insurers need to take further measures to ensure that the prospective policyholders are duly informed of their duty of disclosure and adverse effects of failing to do so. The Commission was able to assist only in few instances where it could be proved that the non-disclosure or misrepresentation was neither deliberate nor reckless.

The policyholders have a

contractual duty to ensure that they pay the premiums regularly and within the time periods specified in the policy document. The claims have been repudiated where the policies had been lapsed due to non-payment of premium, at the time of claim. The policyholders are obliged to maintain the policy by paying premiums on-time and they need to retain proof of their payments, to be produced in case of a dispute. Accordingly, the Commission could assist only where the timely payment of premiums could be established or the delay in payment could be justified.

The other main cause of claims disputes (36.8%) was relating to obtaining maturity and surrender benefits. The main reason for such disputes is the misunderstanding of policy wording and the inadequacy of explanations provided by insurers. Most of these disputes could be resolved by providing required clarifications to policyholders, in writing and at the discussions conducted at the Commission. Almost in all the disputes (13.2%) where the claimants were dissatisfied with the claim amounts, it was observed that the cause for same is the lack of clarifications or explanations provided by insurers at the time of communicating their offers to claimants.

The main cause (55.3%) of the other complaints referred to under the long term insurance business was in relation to the requests to cancel the policies and obtain refund of premiums or revival of policies. Matters in relation to requests to cancel the policies and obtain refund of premiums

**Table 2**  
**Referrals on long term insurance business: issue-wise**

Issue	#	%
<b>Claims disputes</b>	<b>38</b>	<b>50.0</b>
Non-acceptance of liability	19	50.0
Maturity and surrender benefits	14	36.8
Dissatisfied with the claims offered	5	13.2
<b>Other complaints</b>	<b>38</b>	<b>50.0</b>
Request to refund/cancellation or revival	21	55.3
Provision of information	5	13.2
Payment/misappropriation of premium	4	10.5
Other	8	21.0
<b>TOTAL</b>	<b>76</b>	<b>100.0</b>

could not be assisted, as the policyholders do not have such a right after the lapse of cooling-off period i.e. 21 days from the date of receipt of the policy document. However, insurers agreed to grant a relief where the hardships experienced by policyholders or claimants were clearly evident. The requests for revival, made after the expiry of specified time period, could be assisted only where the policyholders could justify the delays in taking actions to revive the policy.

The complaints relating to provision of information (13.2%) could be resolved by taking action based on the findings of the investigations. There were only 4 (10.5%) complaints relating to the payment of and misappropriation of premiums. The policyholders could be assisted only where the misappropriation could be established by verifiable evidence. The remainder of the other complaints (21%) were in relation to policy loans, modes of premium payment and the functioning of branch offices. Actions were taken with regard to all such complaints based on the findings of investigations.

### Other Referrals

Other matters (49) referred to Commission, not specific to a line of business, during the year under review were mainly on unfair termination/blacklisting and educational qualifications of agents. Actions were taken, where possible, in terms of the powers conferred on the Commission under the Act to assist the complainants or to resolve the matters.

### Formalization of Insurance Dispute Resolution Scheme

The Asian Development Bank (ADB) has approved a policy-based loan to the Government of Sri Lanka (GOSL) for the Capital Market Development Program (CMDP) in 2 tranches. The CMDP provides budget support for enhancing the role of capital market in financial intermediation and resource mobilization by improving the allocative efficiency between savings and investment through the expansion and diversification of the investor base. The release of funds depends upon the implementation of

certain identified policy actions by implementing agencies, including the Commission. The implementing agencies receive technical assistance from the ADB for the implementation of policy actions.

In terms of tranche 2, the Commission is required to establish and staff a dispute resolution panel for the insurance sector that submits its recommendations to the Commission. In July 2018, considering the recommendations made by the international consultants, the Commission decided to formalize and enhance the existing Insurance Ombudsman Scheme by way of delegating the Commission's power vested under Section 98 of the Act. In November 2018, the preliminary industry consultation was conducted on the draft framework and implementation plan for the proposed Insurance Industry Ombudsman Centre. The feedback of the industry was received by the end of 2018 and the Commission is currently in discussion with the industry to formalize the scheme.

## Market Development and External Relations (MDER) Review

Awareness and confidence of the general public on insurance needs to be enhanced in order to facilitate further development of the insurance industry. The existing and prospective policyholders, being the main stakeholders of the insurance industry, need to be empowered with knowledge, in order to protect their interests and to be in a position to make an informed decision when entering into an insurance contract. The Commission strives to improve the knowledge on insurance in general public through public awareness campaigns conducted throughout the island.

To pursue this objective, the Commission utilised various communication channels to reach the target audience. The details of the communication channels utilised and activities carried out during the year under review are as follows:

### Awareness Programmes

#### Programmes at Divisional Secretariats

These programmes were organised in collaboration with Divisional Secretariats. The aim of such programmes is to enhance knowledge on insurance of the public officers such as Grama Niladharies, Police, Excise, Samurdhi, Development, Agricultural and Field Officers, Staff of the respective Divisional Secretariats, who interact frequently with the public. The participants were made aware about the role of the Commission (as the Regulator of the insurance

industry), importance of having the required insurance policy to cover the risks either to life or property, rights and duties of an insurance policyholder, key factors to be considered when purchasing and maintaining an insurance policy and claiming under an insurance policy.

Twelve (12) awareness programmes on insurance were conducted on the "Divisional Day Meetings" at Seethawaka, Divulapitiya, Thamankaduwa, Bandaragama, Batticaloa, Habaraduwa, Madampe, Rideegama, Aranayaka, Mannar, Mulatiyana and Passara Divisional Secretariats covering 773 Gramaseva Niladhari Divisions. Approximately 1675 government officers of the respective areas participated at these programmes.



#### Other Programmes

The Commission conducted/participated at the following programmes, targeting various groups, in addition to the mainstream awareness programmes conducted at the Divisional Secretariats:

- Awareness programmes for the students and teachers in the Advanced Level Commerce Section of Hameed

– Al - Husainia National School, Colombo 12 in May and Vidyaloka Vidyalaya at Kadawatha in June.

- Awareness programme for the residents of "Laksanda" housing scheme at Salamulla, Kollonnawa in March.
- Participated in "Investors' Day" Exhibition at University of Sabaragamuwa in January.



#### Awareness through Electronic Media

The media has the capability to empower the common man by spreading knowledge. Thus, the Commission conducted two television programmes and two radio programmes during the period under review. The officials of the Commission participated at the following programmes to create awareness on matters relating to insurance:

#### Television Programmes

- The Independent Television Network telecasted a 'news segment' in its main news bulletin in Sinhala Language.
- 'Business Today', a recorded discussion telecasted on Eye Channel of Sri Lanka Rupavahini Corporation.

### Radio Programmes

- 'Subharathi', a live programme at City FM channel of Sri Lanka Broadcasting Corporation.
- 'News in Brief', which aired pre-recorded short messages after hourly news bulletin in City FM channel of Sri Lanka Broadcasting Corporation.

### Awareness through Print Media

The Commission published the following press releases and press notices during the period under review:

#### Press Releases

- Performance of the insurance industry during the year 2017.
- Performance of the insurance industry, Quarter 01, 2018.
- Performance of the insurance industry during 1st Half, 2018.
- Performance of the insurance industry, Quarter 03, 2018.
- Appointment of the New Chairman.
- Appointment of new Commission Members.

#### Press Notices

- The yearly notice on registered insurance companies and insurance brokering companies under the title 'Special Notice to Public'.
- Insurance Advisors - Do you know about them and their role?

### Other Publications

The existing brochures on "Insurance Regulatory Commission of Sri Lanka", "rights and duties of



an insurance policyholder" and "health insurance" and a poster on "message from the Insurance Regulatory Commission of Sri Lanka – facts to be mindful of when purchasing an insurance policy" were reprinted and distributed mainly at the awareness programmes during the year under review. Further, a new brochure on "Investment Linked Insurance Policies" was printed and distributed at the awareness programmes.

### National Insurance Day

The Commission, with a view to creating public awareness on the 'importance of insurance', organised several activities to celebrate the National Insurance Day, i.e. 1st September and the Insurance Awareness Month, i.e. the month of September.

#### (1) Television Programmes

- (a) 'Mal Para', a live discussion telecasted on the Independent Television Network.

- (b) 'Sanhinda', a live discussion telecasted on Sri Lanka Rupavahini Corporation.

#### (2) Radio programmes

- (a) 'SLBC News Package Programme', which aired pre-recorded short messages after the main news bulletin of all channels of Sri Lanka Broadcasting Corporation.
- (b) 'Sara Prabha Gira', a live discussion at Commercial Service of Sri Lanka Broadcasting Corporation.

#### (3) Paper Article

- (a) A Press Article was published regarding the "National Insurance Day".

### ADB Capital Market Development Programme

The Asian Development Bank (ADB) has approved a policy-based loan to the Government of Sri Lanka (GOSL) for the Capital Market Development Program (CMDP) in 2 tranches. The CMDP provides budget support for enhancing the role of capital market in financial intermediation and resource mobilization by improving the allocative efficiency between savings and investment through the expansion and diversification of the investor base. The release of funds depends upon the implementation of certain identified policy actions by implementing agencies, including the Commission. The implementing agencies receive technical assistance from the ADB for the implementation of policy actions.

Under Tranche 2, the Commission should have commenced implementation of a comprehensive strategy for retail education to strengthen financial literacy.

Having perused the Education Strategy and Implementation Plan submitted by the consultant, the Commission advised to further review the consultant's submission and to inform (to consultant) the further information/clarifications required to ensure that the proposed activities are in line with the agreed policy action (milestone). In response, the ADB and consultants agreed that the education strategy has to be revised considering the local context and the limitations on resources.

## Other Engagements

### Responses to Public Queries

During the year under review, the Commission attended to numerous inquiries from general public, policy holders and various other stakeholders requesting information and seeking guidance relating to insurance industry.

### Chairman's interview with Asia Insurance Review (AIR)

The Commission facilitated conducting an interview with the Chairman and it was published in the magazine for the month of August, 2018.

### Reviewing the Curriculum of Agency Pre-Recruitment Test of the Sri Lanka Insurance Institute (SLII)

Having examined the current course books and sample examination papers, the Commission proposed certain changes for further improvement of the Agency Pre-Recruitment Test.

## Administrative Review

### Staff

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

The Commission establishes the organizational structure, identifies necessary functions to discharge its duties 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 Commission took several key initiatives during the year under review to strengthen the human resource through timely recruitment of required professionals. To meet such initiatives, a Director and Five Executives were recruited to the permanent cadre during the year under review. Total staff strength of the Commission stood at 45 as at 31st December 2018.

The academic and professional qualifications of the staff are depicted in the table below:

No. of Employees	Academic / Professional Qualifications					
	Post Graduate, First Degree & Professional Qualifications	Post Graduate & Professional Qualifications	Post Graduate & First Degree	First Degree & Professional Qualifications	First Degree	Professional Qualifications
45	09	03	06	04	09	03

### Training

Focus on training and development covers the broad policy of enhancing the staff to obtain knowledge and job related skills to achieve the goals of the organization. During the year, investments were made as depicted in the table below on local and foreign training:

Category	2018 (LKR)	2017 (LKR)
Local Training	1,264,144/-	1,297,577/-
Conferences & Foreign Training	10,589,034/-	4,741,449/-

### Staff Welfare

Caring for the well-being of its employees has been an important factor in creating motivation and increasing their morale. The Commission provides an attractive welfare package inclusive of indoor and outdoor medical schemes, personal accident insurance cover, vehicle and distress loan schemes and festival advance. Further, the Commission

provides opportunities to enhance the relationships with staff and their families by organizing a residential training programme. A Welfare Society was formed in the year under review to enhance welfare opportunities. The annual get-together was organized by the Welfare Society of the Commission.

## Financial Review

### Policyholders' Protection Fund (PPF)

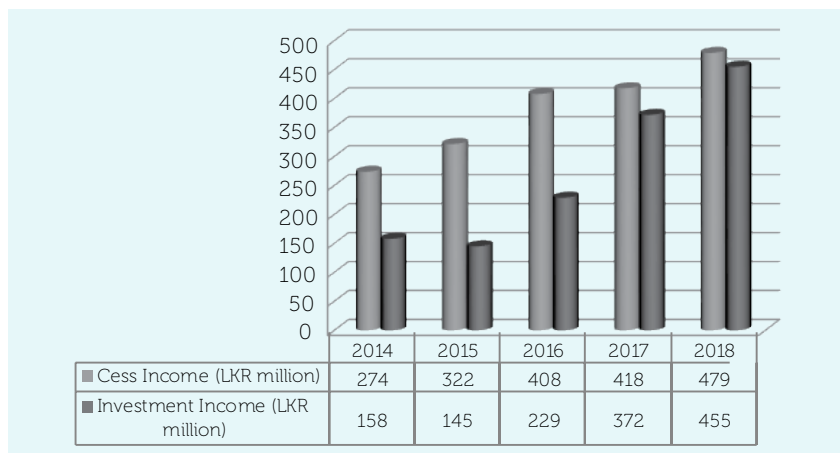
The Cess collected to the Policyholders' Protection Fund (PPF) has been invested by the Commission in a prudent manner to yield good returns. Chart 1 depicts the Cess collection and investment income earned.

Chart 1 illustrates the growth of the Cess income over the last five years. Due to the impact of favorable market conditions, investment income has shown a significant increase from 2016 to 2018.

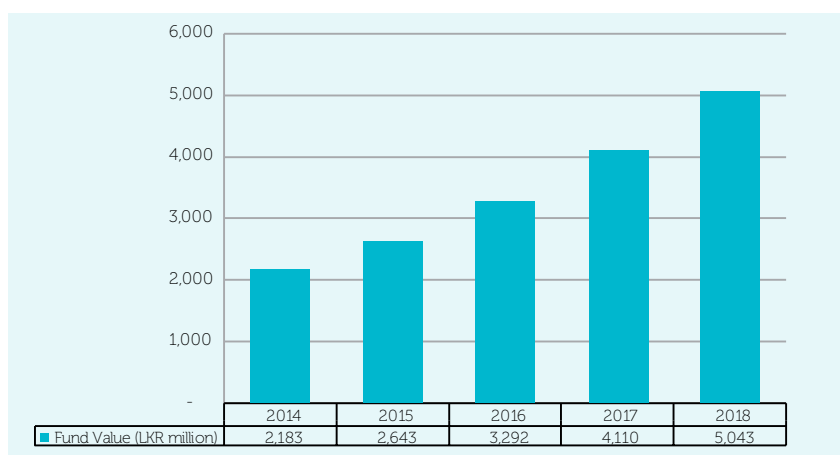
Value of the PPF has increased over the last five years and Chart 2 depicts the same.

The composition of assets of the Fund as at 31st December 2018 is depicted below:

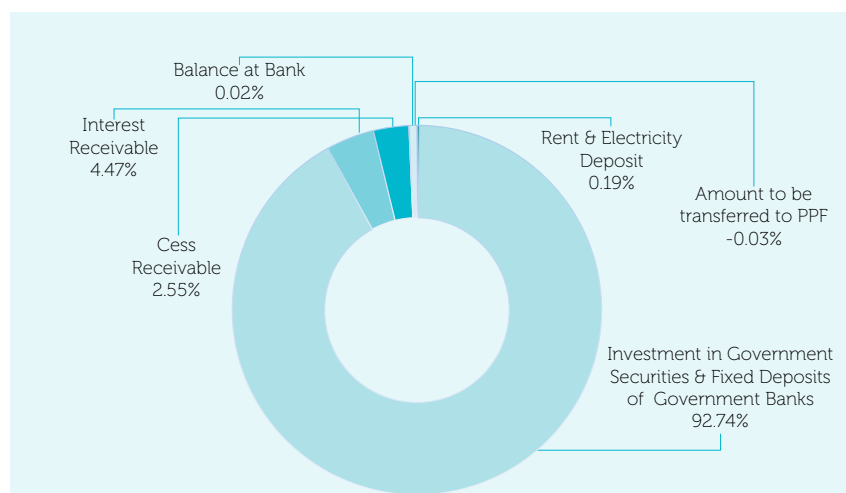
**Chart 1**  
Cess Income and Investment Income for the period 2014-2018



**Chart 2**  
Policyholders' Protection Fund Values for the period 2014 - 2018



**Chart 3**  
Assets Composition of Policyholders' Protection Fund as at 31st December 2018



### Income of the Commission

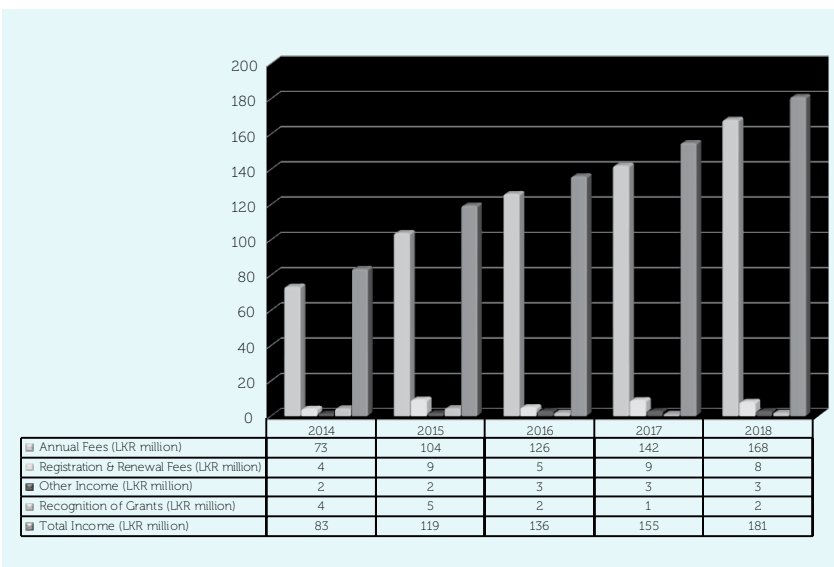
The income of the Commission is derived from the following sources:

- Registration fees from insurers, insurance broking companies & loss adjustors
- Annual Fee levied from insurance companies
- Annual Fee for renewal of registration of insurance broking companies
- Interest income by investing surplus funds

Chart 4 depicts the breakup of overall income received for the period 2014 to 2018.

**Chart 4**

**Income of the Commission for the period 2014-2018**



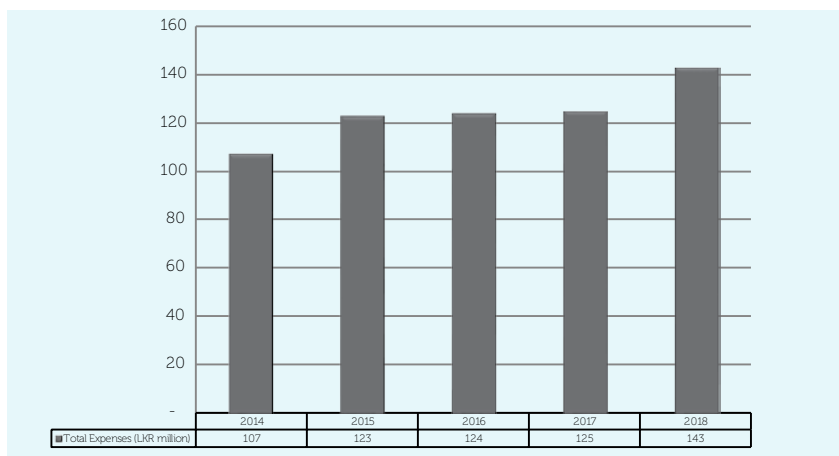
### Expenses of the Commission

An increase of 14.4% can be seen in expenditure for the year 2018 compared to the year 2017 and the Commission has recorded a surplus around LKR 41.3 million in the year 2018. The deficit between income and the expenditure had been financed from the PPF in accordance with the provisions of the Act in the past, the said surplus to be transferred to the PPF.

Chart 5 below depicts the total expenses of the Commission for the period 2014 to 2018.

**Chart 5**

**Total Expenses of the Commission for the period 2014-2018**





# Financial Information

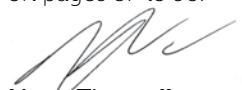
# STATEMENT OF FINANCIAL POSITION

AS AT 31<sup>st</sup> DECEMBER 2018

	Notes	As at 31.12.18 Rs.	As at 31.12.17 Restated Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	1	15,689,425	7,324,758
Policyholders' Protection Fund-Rent & Electricity Deposits and Treasury Bonds	2	1,086,252,949	1,086,252,949
<b>Total Non Current Assets</b>		<b>1,101,942,374</b>	<b>1,093,577,707</b>
<b>CURRENT ASSETS</b>			
Inventories	3	522,620	347,299
Policyholders' Protection Fund-Investments and Others	2	3,956,513,320	3,023,706,256
Other Current Assets	4	16,007,020	12,194,049
Investments in Government Securities & Fixed Deposits		70,700,000	42,000,000
Cash and Cash Equivalents	5	2,711,448	5,796,222
<b>Total Current Assets</b>		<b>4,046,454,409</b>	<b>3,084,043,825</b>
<b>TOTAL ASSETS</b>		<b>5,148,396,782</b>	<b>4,177,621,532</b>
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES &amp; FUNDS</b>			
Accumulated Fund	16	41,337,937	-
Policyholders' Protection Fund	6	5,042,765,873	4,109,959,205
Revaluation Reserve		17,689,652	7,389,652
<b>Total Reserves &amp; Funds</b>		<b>5,101,793,462</b>	<b>4,117,348,857</b>
<b>LIABILITIES</b>			
<b>NON CURRENT LIABILITIES</b>			
Grant	7	5,389,425	5,718,532
Retirement Benefit Obligation	8	12,155,897	10,902,547
<b>Total Non Current Liabilities</b>		<b>17,545,322</b>	<b>16,621,079</b>
<b>CURRENT LIABILITIES</b>			
Receipt in Advance		14,161,815	7,358,099
Other Current Liabilities	9	14,896,183	36,293,496
<b>Total Current Liabilities</b>		<b>29,057,998</b>	<b>43,651,596</b>
<b>TOTAL RESERVES &amp; LIABILITIES</b>		<b>5,148,396,782</b>	<b>4,177,621,532</b>

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

The above Statement of Financial position is to be read in conjunction with the accounting policies and notes appearing on pages 87 to 95.



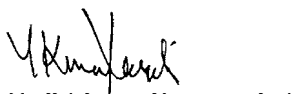
**Mano Tittawella**

Chairman



**Damayanthi Fernando**

Director General

Colombo, Sri Lanka  
26<sup>th</sup> February 2019


**Yudhisharan Kanagasabai**

Member



**Sathiesh Kumar**

Director Finance &amp; Administration

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2018

	Notes	Year Ended 31.12.18 Rs	Year Ended 31.12.17 Rs
<b>INCOME</b>			
Revenue	10	176,168,849	150,783,219
Recognition of Grant	7	1,929,052	1,455,019
Interest Income		7,439,303	4,486,296
Other Income	11	277,233	302,826
<b>TOTAL INCOME</b>		<b>185,814,437</b>	<b>157,027,360</b>
<b>EXPENDITURE</b>			
Staff Costs	12	(79,009,564)	(69,941,211)
Professional Charges	13	(5,035,081)	(2,000,000)
Operational Expenses	14	(58,453,496)	(53,212,244)
Finance and Others	15	(155,451)	(114,876)
Surplus Transferred to Policyholders' Protection Fund	6	-	(31,220,674)
<b>TOTAL EXPENDITURE</b>		<b>(142,653,592)</b>	<b>(156,489,005)</b>
Net Surplus /(Deficit) Before Tax		43,160,845	538,355
Taxation		(1,822,908)	(538,355)
Net Surplus /(Deficit) After Tax		41,337,937	-
<b>Net Surplus for the Year</b>		<b>41,337,937</b>	<b>-</b>

The accounting policies and notes appearing on pages from 87 to 95 form an integral part of the Financial Statements.

## STATEMENT OF CHANGES IN EQUITY / NET ASSETS

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2018

	Revaluation Reserves	Accumulated Surpluses/ (Deficits)	Total
Balance at 31st December 2017	7,389,652	-	7,389,652
Change in net asset for 2018			
Gain on property revaluation	10,300,000	-	10,300,000
Surplus for the year	-	41,337,937	41,337,937
<b>Balance at 31st December 2018</b>	<b>17,689,652</b>	<b>41,337,937</b>	<b>59,027,589</b>

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2018

	NOTE	Year Ended 31.12.18 Rs	Year Ended 31.12.17 Rs
<b>Cash Flows from Operating Activities</b>			
Net Increase/(Decrease) for the Period	16	41,337,937	-
Provision for Depreciation		3,535,279	3,955,019
Provision for Retirement Benefit		2,014,024	1,893,706
Profit /( Loss) on Disposal		-	(41,449)
Payment made- Retirement Benefit		(760,674)	(833,784)
Recognition of Grant		(1,929,052)	(1,455,019)
Income Tax		1,822,908	538,355
Interest Income		(7,439,303)	(4,486,296)
<b>Net Increase before Working Capital Changes</b>		<b>38,581,119</b>	<b>(429,467)</b>
<b>Change of Working Capital</b>			
(Increase)/Decrease in Inventories		(175,322)	45,735
(Increase)/Decrease of Receivables		(4,482,480)	1,289,668
Increase/(Decrease) of Receipt in advance		6,803,715	(880,694)
Increase/(Decrease) of Creditors and Accruals		(21,397,313)	15,852,619
<b>Cash Flow used in Operating Activities</b>		<b>(19,251,399)</b>	<b>16,307,328</b>
<b>Net Cash Flows from Operating Activities</b>		<b>19,329,720</b>	<b>15,877,861</b>
<b>Cash Flows from/(used in) Investing Activities</b>			
Investment in Government Securities		(28,700,000)	(19,300,000)
Interest Income		6,285,506	3,969,678
Proceeds from Sale of Property, Plant and Equipment		-	41,449
Purchase of Property Plant and Equipments		(1,599,945)	(3,650,319)
<b>Net Cash used in Investing Activities</b>		<b>(24,014,439)</b>	<b>(18,939,191)</b>
<b>Cash Flow from Financing Activities</b>			
Capital transfer from Policyholders' Protection Fund		1,599,945	3,650,319
<b>Net Cash Flows from Financing Activities</b>		<b>1,599,945</b>	<b>3,650,319</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		(3,084,774)	588,988
Cash and Cash Equivalents at the beginning of the year		5,796,222	5,207,234
<b>Cash and Cash Equivalents at the end of the year</b>		<b>2,711,448</b>	<b>5,796,222</b>
<b>Cash at Bank and in Hand</b>	5 & 17	<b>2,711,448</b>	<b>5,796,222</b>

The accounting policies and notes appearing on pages 87 to 95 form an integral part of the Financial Statements.

## POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2018

	Note	Year Ended 31.12.18 Rs	Year Ended 31.12.17 Rs
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		932,807,064	818,093,839
Net Increase before Working Capital changes		932,807,064	818,093,839
Change of Working Capital			
(Increase) / Decrease of Interest Receivable on Government Securities		(53,659,167)	(68,356,404)
(Increase) / Decrease of Cess Receivable		(2,372,466)	(15,572,411)
(Increase) / Decrease of Rent Deposit		-	5,165,931
Increase / (Decrease) of Amount to be Transferred From PPF		29,810,751	(16,376,099)
		(26,220,882)	(95,138,983)
Net Cash from Operating Activities		906,586,182	722,954,856
Cash Flow from / (used in) Investing Activities			
Investments in Government Securities		-	1,049,400,000
Investments in Fixed Deposits		(906,097,000)	(1,772,300,000)
Net Cash from Investing Activities		(906,097,000)	(722,900,000)
Net Increase / (Decrease) in Cash and Cash Equivalents		489,182	54,856
Cash and Cash Equivalents at the beginning of the year		558,124	503,267
Cash and Cash Equivalents at the end of the year		1,047,306	558,124
Cash at Bank	2 & 17	1,047,306	558,124

The accounting policies and notes appearing on pages 87 to 95 form an integral part of the Financial Statements.

## ACCOUNTING POLICIES

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 BASIS OF PREPARATION

The Financial Statements of the Commission are presented in Sri Lankan Rupees rounded to the nearest Rupee and prepared on the historical basis.

Where appropriate accounting policies are disclosed in succeeding notes.

#### 1.2 STATEMENT OF COMPLIANCE

The Financial Statements of the Insurance Regulatory Commission of Sri Lanka have been prepared in accordance with the Sri Lanka Public Sector Accounting Standards and are in compliance with the said standards.

#### 1.3 GOING CONCERN

When preparing the Financial Statements, the Members of the Commission assessed the ability of the Commission to continue as a going concern. The Members of the Commission have a reasonable assurance that IRCSL will continue in operation and meet its statutory obligations for the foreseeable future. The IRCSL does not foresee a need for liquidation or cessation of operations, after taking in to account all available information about the future. Accordingly, the IRCSL continues to adopt the going concern basis in preparing the Financial Statements.

### 1.4 EVENTS AFTER THE REPORTING PERIOD

All material events after the reporting date are considered and appropriate adjustments or disclosures are made in the Financial Statements where necessary.

### 1.5 COMPARATIVE FIGURES

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

### 1.6 TAXATION

The provision for income tax has been computed in accordance with the provision of the Inland Revenue Act No. 24 of 2017.

### 1.7 CONVERSION OF FOREIGN CURRENCY

Foreign exchange transactions if any are converted to Sri Lankan Rupees, which is the reporting currency, at the rates of exchange prevailing at the time of the transaction.

## 2. ASSETS & BASES OF VALUATION

### 2.1 PROPERTY, PLANT & EQUIPMENT

#### OWNED PROPERTY PLANT & EQUIPMENT

Property, Plant & Equipment are stated at cost / revaluation amount 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. Motor Vehicles are revalued once in three years from 2018 onwards.

### 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. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount.

### 2.2 INVESTMENTS

Investments in the Government securities and fixed deposits are stated at lower of cost or face value 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.

## ACCOUNTING POLICIES

### 3. LIABILITIES AND PROVISIONS

#### 3.1 RETIREMENT BENEFITS

##### 3.1.1 DEFINED BENEFIT PLANS - GRATUITY

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. To meet the liability a provision is made, equivalent to half a month salary based on the last drawn salary at the end of the financial year for all employees who have completed one year of service.

##### 3.1.2 DEFINED CONTRIBUTION PLANS – EPF AND ETF

All employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Commission 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 Statement of Financial position are those, which fall due for payment on demand or within one year from the reporting date. The non-current liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted at cost

in preparing the financial statements.

#### 3.3 GRANT

Capital Expenditure transferred from Policyholders' Protection Fund is 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 EXPENDITURE RECOGNITION

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

#### 4.3 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	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>COST/REVALUATION</b>					
Balance as at 1st January 2018	10,000,000	14,152,432	25,035,591	141,450	49,329,474
Additions	-	-	1,599,945	-	1,599,945
Disposals	-	-	-	-	-
Impact on Revaluation	300,000				300,000
Balance as at 31st December 2018	10,300,000	14,152,432	26,635,537	141,450	51,229,419
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1st January 2018	8,393,773	12,304,194	21,165,298	141,450	42,004,716
Charge for the year	1,606,227	371,687	1,557,365	-	3,535,279
Disposals	-	-	-	-	-
Impact on Revaluation	(10,000,000)				(10,000,000)
Balance as at 31st December 2018	-	12,675,881	22,722,663	141,450	35,539,995
<b>WRITTEN DOWN VALUE</b>					
<b>AS AT 31st DECEMBER 2018</b>	<b>10,300,000</b>	<b>1,476,550</b>	<b>3,912,875</b>	<b>-</b>	<b>15,689,425</b>
<b>WRITTEN DOWN VALUE</b>					
<b>AS AT 31st DECEMBER 2017</b>	<b>1,606,227</b>	<b>1,848,237</b>	<b>3,870,294</b>	<b>-</b>	<b>7,324,758</b>

\*\* Fully depreciated fixed assets values are as follows.

	Amount Rs.
Furniture & Fixtures	4,632,587
Fixtures & Fittings	6,279,005
Office Equipment - EDP	17,377,553
Office Equipment - Others	2,470,883
Training Equipment	141,450
	<b>36,332,454</b>

Motor vehicles have been revalued as Rs. 10,300,000

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.18 Rs.	As at 31.12.17 Restated Rs.
<b>2 POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS</b>			
<b>NON CURRENT ASSETS</b>			
Rent and Electricity Deposits		9,593,949	9,593,949
Treasury Bonds		1,076,659,000	1,076,659,000
		<u>1,086,252,949</u>	<u>1,086,252,949</u>
<b>CURRENT ASSETS</b>			
Investment in Fixed Deposits		3,600,397,000	2,694,300,000
Interest Receivable on the Government Securities and Fixed Deposits		227,256,770	173,597,603
CESS Receivable		129,409,689	127,037,223
Balance at Fund Management Account	17	47,306	-
Balance at Bank	17	1,000,000	558,124
Amount to be transferred to PPF		(1,597,445)	28,213,306
		<u>3,956,513,320</u>	<u>3,023,706,256</u>
Less			
Amount to be Transferred from PPF		-	-
		<u>3,956,513,320</u>	<u>3,023,706,256</u>
Total Assets		<u>5,042,766,269</u>	<u>4,109,959,205</u>
<b>3 INVENTORIES</b>			
Printing, Stationery and Computer Accessories		455,105	331,359
Stamps		67,515	15,940
		<u>522,620</u>	<u>347,299</u>
<b>4 OTHER CURRENT ASSETS</b>			
Deposits		212,237	202,895
Savings - NSB		500	500
Other Receivables		820,886	79,420
WHT Recoverable		1,551,524	1,934,725
VAT Control		1,874,969	1,735,599
Interest Receivable - Government securities		1,076,391	211,727
Staff Loans *		5,005,967	5,769,159
Advance and Pre-payments		1,778,025	1,965,955
Economic Service Charge		-	279,070
Receivable from SEC		-	15,000
Amount to be transferred from PPF		1,597,445	-
Provision for Acquisition		2,089,077	-
		<u>16,007,020</u>	<u>12,194,049</u>
<b>*Loans Granted to Staff</b>			
Balance as at 1 <sup>st</sup> January		5,769,159	5,769,159
Loans Granted during the year		3,236,700	3,319,000
		<u>9,005,859</u>	<u>9,088,159</u>
Repayments during the year		(3,999,892)	(3,314,383)
Balance as at 31 <sup>st</sup> December		<u>5,005,967</u>	<u>5,769,159</u>
<b>5 CASH &amp; CASH EQUIVALENTS</b>			
<b>Cash at Banks</b>			
Balance at Fund Management Account	17	4,248,455	9,373,734
Bank of Ceylon - as per Ledger	17	(1,537,007)	(3,577,513)
		<u>2,711,448</u>	<u>5,796,222</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.18 Rs.	As at 31.12.17 Restated Rs.
<b>6 POLICYHOLDERS' PROTECTION FUND</b>			
Opening Balance		4,109,959,205	3,291,865,366
Cess Received during the year		479,088,491	418,234,960
Interest on Repo and Call Account		36,710	28,364,495
Interest on Treasury Bond Investment		95,120,708	95,120,708
Interest on Fixed Deposits		359,754,785	248,496,708
Interest on Fund Management Account		419,017	331,799
Net Surplus of the Commission		-	31,220,674
		<b>5,044,378,915</b>	<b>4,113,634,709</b>
Less:			
Transfers for Capital Expenses		1,599,945	3,650,319
Total transfers- Policyholders' Protection Fund		<b>1,599,945</b>	<b>3,650,319</b>
Bank charges		13,097	25,186
		<b>1,613,042</b>	<b>3,675,505</b>
Closing Balance		<b>5,042,765,873</b>	<b>4,109,959,205</b>
<b>7 GRANT</b>			
Balance at the beginning of the year		5,718,532	3,523,232
Capital Expenditure from Policyholders' Protection Fund		1,599,945	3,650,319
Less: Amortized during the year		(1,929,052)	(1,455,019)
Balance at the end of the year		<b>5,389,425</b>	<b>5,718,532</b>
<b>Note - Recognition of Grant</b>			
The grant has recognized in the Statement of Financial Performance as income at the following rates. (i.e. systematic basis over the useful life of the related asset.)			
Motor Vehicle		25%	
Office Equipment - Others & EDP		25%	
Furniture Fixtures & Fittings		12.5%	
Training Equipments		25%	
<b>8 RETIREMENT BENEFIT OBLIGATIONS</b>			
Balance at the beginning of the year		10,902,547	9,842,625
Provision made during the year		2,014,024	1,893,706
(-) Payment made during the year		(760,674)	(833,784)
Balance at the end of the year		<b>12,155,897</b>	<b>10,902,547</b>
<b>9 OTHER CURRENT LIABILITIES</b>			
Accrued Expenses		13,188,945	6,403,725
EPF Payable		710,207	694,744
ETF Payable		106,532	104,212
PAYE Payable		74,014	193,832
Amount to be transferred to PPF		-	28,213,306
Others		816,486	683,677
		<b>14,896,183</b>	<b>36,293,496</b>

## NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.18 Rs.	As at 31.12.17 Rs.
<b>10 Revenue</b>		
Annual Fees from Insurance Companies	168,499,107	142,174,726
Registration and Renewal Fees	7,669,742	8,608,493
	<b>176,168,849</b>	<b>150,783,219</b>
<b>11 Other Income</b>		
Interest on Vehicle Loan	31,406	38,235
Interest on Distress Loan	143,164	160,369
Profit on disposal	-	41,449
Sundry Income	102,664	62,773
	<b>277,233</b>	<b>302,826</b>
<b>12 Staff Costs</b>		
Staff Salaries	41,676,378	40,561,287
EPF 12%	4,987,246	4,867,354
ETF 3%	1,246,812	1,216,839
Chairperson - Allowance	129,589	1,200,000
Chairperson - Fuel Allowance	25,775	238,680
Commission Members - Sitting Allowance	530,000	630,000
Interns Allowance	342,600	25,000
Overtime	209,841	144,169
Staff Medical Expenses	1,970,211	1,767,019
Staff Medical Insurance	1,117,854	1,080,307
Insurance Fire and Personal	239,222	254,026
Staff Welfare	1,163,529	946,202
Staff Training Local & Subscription	1,264,144	1,297,577
Commission Members and Staff - Overseas Training & Travelling	10,589,034	4,741,449
Performance Based Incentives	4,561,566	2,093,426
Advertising Recruitment	249,975	536,990
Directors Telephone Residence	390,112	463,199
Leave Encashment	687,638	714,347
Vehicle Operating Lease Charges	1,455,048	970,032
Driver Allowance	26,786	111,290
Directors Vehicle Allowance	3,123,699	3,243,548
Directors Fuel Allowance	1,008,482	944,764
Staff Gratuity	2,014,024	1,893,706
	<b>79,009,564</b>	<b>69,941,211</b>
<b>13 PROFESSIONAL CHARGES</b>		
Consultancy Fee	5,035,081	2,000,000
	<b>5,035,081</b>	<b>2,000,000</b>

## NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.18 Rs.	As at 31.12.17 Rs.
<b>14 OPERATIONAL EXPENSES</b>		
Rent	36,423,747	32,175,621
Parking Fees	606,000	508,670
Telephone Expenses & Internet	1,499,000	1,605,633
Electricity	1,503,455	1,324,406
Office Upkeep	764,913	473,899
Printing & Stationary	1,650,787	2,096,822
Public Awareness	2,402,923	3,334,383
Entertainment	4,000	32,515
Traveling - Local	133,883	92,044
Office Equipment Maintenance EDP & Others	1,743,298	1,178,671
International Membership of IAIS	3,147,964	2,784,043
Advertising - Others	105,050	85,950
Meeting Expenses	336,428	559,353
Subscription Newspapers & Library Books	121,387	135,959
Postage & Courier Charges	242,488	990,554
Audit Fees-Auditor General	485,000	227,100
Audit Fees-Internal	1,440,000	-
Depreciation	3,535,279	3,955,019
Name change related Expenses	416,496	-
General Expenses	80,855	98,343
Legal Expenses	98,370	12,960
Investigation Expenses	26,202	4,492
Supervision Expenses	1,775	2,000
Vehicle Maintenance	409,483	422,040
Vehicle Insurance	110,693	107,011
Vehicle Running Charges	260,688	182,727
Surcharges & Penalty	1,754	-
Safety Locker Rental	-	3,000
Nation Building Tax	901,576	819,026
	<b>58,453,496</b>	<b>53,212,244</b>
<b>15 FINANCE &amp; OTHER EXPENSES</b>		
Bank Charges	155,451	114,876
	<b>155,451</b>	<b>114,876</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. ACCUMULATED FUND

Surplus of the Commission has been transferred to Accumulated Fund until salary arrears and related expenses which is due to be implemented based on the proposed salary structure.

### 17. FUND MANAGEMENT ACCOUNTS, LEDGER BALANCES & BANK BALANCES

IRCSL operates two Fund Management Accounts linked to our two current accounts (for the Commission & PPF) and accordingly, over and above favorable balance of Rs. 1,000,000/- prevailed in the current accounts (in bank records) will automatically be transferred to Fund Management Accounts. Since the Cheques that have already been issued by the IRCSL are not presented immediately, bank balance appeared in the ledger may get negative after entering the transactions with the Fund Management Accounts.

The bank balances as at 31st December 2018 are as follows.

The Commission	- (Rs. 1,537,007.05)
The PPF	- <u>Rs. 4,248,455.40</u>
Total	- Rs. 2,711,448.35

### 18. TAXATION

The Provision for Income Tax has been computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017

### 19. 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 Commission 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 Commission for that year of assessment up to 31st March 2018.

Accordingly, the net income earned by the Commission 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. 72,740/42 from 1st January 2018 to 31st March 2018 has been recognized in the Financial Statement for the year ended 31st December 2018. Interest income from the secondary market transactions in Government Securities of the Policyholders' Protection Fund has been accounted at the net value.

### 20. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2018.

### 21. CONTINGENT LIABILITIES

Commission has been provisioned Rs. 2,089,077.00 for asset acquisition as at 31st December 2018.

Salary revision amount and related expenses which will be due when the proposed salary structure is being implemented.

### 22. EVENTS AFTER THE REPORTING PERIOD

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

### 23. RELATED PARTY DISCLOSURES

Mrs. Indrani Sugathadasa (Chairperson) from 1st January to 9th February 2018.

Mr. Mano Tittawella (Chairman) from 29th March to 31st October 2018.

Mr. A. R. Deshapriya (Chairman) from 14th November to 31st December 2018.

Mr. A.R. Desapriya from 1st January to 31st December 2018.

Mr. E. A. D. Perera from 3rd May to 31st November 2018.

Mr. Yudhishtan Kanagasabai from 3rd May to 31st October 2018.

Mr. Upul Deshapriya from 3rd May to 31st December 2018.

Mr. H. A. karunaratne from 30th October to 31st December 2018.

Mr. C. J. K. Perera from 14th November to 31st December 2018.

Mrs. K. V. C. Dilrukshi from 14th November to 31st December 2018.

Mr. D. N. R. Siriwardena from 1st January to 31st December 2018.

Mr. C. J. P Siriwardana from 1st January to 30th October 2018.

The following table depicts the relationship held by the Members of the Commission during the year.

## NOTES TO THE FINANCIAL STATEMENTS

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd National Development Bank	Director Director
Mr. Mano Tittawella	SriLankan Airlines Ltd SriLankan Catering Ltd AYL Ventures (Pvt) Ltd AYL Subs (Pvt) Ltd APEX Consultancy Services (Pvt) Ltd Clinch (Pvt) Ltd Resource Asia Network (Pvt) Ltd	Director Director Director Director Director Director Director
Mr. E. A. D. Perera	Cargills PLC C. T Properties Ceylon Theatres Ragama Properties	Director Director Director Chairman
Mr. Upul Deshapriya	Nil	Nil
Mr. D.N.R. Siriwardena	Sri Lanka Accounting & Auditing Standards Monitoring Board Securities and Exchange Commission of Sri Lanka	Member (from 1st January to 31st December 2018) Member from 1st January to 31st December 2018)
Mr. Yudhishtan Kanagasabai	Ceylon Tobacco PLC Union Bank PLC Hunters PLC UB Finance Limited Lanka Canneries Limited Millennium Information Technologies (Pvt) Ltd	Chairman of the Audit committee Director Director Director Director Director
Mr. H. A. Karunaratne	Colombo Dockyard PLC Credit Information Bureau of Sri Lanka Securities & Exchange Commission	Director (from 31st October to 31st December 2018) Chairman (from 31st October to 31st December 2018) Commission Member.
Mr. A. R. Desapriya	Regional Development Bank Welfare Benefits Board Sri Lanka Telecom PLC	Board Director Board Director Board Director (from 03rd October 2017 to 19th June 2018)
Mr. C. J. K. Perera	Sri Lanka Standards Institute (SLSI) Civil Aviation Authority Sri Lanka (CAASL)	Council Member Board Member
Mr. C. J. P. Siriwardana	Colombo Dockyard PLC Credit Information Bureau Securities & Exchange Commission	Director Chairman Commissioner
Mrs. K. V. C. Dilrukshi	Lankaputhra Development Bank Ltd	Director

Other than the transactions in the ordinary course of business at market rates no other transactions were recorded by the Insurance Regulatory Commission of Sri Lanka, with the said institutions during the year.

## AUDITOR GENERAL'S REPORT



# ජාතික විගණන කාර්යාලය

## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

TRE/C/IRCSL/2018/FA/07

මගේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

12 July 2019

Chairman,

Insurance Regulatory Commission of Sri Lanka

### Report of the Auditor General on the financial statements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31st December 2018 made in accordance with Section 12 and other legal and regulatory requirements of the National Audit Act No. 19 of 2018

#### 1. The Financial Statements

##### 1.1 Qualified Opinion

The audit of financial statements of the Insurance Regulatory Commission of Sri Lanka, for the year ended 31st December 2018 comprising of the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies 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 the provisions of National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My report will be tabled at the Parliament in the near future in accordance with the Section 154 (6) of the Constitution.

Basis of my qualified opinion, except for the effect from the facts which have been described in the Section of basis of opinion, the accompanying financial statements including financial performance and cash flows of the Commission as at 31st December 2018 reflect a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

##### 1.2 Basis for the qualified opinion

###### (a) Non Compliance with Accounting Standards

(i) Sri Lanka Public Sector Accounting Standard No. 1 ;

- In accordance with the Section 48 of the above mentioned standard, even though assets and liabilities should not be set off with income and expenses except for the instances in which it has been permitted by Sri Lanka Public Sector Accounting Standards, the negative balance of Rs. 1, 537,007 in the cash book, had been set off against cash and cash equivalents.
- In accordance with the Section 53, even though it was required to disclose the comparative information of the preceding reporting period with respect to all numerical information reported in the financial statements, unless otherwise required or permitted by Sri Lanka Public Sector Accounting Standards, the Commission had not presented the comparative information with regard to the statement of changes in equity.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව.

இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.

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## AUDITOR GENERAL'S REPORT



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தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

- In accordance with the Section 128 of the above mentioned standard, even though it was required to indicate cross references for related information on the surface of the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement, cross references had not been indicated for the related information with respect to the investments in Government securities, fixed deposits, advances received, interest income and income tax.
  - In accordance with the Section 129 (d) (ii), even though it was required to disclose financial risk management objectives and policies under non-financial disclosures, the Commission had not disclosed the information relating to financial risk and financial risk management.
  - In accordance with the Section 137 of the above mentioned standard, the Commission had not disclosed the estimates or conclusions made by the management which could have made a significant impact on the materials identified in the financial statements, in the summary of accounting policies or in other notes.
  - In accordance with the Section 150 of the standard, a description on the entity's permanent locations, legal form, nature of operations, Act of the entity which controls its operations and its main activities had not been presented in the financial statements.
- (ii) Sri Lanka Public Sector Accounting Standard No. 2;
- In accordance with the Section 56 of the above mentioned standard, even though it was required to present the elements of cash and cash equivalents as well as a comparison between the items in the cash flow statement and the items reported in the statement of financial position similar to those, such comparison on items reported in the statement of financial position had not been presented in the cash flow statement.
  - Even though it was required to separately indicate cash flows generated from investment activities as per the sources of investment in preparation of the cash flow statement, net cash flow generated from investing in fixed deposits and net cash flow generated from repurchases had not been disclosed separately in the cash flow statement.
  - Even though it was required to calculate cash flows generated from operating activities on profit before tax, it was observed that, cash flows generated from operating activities had been calculated on profit after tax in the cash flow statement.
- (iii) Sri Lanka Public Sector Accounting Standard No. 7;
- In accordance with the Section 40 of the above mentioned standard, the entity had not disclosed the accounting policy used to account property, plant and equipment.
  - Further, in accordance with the Section 90 of the above mentioned standard, the entity had not disclosed its revaluation amounts regarding class of the property, plant and equipment.
  - In accordance with Sri Lanka Public Sector Accounting Standard No. 7, it is mentioned that the useful life time of the assets should be revalued annually and the resulting adjustments should be accounted in accordance with Sri Lanka Public Sector Accounting Standard No. 3. However, the specified procedure had not been followed regarding fully depreciated assets worth Rs. 36,332,454.
- (iv) Sri Lanka Public Sector Accounting Standard No. 10;
- (a) In accordance with the Section 19 of the above standard, even though it was required to present relevant evidence in revenue from exchange transactions, such evidence had not been presented for auditing purposes.

## AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය  
தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

- (b) Two fixed assets with a total value of Rs. 1,569,187 which were received by the entity had been accounted under current assets instead of fixed assets. Further, fixed assets worth Rs. 319,890 which were acquired by the Commission in 2019, were stated as an acquisition of current assets in the financial statements for the year under review.
- (c) A consultancy fee of Rs. 200,000 incurred with regard to the cooling system was accounted as current assets as at 31st December 2018, without capitalizing.
- (d) Even though income tax expense was stated at Rs. 1,822,908 in financial statements, details of calculation for this tax expense was not disclosed in the financial statements.
- (e) Even though difference of cash out flow of the working capital was stated at Rs. 4,482,480 in the cash flow statement, the details of this calculation had not been presented for auditing purposes.

I carried out the audit in accordance with Sri Lanka Auditing Standards. My responsibility under those Standards is further described in the Auditor's responsibilities for the audit of the financial statements Section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### 1.3 Responsibilities of the management and those in charge with governance of the financial statements

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

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

In accordance with the sub Section 16 (1) of the National Audit Act No. 19 of 2018, books and reports should be maintained as appropriate with regard to Commission's income, expenses, assets and liabilities, enabling the preparation of its annual and periodic financial statements.

### 1.4 Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these financial statements.

As a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. Further,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not

## AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය  
தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to the events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicated with those charged with governance regarding, significant audit findings, including any significant deficiency in internal control that I identified during the audit.

### 2. Report on other legal and regulatory requirements

Special provisions are included regarding the following requirements in the National Audit Act No. 19 of 2018.

- In accordance with the requirements of Section 12(a) of the National Audit Act No. 19 of 2018, except for the effect from the facts which have been described in the Section of basis of my qualified opinion, I have obtained all the information and explanations that were required for the audit and, as far as appears from my examination, proper accounting records have been kept by the Commission.
- In accordance with the requirements of Section 6 (i) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statements presented by the Commission tally with the preceding year.
- Except from the facts I presented in the Sections (a) (1) (i) and (a) (5) (iii) in the previous year, in accordance with requirements of Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations have been included in the financial statements.

According to the methodologies followed and evidence obtained, and limiting them to material facts, nothing attracted my attention which would otherwise have caused for me to issue following statements.

- In accordance with the requirements of Section 12 (d) of the National Audit Act No. 19 of 2018, a member of the governing board of the Commission had a direct or indirect relationship except for normal business circumstances, with regard to a contract concerning the Commission.
- In accordance with the requirements of Section 12 (f) of the National Audit Act No. 19 of 2018, except for the following observations, the Commission has acted in contradiction to any relevant written legislation or any other general or specific provision issued by the governing board of the Commission.

## AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය  
தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

Reference to laws rules terms and conditions	Description
(i) Section 6 (2) (d) of the Regulation of the Insurance Industry Act No. 43 of 2000.	Even though the Board (Currently the Commission) is required to recognize all the funds received by the Commission in exercising its powers and performing its duties in the balance sheet, 5 items of income bearing a total value of Rs. 934,419,711 had been added to Policy Holders protection fund, without presenting as income in the Statement of Financial Performance.
(ii) Section 7 (2) of Inland Revenue Act No. 24 of 2017.	Even though it is stated that in tax calculations interest income should be considered as a separate income, tax was not calculated for interest income of Rs. 462,770,523 presented in the financial statements.
(iii) Finance Regulation 371	Even though it is required to immediately settle the advances when the respective work is completed, three advances issued in 2016, 2017 and 2018 with a value of Rs. 554,497 had not been settled even by 30th April 2019.
(iv) Section 9.14 of the Public Enterprises Circular No. PED/ 12 dated 2nd June 2003.	Even though it is required to compile an administrative manual and presented with the approval of the board of directors for the confirmation of the Secretary of the Treasury, such confirmation had not been granted by the Secretary of the Treasury for the manual used by the Commission. Nevertheless, it was observed that activities including paying of advances and granting loans were being carried out as per the unauthorized administrative manual.
(v) Section 48 (1) of Regulation of Insurance Industry Act No. 43 of 2000.	The Commission should make arrangements to get every insurer to prepare an abstract according to the rules recommended by the Commission, after carrying out a review by an actuary after the end of each financial year, including an assessment on the assets and liabilities. Yet, it was observed that as a result of the post of actuary of the Commission had remained vacant constantly the actuarial reports annually presented by the insurers had not been reviewed since the year 2016 up to the present.
(vi) Section 9.3.1. of the Public Enterprises Circular No. PED/ 12 dated 2nd June 2003.	Approvals had not been obtained with regard to the recruitment of appropriate posts of the Commission.

- In accordance with the requirements of Section 12 (g) of the National Audit Act No. 19 of 2018, Commission has not performed according to its powers, functions and duties

## AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය  
தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

- In accordance with the requirements of Section 12 (h) of the National Audit Act No. 19 of 2018, except for the following observations, the Commission had not been procured and utilized resources economically, efficiently and effectively within the time frames and in compliance with the applicable laws;

### 03. Other Audit Observations

- The operations of the Commission are carried out in an external building and in 2018 a sum of Rs. 38,533,202 had been paid as the rent of the building and it was observed that it is an increase by 13 percent in comparison to the year 2017.
- Even though the Commission had informed to the Non-Banking Financial Institutions Monitoring Department of the Central Bank of Sri Lanka about a complaint received by the Commission on 9th July 2018 regarding several registered finance companies charging a fee in order to maintain an internal insurance fund during loan disbursements, the Commission had not taken any step to follow up this matter.
- There are 26 insurance companies which are registered under the Commission and even though it is required to review the monthly, quarterly and annual returns of the respective companies within 2-3 months upon receipt to the Commission, it was reported that there was a delay of 38 to 84 days with respect to the reports of four institutions.
- As a result of the Commission from the beginning of 2016 implementing a Risk Based Capital (RBC) assessment method in place of Solvency Margin frame work for the Insurance Companies, it had not established an actuarial unit comprising of an actuary, assistant actuary and 2 senior executive/executive posts, though approval to create such posts had been obtained on 9th June and 7th December 2016. However, the above mentioned positions remained vacant even by 30th April 2019.
- The Management Services Department had approved the initial salary scales of the Commission in 2005, and it was observed that there are differences between the current salary scales which are being paid. Even though the National Salaries and Cadre Commission as well as the line ministry had informed that salary increases could not be recommended, it was observed that in 2012, an increase of 25 percent salary scale from the basic salary had been paid based on a letter issued by a treasury representative.
- It was observed that the internal control with regard to payments was weak due to issuing cheques without confirmation of the bank balance prior to payments by cheques. Further, it was observed that, there was a P & L suspense account with an opening debit balance of Rs. 31,150 and a closing debit balance of Rs. 192,578,152 in the Trial Balance obtained from the accounting software (DMS) used by the Commission. For this reason the auditors are not satisfied on the accuracy of keeping accounting records and this error had not been detected and rectified.

W. P. C. Wickramaratne  
Auditor General

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
(a)	<b>Noncompliance with Accounting Standards</b>	
(i)	<b>Sri Lanka Public Sector Accounting Standard No. 1 ;</b>	
	<ul style="list-style-type: none"> <li>- In accordance with the Section 48 of the above mentioned standard, even though assets and liabilities should not be set off with income and expenses except for the instances in which it has been permitted by Sri Lanka Public Sector Accounting Standards, the negative balance of Rs. 1, 537,007 in the cash book, had been set off against cash and cash equivalents.</li> <li>- In accordance with the Section 53, even though it was required to disclose the comparative information of the preceding reporting period with respect to all numerical information reported in the financial statements, unless otherwise required or permitted by Sri Lanka Public Sector Accounting Standards, the Commission had not presented the comparative information with regard to the statement of changes in equity.</li> <li>- In accordance with the Section 128 of the above mentioned standard, even though it was required to indicate cross references for related information on the surface of the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement, cross references had not been indicated for the related information with respect to the investments in Government securities, fixed deposits, advances received, interest income and income tax.</li> <li>- In accordance with the Section 129 (d) (ii), even though it was required to disclose financial risk management objectives and policies under non-financial disclosures, the Commission had not disclosed the information relating to financial risk and financial risk management.</li> </ul>	<p>Two Bank accounts, Current and Savings, are being maintained at Bank of Ceylon and even though a credit balance is shown in current account ledger, no credit balance has ever been maintained in the bank statement. This situation arises as a result of transferring the existing balance to the savings account at the end of the day. Even though all the payments entered into the software go into the ledger, they have not been presented to the bank for payment. Accordingly, two bank accounts are maintained by the Commission for an efficient management of funds. Therefore, it is accurate to adjust the balance and state in the financial statements.</p> <p>It was noted down to submit the comparative information in year 2019.</p> <p>Cross references of all requirements have been made. Since the information highlighted in the audit query are self-explanations and additional information, no cross reference has been made and disclosed under relevant notes. We expect to continue disclosing relevant information.</p> <p>Noted. In the past, the financial risk management objectives of the institution were not disclosed separately, but through accounting policies. Therefore, actions will be taken to include the risk assessment as a separate section in 2019 financial year and to change the accounting policies accordingly.</p>

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
	<ul style="list-style-type: none"> <li>- In accordance with the Section 137 of the above mentioned standard, the Commission had not disclosed the estimates or conclusions made by the management which could have made a significant impact on the materials identified in the financial statements, in the summary of accounting policies or in other notes.</li> <li>- In accordance with the Section 150 of the standard, a description on the entity's permanent locations, legal form, nature of operations, Act of the entity which controls its operations and its main activities had not been presented in the financial statements.</li> </ul>	<p>Noted.</p> <p>In line with para 150, all the information related to the Commission have been published in the Annual Report. (Page No 22 of Report 2017)</p> <p>We expect to present relevant information in the financial statements of year 2019.</p>
(ii)	<b>Sri Lanka Public Sector Accounting Standard No. 2;</b>	
	<ul style="list-style-type: none"> <li>- In accordance with the Section 56 of the above mentioned standard, even though it was required to present the elements of cash and cash equivalents as well as a comparison between the items in the cash flow statement and the items reported in the statement of financial position similar to those, such comparison on items reported in the statement of financial position had not been presented in the cash flow statement.</li> <li>- Even though it was required to separately indicate cash flows generated from investment activities as per the sources of investment in preparation of the cash flow statement, net cash flow generated from investing in fixed deposits and net cash flow generated from repurchases had not been disclosed separately in the cash flow statement.</li> </ul>	<p>Relevant disclosures have been done in page No 04 of the Financial Statements for the year ended on 31st December 2018.</p> <p>According to Sri Lanka Accounting Standards No 02, both direct and indirect methods can be used to prepare cash flows. Therefore, Insurance Regulatory Commission of Sri Lanka prepares the cash flow statements adjusting to the net value in indirect method under Standards Sub Section 2 (32). Cash flow from investments and the net value of flow (Rs. 40,000,000/-) have been adjusted to the cash flow.</p> <p>As mentioned above, when cash flow statements are prepared in indirect method, net value is adjusted in repurchases. The net value of government bonds (Rs. 28,700,000/-) was calculated by summing up the net cash flow from investment in fixed deposits (Rs.40,000,000/-) and net cash flow from repurchases (Rs.11,300,000/-) Accordingly, the difference between fixed assets and repurchases (which is mentioned as Rs. 28,700,000/-) under cash flow from investments is correct.</p>

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
	<ul style="list-style-type: none"> <li>- Even though it was required to calculate cash flows generated from operating activities on profit before tax, it was observed that, cash flows generated from operating activities had been calculated on profit after tax in the cash flow statement.</li> </ul>	<p>Noted.</p> <p>We expect to rectify this in year 2019.</p>
(iii)	<b>Sri Lanka Public Sector Accounting Standard No. 7;</b>	
	<ul style="list-style-type: none"> <li>- In accordance with the Section 40 of the above mentioned standard, the entity had not disclosed the accounting policy used to account property, plant and equipment.</li> <li>- Further, in accordance with the Section 90 of the above mentioned standard, the entity had not disclosed its revaluation amounts regarding the class of the property, plant and equipment.</li> <li>- In accordance with Sri Lanka Public Sector Accounting Standard No. 7, it is mentioned that the useful life time of the assets should be revalued annually and the resulting adjustments should be accounted in accordance with Sri Lanka Public Sector Accounting Standard No. 3. However, the specified procedure had not been followed regarding fully depreciated assets worth Rs. 36,332,454.</li> </ul>	<p>All information has been disclosed under fixed assets accounting standards except the name of the valuer. We expect to disclose further in the statements for the year ending on 31st December 2019.</p> <p>We expect to make the relevant disclosure in the financial statements for the year 2019.</p> <p>Revaluation was done through rechecking of motor vehicles under fixed assets and approval was given by the audit committee for the same. The revaluation profit has been adjusted to the accounts. Approval has been granted by the Audit Committee to remove a part from other assets and relevant actions were taken in year 2019.</p>
(iv)	<b>Sri Lanka Public Sector Accounting Standard No. 10;</b>	
	<p>(a) In accordance with the Section 19 of the above standard, even though it was required to present relevant evidence in revenue from exchange transactions, such evidence had not been presented for auditing purposes.</p> <p>(b) Two fixed assets with a total value of Rs. 1,569,187 which were received by the entity had been accounted under current assets instead of fixed assets. Further, fixed assets worth Rs. 319,890 which were acquired by the Commission in 2019, were stated as an acquisition of current assets in the financial statements for the year under review.</p>	<p>No foreign currency transactions have been done by the Insurance Regulatory Commission of Sri Lanka.</p> <p>With regard to 25 chairs purchased by the institution in year 2019, allocations were made and order was confirmed in year 2018. This has been noted down as accrued expenses relevant to year 2018 and after receiving the relevant assets to the institution they have been accurately accounted in the assets account.</p>

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka								
	(c) A consultancy fee of Rs. 200,000 incurred with regard to the cooling system was accounted as current assets as at 31st December 2018, without capitalizing.	Since the consultancy fee for cooling system had not been paid even at the end of year 2018, it was accounted as an accrued expense for year 2018. Further, as the Cooling System was not at the prescribed functioning level, the institution was informed to do a check. Accordingly, until the system comes to a prescribed level it cannot be identified as an asset. It was only in 2019 that the system was confirmed as properly functioning. Accordingly, in 2019 relevant asset was transferred to asset account.								
	(d) Even though income tax expense was stated as Rs. 1,822,908 in the financial statements, details of calculation for this tax expense was not disclosed in the financial statements.	It was disclosed by relevant notes and we expect to disclose it further by financial statements in year 2019.								
	(e) Even though the difference of cash out flow of the working capital was stated as Rs. 4,482,480 in the cash flow statement, the details of this calculation had not been presented for auditing purposes.	The reduction of the receivable balances in the change of working capital stated as Rs. 4,482,480/- is the difference of receivable balances relevant to Note No 4 between 2017 and 2018. Since receivable withholding taxes, interest income and income tax revenue of the year do not make any financial impact, the net change which is calculated by deducting the balances, has been adjusted. Accordingly, the reduction of the receivable balances is Rs. 4,482,480/- and it is accurate. We have submitted the soft copies relevant to these in Excel format for auditing purposes.								
2.	Report on other legal and regulatory requirements									
	<p>In accordance with the requirements of Section 12 (a) of the National Audit Act No. 19 of 2018, except for the following observations, the Commission has acted in contradiction to any relevant written legislation or any other general or specific provision issued by the governing board of the Commission.</p> <p>(i) Section 6 (2) (d) of the Regulation of the Insurance Industry Act No. 43 of 2000.</p> <p>Even though the Board (Currently the Commission) is required to recognize all the funds received by the Commission in exercising its powers and performing its duties in the balance sheet, 5 items of income bearing a total value of Rs. 934,419,711 had been added to Policy Holders protection fund, without presenting as income in the Statement of Financial Performance.</p>	<p>An evaluation note.</p> <p>In accordance with Section 103 (1) of Regulation of Insurance Industry Act, No.43 of 2000 a Protection Fund of Insurance Policyholders should be established and the accrued money from Cess tax should be credited in the said fund.</p> <table><tr><td>Cess income in year 2018</td><td>Rs.</td></tr><tr><td>Cess Income</td><td>479,088,491</td></tr><tr><td>Investment Income</td><td>455,331,220</td></tr><tr><td>Policyholders Protection Fund</td><td><u>934,419,711</u></td></tr></table>	Cess income in year 2018	Rs.	Cess Income	479,088,491	Investment Income	455,331,220	Policyholders Protection Fund	<u>934,419,711</u>
Cess income in year 2018	Rs.									
Cess Income	479,088,491									
Investment Income	455,331,220									
Policyholders Protection Fund	<u>934,419,711</u>									

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
		The said fund has correctly been noted under the reserves in the Balance Sheet. In accordance with Section 6 of the Act, the annual income has accurately been accounted to the Income and Expenditure Account. Accordingly, the profit of the Insurance Regulatory Commission has not been reduced but accurately accounted.
	<p>(ii) Section 7 (2) of Inland Revenue Act No. 24 of 2017.</p> <p>Even though it is stated that in tax calculations interest income should be considered as a separate income, tax was not calculated for interest income of Rs. 462,770,523 presented in the financial statements.</p>	<p>Investment income of the Policyholders Protection Fund has not been identified as an income of the Commission and it has been credited to Protection Fund. Interest income of the Commission has accurately been calculated and the income tax has been adjusted.</p>
	<p>(iii) Finance Regulation 371</p> <p>Even though it is required to immediately settle the advances when the respective work is completed, three advances issued in 2016, 2017 and 2018 with a value of Rs. 554,497 had not been settled even by 30th April 2019.</p>	<p>In year 2016, Rs.50,000/- was paid as an advance payment of consultancy fee of cooling system, and since the said task has not yet been completed, it is expected to make the balance payment after completing the task.</p> <p>Certifying the final payment for the relevant task of the cooling system has not been finished yet. It is expected to settle the payment by paying the balance deducting the advance payment, as soon as the relevant certification is received from the consultancy service.</p> <p>An advance of Rs.100,000/- has been paid to revamping of the website and since the task is not yet completed, the balance exists in the advance account. It is expected to transfer it from the advance account, once the relevant task is completed.</p> <p>Tasks related to the web site with regard to capital expenditure 03 above have been completed and it is expected to complete the work related to the cooling system before end of 2019. Once the relevant tasks are completed, we expect to capitalize in year 2019.</p>
	<p>(iv) Section 9.14 of the Public Enterprises Circular No. PED/ 12 dated 2nd June 2003.</p>	<p>From the date of the commencement of functioning of the Commission, all the work has been carrying out according to the administrative manual and many practical issues were arise when acting in line with circulars and guidelines due to delays in obtaining approvals.</p>

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
	<p>Even though it is required to compile an administrative manual and presented with the approval of the board of directors for the confirmation of the Secretary of the Treasury, such confirmation had not been granted by the Secretary of the Treasury for the manual used by the Commission. Nevertheless, it was observed that activities including paying of advances and granting loans were being carried out as per the unauthorized administrative manual.</p> <p>(v) Section 48 (1) of Regulation of Insurance Industry Act No. 43 of 2000. The Commission should make arrangements to get every insurer to prepare an abstract according to the rules recommended by the Commission, after carrying out a review by an actuary after the end of each financial year, including an assessment on the assets and liabilities. Yet, it was observed that as a result of the post of actuary of the Commission had remained vacant constantly the actuarial reports annually presented by the insurers had not been reviewed since the year 2016 up to the present.</p> <p>(vi) Section 9.3.1. of the Public Enterprises Circular No. PED/ 12 dated 2nd June 2003. Approvals had not been obtained with regard to the recruitment of appropriate posts of the Commission.</p> <ul style="list-style-type: none"> <li>• In accordance with the requirements of Section 12 (g) of the National Audit Act No. 19 of 2018, Commission has not performed according to its powers, functions and duties</li> <li>• In accordance with the requirements of Section 12 (h) of the National Audit Act No. 19 of 2018, except for the following observations, the Commission had not been procured and utilized resources economically, efficiently and effectively within the time frames and in compliance with the applicable laws;</li> </ul>	<p>Attention was paid on this matter at the 182nd meeting of the Commission held on 18.05.2018 and it was agreed that it would be difficult to carry out the tasks of the institution when the Public Circulars are followed without following Administrative Manual. Accordingly, approval was granted to use the Administrative Manual which is approved at present.</p> <p>This situation arose as there is no actuary. However, actions are being taken to obtain the service of an actuary under the FSMP project from year 2019. The main role of the actuary would be the establishment of Actuarial Division.</p> <p>Approvals have been obtained for the Recruitment Procedures of the Commission at the time of creating the posts.</p> <p>An Evaluation Note.</p>

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
<b>3.</b>	<b>Other Audit Observations</b>	
	a) The operations of the Commission are carried out in an external building and in 2018 a sum of Rs. 38,533,202 had been paid as the rent of the building and it was observed that it is an increase by 13 percent in comparison to the year 2017.	This matter has been referred to the Commission a few times before and the replies have also been given. Even though attention was paid to search for an alternative place to establish the institution, all the efforts were failed when it was unable to find a place for a lesser price. Further, agreements have been signed to rent out the office building for another 5 years, and the Commission has also approved the same.
	b) Even though the Commission had informed to the Non-Banking Financial Institutions Monitoring Department of the Central Bank of Sri Lanka about a complaint received by the Commission on 9th July 2018 regarding several registered finance companies charging a fee in order to maintain an internal insurance fund during loan disbursements, the Commission had not taken any step to follow up this matter.	A reply to the letter we sent to Central Bank of Sri Lanka was received on 27th August 2018. Even though it was mentioned to inform us the findings of the investigations, the Central Bank has not done so. We expect to send a reminder to the Central Bank with regard to this matter.
	c) There are 26 insurance companies which are registered under the Commission and even though it is required to review the monthly, quarterly and annual returns of the respective companies within 2-3 months upon receipt to the Commission, it was reported that there was a delay of 38 to 84 days with respect to the reports of four institutions.	After observing the delays at reviewing 3 companies, the officer was inquired and it was confirmed that some delays occurred as certain observations needed to be analyzed in detail.  Further, steps have been taken to send reminders continuously and observe the reviews in order to prevent the delays.
	d) As a result of the Commission from the beginning of 2016 implementing a Risk Based Capital (RBC) assessment method in place of Solvency Margin frame work for the Insurance Companies, it had not established an actuarial unit comprising of an actuary, assistant actuary and 2 senior executive/executive posts, though approval to create such posts had been obtained on 9th June and 7th December 2016. However, the above mentioned positions remained vacant even by 30th April 2019.	Necessary actions are being taken to fill the vacancies of Actuary and an Assistant Actuary with the World Bank project implemented by the Commission.

## Matters raised by the Auditor General and the Responses made by the Commission for 2018

	Auditor General's Report	Responses to the AG's Report from the Insurance Regulatory Commission of Sri Lanka
	e) The Management Services Department had approved the initial salary scales of the Commission in 2005, and it was observed that there are differences between the current salary scales which are being paid. Even though the National Salaries and Cadre Commission as well as the line ministry had informed that salary increases could not be recommended, it was observed that in 2012, an increase of 25 percent salary scale from the basic salary had been paid based on a letter issued by a treasury representative.	Salaries have been determined as per the powers vested by the Regulation of Insurance Industry Act No 43 of 2000 by which the Insurance Regulatory Commission was established.
	f) It was observed that the internal control with regard to payments was weak due to issuing cheques without confirmation of the bank balance prior to payments by cheques. Further, it was observed that, there was a P & L suspense account with an opening debit balance of Rs. 31,150 and a closing debit balance of Rs. 192,578,152 in the Trial Balance obtained from the accounting software (DMS) used by the Commission. For this reason the auditors are not satisfied on the accuracy of keeping accounting records and this error had not been detected and rectified.	Since the accounts of DMS software used by the Insurance Regulatory Commission relevant to year 2018 had not been closed, there was a balance in Profit and Loss Suspense Account. At the settlement of final accounts, the said account becomes zero.  At present the account is zero as it has been closed.

## APPENDIX I

Insurance Companies Registered under the Act as at 31st December 2018.

No.	Name of the Insurance Company	Class of Insurance Business
1	AIA Insurance Lanka PLC	Long Term Insurance
2	AIG Insurance Ltd. *	General Insurance
3	Allianz Insurance Lanka Ltd.	General Insurance
4	Allianz Life Insurance Lanka Ltd.	Long Term Insurance
5	Amana Takaful PLC	General Insurance
6	Amana Takaful Life PLC	Long Term Insurance
7	Arpico Insurance PLC	Long Term Insurance
8	Softlogic Life Insurance PLC	Long Term Insurance
9	Fairfirst Insurance Limited	General Insurance
10	Ceylinco General Insurance Limited	General Insurance
11	Ceylinco Life Insurance Limited	Long Term Insurance
12	Continental Insurance Lanka Ltd.	General Insurance
13	Cooperative Insurance Company Ltd.	General Insurance
14	Cooplife Insurance Limited	Long Term Insurance
15	HNB Assurance PLC	Long Term Insurance
16	HNB General Insurance Ltd.	General Insurance
17	Janashakthi Insurance PLC	Long Term Insurance
18	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
19	LOLC General Insurance Limited	General Insurance
20	LOLC Life Assurance Limited	Long Term Insurance
21	MBSL Insurance Company Ltd.**	Long Term Insurance and General Insurance
22	National Insurance Trust Fund	General Insurance
23	Orient Insurance Limited	General Insurance
24	People's Insurance PLC	General Insurance
25	Seemasahitha Sanasa Rakshana Samagama	Long Term Insurance and General Insurance
26	Sri Lanka Insurance Corporation Ltd.	Long Term Insurance and General Insurance
27	Union Assurance PLC	Long Term Insurance

\*No longer accepting any new insurance business and is in the process of exiting from Sri Lanka.

\*\* Registration granted to carry on Long Term and General Insurance Businesses, has been suspended with effect from 28th June 2017.

## APPENDIX II

Insurance Brokering Companies Registered under the Act as at 31st December 2018.

No.	Name of Broker	Class of Business
1	3 D H Insurance Brokers (Pvt) Ltd.	General Insurance
2	A. M. W. Insurance Brokers (Pvt) Ltd.	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.	Long Term and General Insurance
7	AMTRUST Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
8	Aquiline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
9	Assetline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
10	Ax Insurance Brokers (Pvt) Ltd.	General Insurance
11	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
12	Ceyexxe Insurance Brokers Ltd.	General Insurance
13	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance
14	Ceynergy Insurance Brokers (Pvt) LTD.	Long Term and General Insurance
15	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
16	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
17	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
18	D S Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
19	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
20	Eagle DVRS Insurance and Reinsurance Brokers (Private) Limited	General Insurance
21	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	Esna Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
23	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
24	Find My Insurance & Reinsurance Brokers (Pvt) Ltd.	Long Term and General Insurance
25	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
26	George Steuart Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
27	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance
28	Grand Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
29	Guardian Insurance Brokers (Pvt) Ltd.	General Insurance
30	Icon Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
31	InsureMe Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
32	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance
33	JF Insurance Brokers (Pvt) Ltd.	General Insurance
34	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance
35	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
36	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance
37	Maxwell Insurance Brokers (Private) Ltd.	Long Term and General Insurance
38	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
39	Mercantile Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
40	M R U S Insurance Brokers (Pvt) Ltd.	General Insurance
41	Mutual Insurance Brokers (Pvt) Ltd.	General Insurance

## APPENDIX II CONTD...

42	My Insurance Brokers (Pvt) Ltd.	General Insurance
43	Nations Insurance Brokers Ltd.	Long Term and General Insurance
44	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
45	Procare Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
47	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
48	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
49	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
50	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance
51	R M S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
52	S Y M Insurance Brokers (Pvt) Ltd.	General Insurance
53	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
54	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
55	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
56	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
57	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
58	UN Insurance Brokers (Pvt) Ltd.	General Insurance
59	United Insurance Brokers (Pvt) Ltd.	General Insurance
60	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
61	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
62	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
63	Zenith Insurance Brokers (Pvt) Ltd	Long Term and General Insurance

## APPENDIX III

Loss Adjusters Registered under the Act as at 31st December 2018.

No.	Name of loss adjuster	Effective date of Licence
1	Ms. Udithamala Jinadarie Kurukulasuriya	13th June 2018
2	Mr. Ran Banda Tennakoon	25th June 2018
3	Mr. Wijithasena Leelaratne Fernando	25th June 2018
4	Mr. Gamini Kinigama	25th June 2018
5	Mr. Ahmed Nazim Nazvi Rahman	25th June 2018
6	Mr. Gunawardena Mudiyanseelage Ananda Udaya Kumara Gunawardena	25th June 2018
7	Mr. Mahabalage Don Sisira Upali Perera	26th June 2018
8	Mr. Nirosh Sanjeewa Wathukarawatta	26th June 2018
9	Mr. Susantha Mahindaratna Weerakoon	26th June 2018
10	Mr. Rajapaksha Pathirage Don Kanchana Surangika	10th September 2018

## GLOSSARY

### Accumulation

A situation where a significant number of risks insured or reinsured with the same company is 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 Actuary is a professional trained in evaluating the financial implications of contingency events. Actuaries require understanding of the stochastic nature of insurance and other financial services, the risks inherent in assets and the use of statistical models. In the context of insurance, these skills are, for example, often used in establishing premiums, technical provisions and capital levels.

### 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. Deferred annuity – If the payments start at some point in the future, it is a deferred annuity. Immediate annuity – if the payments start at the outset of the contract, it is an immediate annuity.

### Bancassurance

An arrangement whereby insurers sell insurance products to bank customers.

### 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.

### Capital Adequacy Ratio (CAR)

Measures adequacy of Total Available Capital (TAC) to support the Risk Capital Required (RCR).  $CAR = (TAC/RCR) \times 100$

### Cedent

Client of a reinsurance company (primary insurance company).

Cession - Portion of risk that is passed on to reinsurers by ceding companies.

### 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 costs, 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 insurance 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.

### Concentration Risk

Additional credit risk that exists if an insurer's assets are not sufficiently diversified to provide appropriate mitigation of the inherent credit risk.

### Credit Risk

The risk of financial loss resulting from default or movements in the credit rating assignment of issuers

## GLOSSARY CONTD...

of securities (in the insurer's investment portfolio), debtors (e.g. mortgagors), or counterparties (e.g. on reinsurance contracts, derivative contracts or deposits) and intermediaries, to whom the company has an exposure. Credit risk includes default risk, downgrade or migration risk, indirect credit or spread risk, concentration risk and correlation risk. Sources of credit risk include investment counterparties, policyholders (through outstanding premiums), reinsurers, intermediaries and derivative counterparties.

### 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.

### Discontinued Operation

Operations of an entire division, subsidiary or segment of a company where a formal plan exists to eliminate it from the company.

### Earned Premiums

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

### Endowments

Life insurance contract that only cover the individual's life in case of an unfortunate event, but also offer maturity benefits at the end of the term.

(a life insurance contract designed to pay a lump sum after a specific term (on its 'maturity') or on death.)

### 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.

### Gross Premium

The premium after deduction of discounts, refunds and rebates, but before the deduction therefrom of any premium paid or payable by an insurer for reinsurance ceded.

### 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.

### Insurtech Solutions

Insurtech refers to the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model. Insurtech is a portmanteau of "insurance" and "technology" that was inspired by the term fintech.

### Lapsed Policy

A policy terminated at the end of the grace period because of nonpayment of premium.

### Liability Adequacy Test (LAT)

Assessment at the end of each reporting period whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts.

### Liability Risk

The risk that the technical provisions and policyholder liabilities established by the insurer will be insufficient to pay the future claims and expenses on the policies currently in force.

### 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.

### Market Risk

The risk of decreases in the market value of the insurer's assets.

### Maturity

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

### Mortality

The ratio of death to the entire population or to a particular age group. It is globally expressed in numbers of rates and set out in mortality tables.

### Net Claims Ratio or Net Loss Ratio

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

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

### Net Combined Ratio - General Insurance Business

This indicates the profitability of the insurer's operations by

## GLOSSARY CONTD...

combining the net loss ratio with net expense ratio. The combined ratio does not take account of investment income.

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

### Net Expense Ratio - General Insurance Business

A formula used by insurance companies to relate net earned premium to acquisition and administrative expenses (e.g. commission, taxes, staff, selling and operating expenses).

### 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.

### One off Surplus

Excess of total policy liabilities under the NPV regime as at 31st December 2015 over the total policy liabilities under the RBC regime as at 1st January 2016. (Surplus created due to change in valuation method of policy liabilities from Net Premium Valuation to Gross Premium Valuation).

### One off Surplus transfer

Transfer of surplus created due to the change in valuation method of policy liabilities from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) to shareholder fund.

### Operating Profit

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

### Operational Risk

The risk arising from the inadequacy or failure of internal systems, personnel, procedures or controls leading to financial loss. Operational risk also includes custody risk.

### 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.

### Primary Insurer

An Insurance Company that assumes risks in return for insurance premium and has direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

### Reinsurance

An insurance contract between one insurer or reinsurer (the reinsurer) and another insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium).

### 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.

### Restricted Regulatory Reserve

one off surplus other than participating business that is transferred to shareholders' fund in terms of Direction 16.

### Retention

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

### Retrocession

A transaction in which a reinsurer transfers risks it has reinsured to another reinsurer.

### Risk Capital Required (RCR)

Risk Capital Required is the aggregate of the capital required to address all relevant and material categories of risks prescribed in terms of Solvency Margin (Risk Based Capital) Rules 2015.

RCR is calculated separately for general and long term insurance and includes both insurance and shareholder fund.

(a) for general insurance business :

$$RCR = \sqrt{[(\text{credit risk capital charge} + \text{concentration risk capital charge} + \text{reinsurance risk capital charge} + \text{market risk})]}$$

## GLOSSARY CONTD...

capital charge)<sup>2</sup>+ liability risk capital charge<sup>2</sup>+ operational risk capital charge<sup>2</sup>]; and

(b) for long term insurance business :

$RCR = \max \{ (SVCC, \sqrt{[(\text{credit risk capital charge} + \text{concentration risk capital charge} + \text{reinsurance risk capital charge} + \text{market risk capital charge})^2 + \text{liability risk capital charge}^2 + \text{operational risk capital charge}^2]} \}$

### Solvency Margin (Risk Based Capital)

Regulatory capital requirement set out for the determination of amount of unencumbered capital that an insurer must have in addition to technical provision for insurance liabilities and the standard for capital adequacy including an absolute minimum as well as a risk-based requirement as defined in Solvency Margin (Risk Based Capital) Rules 2015 made under Section 105 read with Section 26(1) of the Regulation of Insurance Industry Act, No. 43 of 2000.

### Surplus Transfers

Transfer of excess amount of assets over the policy liabilities from life fund to shareholders' fund based on the recommendation of the Actuary.

### 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.

### Surrender Value Capital Charge (SVCC)

Risk of an extreme adverse scenario where all life insurance

contracts are surrendered simultaneously.

### Term Insurance

Type of life insurance policy that provides coverage for a certain period of time, or a specified "term" of years. If the insured dies during the time period specified in the policy and the policy is active - or in force - then a death benefit will be paid.

### Technical Provision

The amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, reinsurance and the capital required to cover the remaining risks.

### Tier 1 capital

Permanent capital that is fully available to cover the losses of an insurer at all times on both a going concern and a winding up basis.

### Tier 2 capital

Capital that lacks some of the absorbency characteristics of the Tier 1 Capital, but provides some loss absorbency during ongoing operations or on winding up.

### Total Available Capital (TAC)

Total available capital is determined as the sum of Tier I capital and Tier II capital less any prescribed deductions in terms of Solvency Margin (Risk Based Capital) Rules 2015.

### Underwriting Profit

The technical profit generated by transacting general insurance business without taking into

account the investment income and other income.

### Unearned Premium

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).

### Universal Life

Permanent life insurance with an investment savings element and low premiums like term life insurance. Most universal life insurance policies contain a flexible premium option. However, some require a single premium (single lump-sum premium) or fixed premiums (scheduled fixed premiums)

### Whole Life Insurance

Whole life insurance provides coverage for the life of the insured. In addition to providing a death benefit, whole life also contains a savings component where cash value may accumulate. These policies are also known as permanent or traditional life insurance.



## GENERAL INFORMATION

### OFFICE ADDRESS

11, East Tower, World Trade Centre  
Echelon Square, Colombo 1  
Sri Lanka.  
Telephone : +94 11 2396184-9  
Fax : +94 11 2396190  
E-mail : info@ircsl.gov.lk  
Web site : www.ircsl.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 01 March 2001 by Government Gazette Notification No. 1172/27, dated 23 February 2001.

### THE OBJECT AND RESPONSIBILITY OF THE COMMISSION

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

### ACCOUNTING YEAR

31 December

### AUDITORS

The Auditor General

### BANKERS

Bank of Ceylon

### AUDIT COMMITTEE

Mr A R Desapriya  
Mr Jeromy Bolling  
Dr A A Shabbir Gulamhusein

Mr Yudhishttran Kanagasabai  
Mr E A D Perera  
Mr Upul Deshapriya

Ms K V C Dilrukshi  
Mr D N R Sirwardhana  
Mr C J K Perera



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REGULATORY  
COMMISSION OF  
SRI LANKA

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