



INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

Developing • Supervising •
Regulating

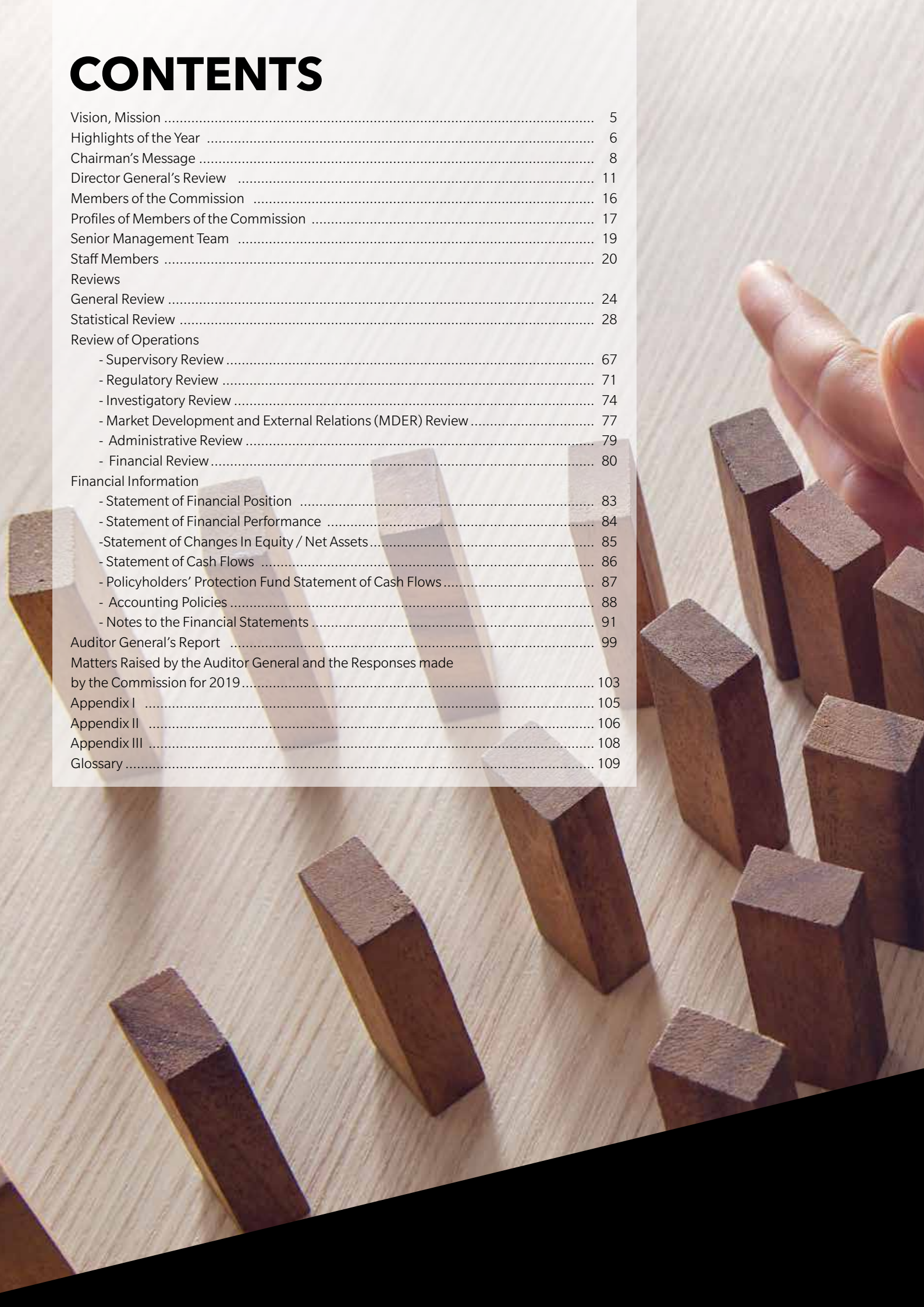


Annual Report

2019

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DEVELOPING. SUPERVISING. REGULATING

The Insurance Regulatory Commission of Sri Lanka maintains the stability and facilitates the development of the insurance sector through prudential supervision.

We are here to ensure that the insurance industry develops the capacity to support people when it really matters, at any time throughout their lives and to ensure a stable insurance sector that people can trust.

We advise government on policy and laws that allow the industry to remain viable and meet its obligations to policyholders, thus safeguarding their interests. We are with our people and our country today, for a better tomorrow.



INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

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 - 28
- No. of Insurance Brokers - 68
- No. of Insurance Agents represented the insurers - 45,567
- No. of Insurance Agents registered with the insurance brokers - 617

Insurance awareness reached 471 Grama Niladhari Divisions in 08 Divisional Secretariats

Performance of Insurance Industry

	2019	2018	Change %
Gross Written Premium (Rs. Millions)	196,513	180,880	8.64%
Total Assets (Rs. Millions)	696,283	630,447	10.44%
Penetration as a % of GDP	1.31	1.26	3.94%
Insurance Density (Rs.)	9,013	8,347	7.98%

Performance of the Commission

	2019	2018	Change %
Policy Holders' Protection Fund (Rs. Millions)	6,252.96	5,042.80	24%
Cess Income (Rs. Millions)	493.07	479.09	2.92%
Annual Fees (Rs. Millions)	224.43	168.50	33.19%



**RS. 696,283
MN.**

Total Assets of Insurance
Industry



**RS. 196,513
MN.**

GWP of Insurance
Industry



MANAGEMENT INFORMATION

CHAIRMAN'S MESSAGE



Razik Zarook P.C.
Chairman

“

Insurance density increased by almost 7.98% during 2019 at Rs. 9,013 million in 2019 compared to Rs. 8,347 million recorded in 2018. Furthermore, the total population growth during the last five years, display positive indicators for insurance development in Sri Lanka.

”

CHAIRMAN'S MESSAGE

The year 2019 was a challenging year for our country as our economy weakened considerably due to the Easter Sunday attacks as well as the political instability. It is under these circumstances, I present the Annual Report of the Insurance Regulatory Commission of Sri Lanka (IRCSL) for the year 2019.

Industry Performance

The Sri Lankan GDP growth slowed up to 2.3% during the year 2019.

Despite unfavorable business environment, the Sri Lankan insurance industry achieved a growth of 8.64% in terms of overall Gross Written Premium (GWP) for both long term and general insurance business sectors in year 2019. The long term insurance sector and the general insurance sector recorded 10.57% and 7.10% YOY growth respectively. The adverse weather condition and Easter Attack that occurred in 2019 led to increase claims incurred by general insurance. Total assets of the industry grew moderately by 10.44% during the year under review.

Over the last few years, consumer trust and confidence on insurance and behavioral intention to purchase insurance products have been gradually increasing due to public awareness programs and improved services & product developments introduced by insurance companies. Therefore, insurance penetration had slightly increased in 2019 and recorded as 1.31% (this excludes the Agricultural and Agrarian Insurance Board, Sri Lanka Export Credit Insurance Corporation and Social Security Board). Penetration of the long term insurance business stood at 0.59% whereas the general insurance business was 0.72%. This again indicates that there is a long way

to go to achieve full potential and has much room to grow for the insurance industry in Sri Lanka.

Insurance density increased by almost 7.98% during 2019 at Rs. 9,013 million in 2019 compared to Rs. 8,347 million recorded in 2018. Furthermore, the total population growth during the last five years, display positive indicators for insurance development in Sri Lanka.

Achievements

During 2019, the Commission amended certain Rules, Regulations and Determinations and issued new Directions to create conducive regulatory environment for the insurance industry.

The IRCSL is a beneficiary of two foreign funded projects, i.e. Capital Market Development Programme (CMDP) of the Asian Development Bank (ADB) and the Financial Sector Modernization Project (FSMP) of the World Bank (WB). The ADB provides technical assistance to develop an education strategy & implementation plan to enhance financial literacy of insurance products and to develop a comprehensive dispute resolution mechanism in accordance with the international best practices and this initiative is to be completed by end 2022. The WB project provides financial and technical assistance for strengthening the regulatory capacity of the IRCSL and to develop the necessary infrastructure within the IRCSL. We believe that the outcome of these two projects will immensely benefit the development of the insurance industry in Sri Lanka and thereby increase insurance penetration level.

During the period under review, the public was well informed and educated about the insurance concept

through market development activities conducted by IRCSL and comprehensive awareness raising programs and creative marketing campaigns conducted by insurers. Development of Sri Lanka's first digital Insurance Comparison web platform and first internet based broker were key milestones for Sri Lanka's insurance industry, paving the way towards digital transition. The advancements that took place within the insurance industry during 2019 contributed towards the establishment of a more competitive environment for insurers operating in the country, showcasing a clear path showing positive trends within the country.

Going Forward

Despite Sri Lankan economy performing poorly in 2019, I believe that the year 2020 will be a crucial period for the Sri Lankan economy. The COVID-19 pandemic still poses a grave threat to lives and livelihoods globally. Unprecedented fiscal, monetary and regulatory policy support will mitigate the economic fallout and output and job losses are inevitable. It is obvious that we are not in a position to control the impacts arising out of the external environment. However, there is a lot we can do to become more resilient. The industry must carefully analyze this situation and seize opportunities of growth.

We expect insurers to continue the growth whilst pursuing new developments by way of introducing innovative insurance products, distribution channels to the general public focusing more on low- and middle-income segments. Furthermore, development of micro insurance segment will also support future growth of the insurance industry.

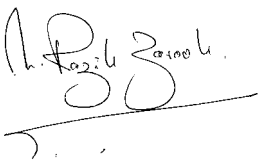
CHAIRMAN'S MESSAGE

In Appreciation

In conclusion, I take this opportunity to appreciate the unwavering support accorded by my colleagues of the Commission, whose tireless efforts have contributed towards achieving commission's vision and mission.

I also wish to thank all industry stakeholders including all registered insurance companies' and brokers and authorized intermediaries, Insurance Association of Sri Lanka (IASL), Sri Lanka Insurance Brokers Association, (SLIBA), Sri Lanka Insurance Institute (SLII), and the Insurance Ombudsman for their continued support, co-operation and cordial relationship that they continue to maintain with the IRCSL.

A special recognition also goes to the Director General, Senior Management Team and staff members whose support has been fundamental in realizing what we set out to achieve. As we navigate through the current global financial and health challenges, I believe the team of IRCSL will continue to execute the strategies towards our mission "To protect policyholders' interests whilst regulating the development of the insurance industry".



Razik Zarook P.C.

Chairman

DIRECTOR GENERAL'S REVIEW



Damayanthi Fernando
Director General

“

The total GWP recorded stood at LKR 196,513 million. The growth in premium was mainly driven by the long-term insurance business, followed by General Insurance and Reinsurance business recording 10.57%, 7.10% and 2.9% respectively

”

DIRECTOR GENERAL'S REVIEW

It is an honor for me to report the achievements of the Insurance Regulatory Commission of Sri Lanka for the year 2019.

The year, as in previous years was challenging, thus making our regulatory actions more proactive and forward looking to face the challenges of the industry, whilst ensuring that rights of policyholders are protected. As the regulator, we need to strike a balance in the regulatory structure, to meet our utmost responsibility of safeguarding the interests of policyholders, whilst ensuring our reforms do not stifle the growth of industry.

The year saw the Commission guiding us to revamp some of the archaic practices and policies to address to the changing environment. We, are indeed thankful to all Commission Members served during the year, their guidance and mentoring was invaluable. Most of all, the Commission was very mindful of the enthusiasm and dedication of its staff and was of the firm view that an appropriate rewarding structure should be in place to retain its long-standing staff.

Key Regulatory Initiatives

The Commission during the year 2019 made certain regulatory reforms, the salient features of which are included in the General Review of this report. Out of these, the main regulatory reforms were issuance of Direction # 18 and 19.

Direction # 18

This direction was issued to restrict long term insurers from transferring any unclaimed insurance benefits arising from insurance policies issued, to shareholders as such benefits were long outstanding. The Commission noting that it is a practice not in the interest of policyholders or their beneficiaries issued restriction on such transfer. This restriction will be applicable until the Commission formulates guidelines regarding such benefits. The restriction

also stipulates that such unclaimed benefits to be recorded as a liability in the Long-Term Insurance Fund Balance Sheet as "Unclaimed Benefits". This direction is applicable from the Financial Year 31st December 2018.

Direction # 19

This direction was issued as the Commission observed many insurance brokers falling short of the minimum net capital requirement, being LKR 2.5 million. The direction stipulates a procedure to be adopted by the brokers who do not comply with this requirement and sets out enforcement procedure for continued violation, leading up to the cancellation of the license.

Performance of the Insurance Industry

Gross Written Premium (GWP) & Penetration

Sri Lanka in its economic progress reached a milestone in year 2019 by graduating to an upper middle-income economy in July 2019. This was a positive factor to the growth of the insurance sector as well, as a country's economic prosperity attributes to the higher economic disposal level of its citizens, thus drawing their attention to appropriate risk transfer mechanisms in place in the industry. However, this growth trajectory was badly affected by the Easter Sunday attacks, which devastated the country's economic outlook affecting many service sectors, including the insurance sector. Thus, we witnessed the lowest GDP growth rate recorded, being 2.3% since 2001. This impacted the growth of the insurance industry as well, recording an all-low growth rate of 8.64% since 2015. The total GWP recorded stood at LKR 196,513 million. The growth in premium was mainly driven by the long-term insurance business, followed by General Insurance and Reinsurance business recording 10.57%, 7.10% and 2.9% respectively.

Though the insurance penetration levels of the country is relatively low compared to other countries in the region, the insurance penetration has marginally increased during the last five years from 1.12% in 2015 to 1.31% in 2019. The penetration level in year 2019 has increased to 1.31% from 1.26% reported in year 2018.

The penetration level of long term insurance business has increased from 0.56% to 0.59% and the general insurance business from 0.70% to 0.72% in year 2019. It should be noted that both in the life and general insurance sectors, premium collection of foreign health insurance products sold by insurance brokering companies, premium collection on loan protection covers provided by the Micro Finance institutions and some financial institutions, premium collection of Sri Lanka Export Credit Insurance Corporation and the premium collection of Agriculture and Agrarian Insurance Board are not accounted for in the computation of the insurance penetration level recorded by the IRCSL, as such institutions do not come within the purview of the IRCSL.

Though the penetration level, compared as a percentage of GWP over GDP is relatively low, the number of life insurance policies in force as a percentage of the total population was 15.61% in 2019, increasing year on year from year 2015 onwards. The number of life insurance policies in force as a percentage of the labor force was an all high percentage recording 41.59% from year 2015 reflecting an increased level of confidence and positive perception towards the life sector. The trend line in the life sector is positive for the industry reflecting potential for expansion.

As regards the general insurance sector, the number of policies has increased by 3.64% to 6,728,073 policies in year 2019 compared to year 2018. There is gradual increase from year 2015.

DIRECTOR GENERAL'S REVIEW

Performance of Long Term Insurance Business

The growth rate recorded in this sector stood at 10.57% compared to year 2018. However, it is an all-low growth rate compared to the growth rates from year 2015 onwards, resulting from uncertainty prevailed during the year.

The top five contributors to the life GWP accounted for 80.60% of the total life GWP. Other than SLIC and Softlogic Life, the market share of other three companies had declined marginally during the year. The remaining ten life insurance companies held 19.40% of the total life GWP, an increase from 19.04% recorded in year 2018. A notable increase in the market share can be witnessed in Softlogic Life from a share of 7.62% in year 2015 to a share of 14.11% in year 2019.

The industry showed a declining trend in the linked long term insurance business, whole life insurance business, term insurance and endowment products and an upward trend in universal life products reflecting policyholders demand towards investment and protection products than demand for conventional life products.

The solvency position remained stable in the life insurance sector, only one company reporting Capital Adequacy Ratio below the enforcement level of 160%, though complied with the minimum level of 120%. The Total Available Capital requirement, which is another component to be complied with has been satisfied by all insurers, except one.

At year end, the total number of life policies in force had increased by 6.35% compared to year 2018, being 3,199,354 policies. The life sector had issued 736,961 new life insurance policies during the year, increasing by 3.63% compared to 711,126 new life insurance policies issued in 2018.

On the other hand, total life policy lapses as a percentage of total policies in force have decreased to 7.34% from 8.39% recorded in year 2018. Further, new policy lapses as a percentage of new policies issued was 11.69% in 2019 as opposed to 12.16% recorded in year 2018.

A total of LKR 36,079 million has been incurred as claims during 2019, an increase of 4.83% compared to year 2018. Out of the total claims incurred, maturity benefits accounted for the largest percentage of the total claims incurred, accounting 52.25% of total claims and amounted to LKR 18,852 million.

However, an important factor for the industry to consider and address is the increasing surrender claims in value (LKR 7,070 million) and in number (76,630), reflecting negatively on the industry, which requires immediate remedial measures to be taken by the industry to address same.

Performance of General Insurance Business

The general insurance sector showed further decline in its growth rate to 7.10% compared to 2018. There was a significant drop in the growth rate from year 2017 to 2018 from 17.34% to 7.71%. This is mainly due to the impact on business confidence resulting from uncertainties prevailed during the year.

The general insurance sector dominated by five companies contributed to 73.58% of the market share, whilst the remaining nine companies contributed to 26.42% of the market share, from 25.77% recorded in 2018. Seven companies, out of the nine companies have contributed to the increase in the market share, demonstrating severe competition in the general insurance sector. Out of the 5 dominant companies, only the NITF's market share has increased due to the Government business contribution.

Motor insurance, which is the main sub-class in the general insurance sector showed the lowest growth rate of 2.20% in GWP and percentage share of general insurance business of 59.16% during the year compared to the previous four years. Low personal vehicle imports and high tax rates imposed during the year have resulted in this situation.

In contrast, miscellaneous insurance business, which comprises of personal accident insurance, contractors' all risk insurance, air craft hull insurance, National Natural Disaster Insurance Scheme (NNDIS) etc. have showed a significant growth rate of 26.69%, being the highest recorded since year 2015. This is due to the increase in premium of NNDIS from LKR 500 million to LKR 1,500 million and contractors' all risk insurance from LKR 467 million to LKR 1,694 million. However, the percentage share in this sub-class is relatively small (9.71%) compared to the overall GWP.

Health insurance premium also showed a significant growth rate of 17.07% compared to the previous year due to the premium generated from Suraksha Insurance Scheme (an insurance cover purchased by the Government to cover the health-related expenses of the school going children) and Agrahara Insurance Scheme (a contributory health insurance scheme of the Government and the public sector employees).

The Strike, Riot, Civil Commotion and Terrorism (SRCC&T) insurance also grew by 37.67% compared to 2018, mainly due to Easter Sunday attacks which prompted the public to cover their assets by the SRCC&T cover.

Fire insurance and marine insurance, which represents low share of GWP 7.68% and 2.21% respectively showed negative growth during year 2019 compared to year 2018. It is important that the industry makes the public aware

DIRECTOR GENERAL'S REVIEW

of, particularly fire insurance as this covers, other perils, such as cover from natural disasters. Marine insurance is another important area that the industry needs to build capacity on to take the optimum advantage of the developments that are taking place in Sri Lanka.

As regards meeting with Risk Based Capital requirements, except for Amana General and the NITF, all others demonstrated compliance with capital adequacy rules amidst the low insurance premium growth rates witnessed in the general insurance sector in the year.

The general insurance sector has incurred net claims amounting to LKR 58,436 million during the year. Out of same, LKR 34,703 million has been incurred for motor insurance. The growth rate in net claims has been 11% compared to year 2018. The growth rate in net claims incurred has been 19.5% (2016), 18% (2017), 9.8% (2018) compared to its previous year. When considering GWP recorded from year 2015 to year 2019, the net claims incurred by the general insurance companies amounts to approximately 50%.

Performance of Reinsurance Business

Reinsurance business is carried on by the NITF, as a mandatory ceding by all general insurance companies since year 2008. The NITF's scope was revised with the objective of developing a strong reinsurance sector in Sri Lanka to retain acceptable risk within the country and to provide reinsurance support to the local market.

During the year 2019, the NITF's reinsurance premium has increased by 2.89% compared to year 2018. The reinsurance premium recorded for year 2019 was LKR 4,174 million, out of which LKR 449 million has been ceded to reinsurers as retrocession premium, which reduced by 22.23% compared to year 2018.

However, the claims incurred amounted to LKR 3,560 million in year 2019, which showed a notable growth of 137% compared to year 2018. Out of the claims incurred only LKR 498 million had been claimed under retrocession during the year, with no retrocession claims for year 2018 and 2017 showing high retention of risk by NITF resulting in underwriting loss and net loss before tax of LKR 763 million and LKR 662 million respectively compared to the positive status recorded in year 2018.

Profitability

The negative effects created by the Easter Sunday attacks inhibited the performance of the industry resulting in decrease in profitability by 22.35% compared to year 2018. The main class that was impacted was the Long-Term insurance business, the profit declining by 25%. This is mainly because the significant profits earned in the previous years from the disposal of a large general insurance subsidiary of a Life company. However, the General Insurance business which showed a remarkable growth in profit in year 2018 also demonstrated a decreasing trend in profit due to the large number of claims paid under the Suraksha Insurance Scheme, covering school going children.

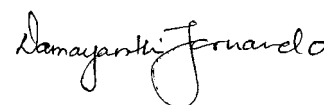
Key Regulatory Reforms underway

The Commission is actively participating in the Financial Sector Modernization Project to obtain expertise not available internally with the objective of enhancing its efficiency towards financial sector growth and enhanced policyholder protection. Under the project the Commission has been allocated US\$ 9 million from the Treasury to modernize its regulatory and supervisory framework for efficient regulation and supervision of the insurance industry. The Commission, the SEC and the CBSL are the key recipient regulatory institutions identified by the Government. The project will continue till end 2022.

The Commission will carry out reforms on the Risk Based Capital Rule, Risk Based Supervisory Framework, and many legal reforms for better protection of policyholders.

In Appreciation

I thank 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 providing constructive feedback on reforms, 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

Mr. Haris Salpitikoral
Member



Ms. Indra Baduge
Member



Mr. P. Algama
*Ex-officio Member
(Deputy Secretary to the Treasury,
Ministry of Finance, Economy &
Policy Development)*

Mr. Raja Goonaratne
Member



Mr. D. N. R. Siriwardena
*Ex-Officio Member
(Registrar General of Companies)*



Mr. H. A. Karunaratne
Member



Razik Zarook
Chairman



MEMBERS OF THE COMMISSION

PROFILES OF MEMBERS OF THE COMMISSION

Mr. Razik Zarook President's Counsel

Mr. Razik Zarook Lawyer, Diplomat and former Chairman of a number of Public Corporations, is a senior Attorney at Law in active practice.

He was Chairman of the Cooperative Wholesale Establishment (CWE) and under his tenure, from 1978 to 1989 the CWE was turned around into a model profitable and viable organization having diversified and acquired many assets developing real estates and establishing a number of public quoted companies such as Sathosa Motors Limited and Lanka Milk Foods Limited of which he was founder Chairman. He also held office as Chairman of the Agricultural Development Authority, The National Aquatic Research and Development Authority (NARA) and as Chairman Bank of Ceylon.

He served in the diplomatic service as Ambassador to the then Federal Republic of Yugoslavia and thereafter as the first Ambassador to Hungary. Subsequently, he was appointed as Sri Lanka's High Commissioner to Singapore.

He is an old boy of St. Servatius College, Matara and Zahira College, Colombo.

Mr. P. Algama

An academically and professionally astute Professional in the field of Public Financial Management with a passion for continually develop system, processes, procedures and practices in Public Financial Management that save time and scarce resources in the public sector organizations to help achieve economic and social development in sustainable manner.

Being an Accountant by profession, he possesses a wide range of associated disciplines in Public Financial Management (PFM), Public Procurement, Asset Management and training and development of staff in these fields.

Mr. Algama holds a Master of Business Administration (MBA) from the Nanyang Technological University, Singapore and the Sloan School of Management of the Massachusetts Institute of Technology (MIT) Boston, USA and Bachelor of Commerce degree from the University of Kelaniya. He is an Associate Member of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the CPA Australia.

He joined the Public Service in 1987 and since 1991 has been working in the General Treasury holding number of positions in the Department of State Accounts, Department of National Budget, Department of Public Enterprises and the Department of Public Finance. Prior to assuming duties as a Deputy Secretary to the Treasury, he has completed seven years in the Department of Public Finance as the Director General engaging with number of Public Financial Management Reforms such as PFM Bill, Public Procurements and introduction of e-GP System in Public Sector.

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 (L.L.B.) from the Open University of Sri Lanka and holds a Master (L.L.M.) 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 has been working as the Registrar General 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.

Mr. H. A. Karunaratne

Mr H A Karunaratne is currently functioning as the Deputy Governor overseeing the Financial System Stability

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, Institute of Bankers of Sri Lanka and West Coast Power (Pvt) Ltd. In addition, he also serves in the Boards of Securities and Exchange Commission and Colombo Dockyard among others. During his thirty-four years career at the Central Bank 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 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 BSc Business Administration degree from the University of Sri Jayawardenapura, Sri Lanka and an MA 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.

PROFILES OF MEMBERS OF THE COMMISSION

Mr. Haris Salpitikorala

Mr. Haris Salpitikorala is a Fellow of the Chartered Institute of Management Accountants, UK and a Fellow of Life Management Institute, USA. He counts over 30 years of experience in life insurance industry and has worked as a Consultant for insurance companies in Brunei, Singapore and Sri Lanka.

Mr. Raja Goonaratne

Mr. Raja Goonaratne is an Attorney-at-Law and holds a Master's Degree in Commercial Law from Monash University, Australia. Presently, he is serving as the Director General of National Secretariat for Non-Governmental Organization. Mr. Goonaratne is a Senior Lecturer at the Department of Legal Studies of the Open University of Sri Lanka.

He is contributing to the State service as a Member of the Board of National Medicines Regulatory Commission and the Insurance Regulatory Commission of Sri Lanka.

Mr. Goonaratne is also a Life Member of Bar Association of Sri Lanka, a Member of Bio-Medical Association of Bangladesh and a Member of Medico-Legal Association of Sri Lanka.

Also, he is the former National Housing Commissioner, Director of National Housing Authority and Director of the Housing Development Finance Corporation Bank. In the university system, he has held many posts such as Head of Department of Legal Studies and Acting Dean of the Faculty of Humanities and Social Sciences of the Open University.

Ms. Indra Baduge

Ms. Indra Baduge is an Attorney at Law and holder of Master's Degree in Law. She has over 26 years of working experience in public and private sectors. During this period, she held senior management positions including Legal Consultant of Ministry of Highways and Chief Legal Officer at National Institute of Fisheries and Nautical Engineering.

SENIOR MANAGEMENT TEAM



Seated from left:

Mrs. Prabhashini Samarakoon (Director Investigation)
Mr. Sathiesh Kumar (Director Finance and Administration)
Mrs. Damayanthi Fernando (Director General)
Mrs. Chamarie Ekanayake (Director Supervision)

Standing from left:

Mr. Rajan Nirubasingham (Assistant Director Legal)
Mrs. Sarika Wattuhewa (Assistant Director Supervision)
Mr. Bimsara Wijesinghe (Assistant Director Market Development and External Relations)

STAFF MEMBERS



1. Mr. Bhanuka Gamage
2. Mr. Roshan De Costa
3. Mrs. Kaushali Dayaratne
4. Mrs. Pavithra Punchihewa
5. Mrs. Upendra Senevirathne
6. Mrs. Prasadi Naotunna
7. Mr. Supun Wijayabandara
8. Miss. Chathuni Thalpavila
9. Mrs. Malhari Wickramasinghe
10. Mrs. Thushari Wijegunawardana
11. Mr. Ethirraj Srikanthan
12. Mrs. Harshanie Perera
13. Mr. Nalin Thalagala
14. Mrs. Ruvini Liyanage
15. Mr. Charitha Wickramasinghe
16. Mrs. Lasanthi Thotahewa
17. Mr. Luxman Wijesinghe
18. Mrs. Sujeewa Ranasinghe
19. Mr. Lakmina Pathiraja
20. Miss. Jayani Rajapathirana



- | | |
|-----------------------------------|--------------------------------|
| 21. Mr. Saman Senadeera | 31. Mr. Kalana Pushpakumara |
| 22. Mrs. Priyangi De Silva | 32. Mrs. Vindyani Thulapitiya |
| 23. Mr. Chaminda Lal Kumara | 33. Miss. Kumari Dharmasena |
| 24. Mrs. Veena Seneviratne | 34. Mr. Nayana Ravindra |
| 25. Mrs. Kokila Siriwardana | 35. Mrs. D. W. S. S. Supulee |
| 26. Mr. Anushka Bandara | 36. Mrs. Shanika Nanayakkara |
| 27. Miss. Sandamalie Karunathissa | 37. Miss. Upalakshi Ranasinghe |
| 28. Mrs. Chandima Kamburugamuwa | 38. Mrs. Shashini Premalal |
| 29. Mrs. Nilanka Walisundara | 39. Mrs. Shyamalie Attanayake |
| 30. Mrs. Decika Rathnayaka | 40. Mr. Sanath Udayanga |



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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

Directions issued under Section 96A of the Act

i) Direction # 18 - Unclaimed benefits of long term insurance business

The Commission has issued Direction # 18 to all insurers who carry on long term insurance business to prohibit from transferring from any unclaimed benefits to shareholders, with effect from financial year ended 31st December 2018, and further to record the same as liability in the long term insurance fund balance sheet as “unclaimed benefits”. The Direction came into effect from 22nd February 2019.

ii) Direction #19 - Compliance with minimum net capital requirement for Insurance Brokers

The Commission having considered the Insurance Brokering Companies

non-compliance with the minimum net capital requirement of Rs. 2.5 Mn, has decided to issue the following direction in terms of Section 96A of the Act:

1. That insurance brokering companies should demonstrate compliance with net capital requirement within one month from the quarter it became non-compliant by submitting Audited Financial Statements, Form 6 (if capital is infused) and Bank Statements to support the same (if capital is infused); and
2. If the company does not demonstrate as above (by submitting the required documents and/or meeting the said net capital requirement), the Commission will suspend its license in terms of the provisions of the Act.

If the above non-compliance continues or is repeated, the Commission will cancel its license. The Direction came into effect from 24th July 2019.

iii) Direction # 20 - Prohibition of Payments to Parent, Related AND /OR Unrelated Companies by insurers for usage of acronym and / or trade mark

The Commission having noted that a certain insurer had been making payments to its parent company for using the acronym and / or trade mark of its parent company, classifying same as royalty payments, has issued Direction # 20 to all insurers under Section 96A of the Act prohibiting them from making payments to their Parent Companies, Related and/or Unrelated Companies for using the acronym and / or trade mark of the Parent, Related and /or Unrelated Companies. The Direction came into effect from 20th September 2019.

Circulars issued during the year

Circular # 40 - Health Insurance Underwritten by Long-Term Insurers

Having observed the practices of some insurers who carry on long term

insurance business issuing stand-alone health insurance policies, the Commission has issued Circular #40. This Circular came into effect from 25th February 2019.

Circular # 41 - Enforcement Procedure of IRCSL

The Commission has issued Circular # 41 in respect of the Enforcement Procedure with regard to violation and/or non-compliance with Reporting Requirements (Returns, etc.) and other than on Reporting Requirements of IRCSL. The Circular came into effect from 4th November 2019.

Market Structure Insurers

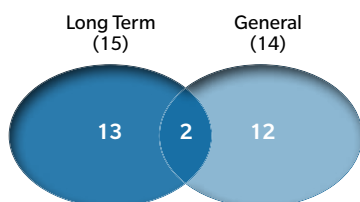
Subject to the provisions of Section 12 of the Act, no person shall carry on insurance business in Sri Lanka unless such person is for the time being registered or deemed to be registered under the Act to carry on insurance business.

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.

27 companies were in operation as insurers as at the end of the year. 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 27 companies in operation, 2 companies were composite insurers, carrying on both long term insurance business and general insurance business, 13 companies were carrying on long term insurance business and 12 companies were carrying on general insurance business.

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



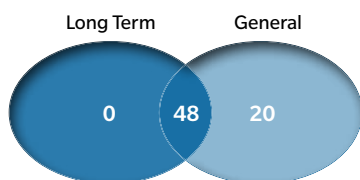
Insurance Brokers

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 68 companies registered as insurance brokers. Out of the said companies, 48 companies were registered in both long term and general insurance brokering business while 20 companies were registered only in general insurance brokering business.

Chart 2 depicts the classes of insurance brokering business, Insurance Brokers had carried on during the year.

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



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.

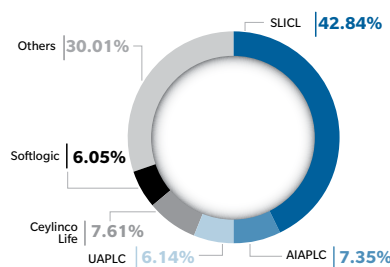
As per information given by Insurers, the total number of individuals recruited as Insurance Agents during the year was approximately 16,101 which is a 1.92 % increase from the previous year (15,798).

The total number of individual insurance agents representing insurers as at the end of year was approximately, 45,567 a 1.44 % increase from the previous year (44,919).

Chart 3 depicts individual Insurance Agents registered with Insurance Companies.

The total number of insurance agents representing insurance brokering companies as at the end of year was approximately 617.

**Chart 3
Total Agents as at 31.12.2019**



Loss adjusters

16 persons 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.

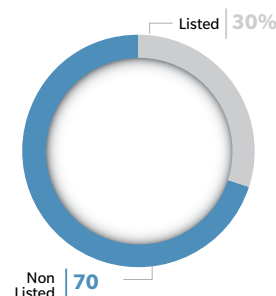
Accordingly, the Commission has specified in the aforesaid Rules the qualifications and/or experience required for a person to be registered as a Loss Adjuster.

Company Status and Changes in Capital

Of the insurers registered with the Commission, 08 companies were listed on the Colombo Stock Exchange as at 31st December 2019, namely: 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 license 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 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 2019 was LKR 493 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 -

- a) 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
- b) 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 2019, is LKR 6,253 million; a 23.99 % increase from the previous year (LKR 5,043 million).

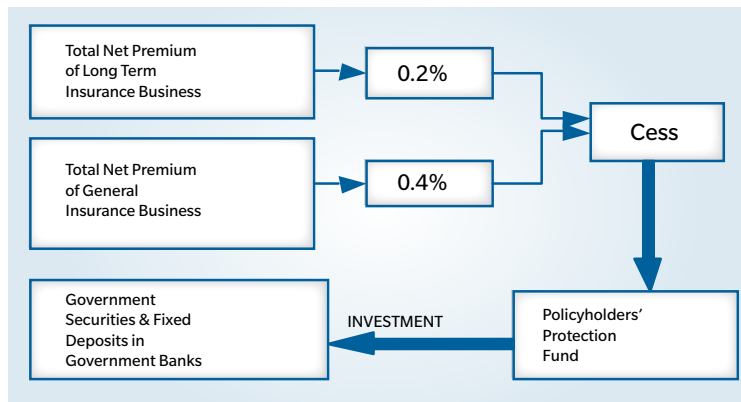
Export Credit Insurance Corporation established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978 and the Social Security Board established under the Social Security Board Act, No. 17 of 1996.

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

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

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 Sri Lanka Insurance Brokers' Association (SLIBA) represents insurance brokers registered with IRCSL and has been 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)

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

AFIR has become a significant regional cooperation platform for Asian regional 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 exchange of industry professionals, a key platform for regulatory cooperation and coordination to prevent and respond to cross-border risks, a key platform for enhancing regulatory systems and capabilities, so as to participate in the global insurance regulatory reform in a more effective manner.

STATISTICAL REVIEW

Abbreviations for Insurance Companies

	Insurance Company Full Name	Abbreviation
1	AIA Insurance Lanka PLC	AIA Life
2	AIA General Insurance Lanka Limited	AIA Gen.
3	AIG Insurance Ltd.	AIG
4	Allianz Insurance Lanka Ltd.	Allianz Gen.
5	Allianz Life Insurance Lanka Ltd.	Allianz Life
6	Amana Takaful PLC	Amana Gen.
7	Amana Takaful Life PLC	Amana Life
8	Arpico Insurance PLC	Arpico
9	Ceylinco General Insurance Ltd.	Ceylinco Gen.
10	Ceylinco Life Insurance Ltd.	Ceylinco Life
11	Continental Insurance Lanka Ltd.	Continental
12	Cooperative Insurance Company Ltd.	Cooperative Gen.
13	Cooplife Insurance Ltd.	Cooplife
14	Fairfirst Insurance Ltd.	Fairfirst
15	HNB Assurance PLC	HNB Life

	Insurance Company Full Name	Abbreviation
16	HNB General Insurance Ltd.	HNB Gen.
17	Janashakthi Insurance PLC	Janashakthi Life
18	Janashakthi General Insurance Ltd.	Janashakthi Gen.
19	Life Insurance Corporation (Lanka) Ltd.	LIC
20	LOLC General Insurance Ltd.	LOLC Gen.
21	LOLC Life Assurance Ltd.	LOLC Life
22	MBSL Insurance Company Ltd.	MBSL
23	National Insurance Trust Fund	NITF
24	Orient Insurance Ltd.	Orient
25	People's Insurance PLC	People's
26	Sanasa Life Insurance Company Limited	Sanasa Life
27	Sanasa General Insurance Company Limited	Sanasa Gen.
28	Softlogic Life Insurance PLC	Softlogic Life
29	Sri Lanka Insurance Corporation Ltd.	SLIC
30	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 has been amalgamated with Fairfirst Insurance Limited 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 withdrawing from Sri Lanka. Hence, statistics of AIG was not considered for the period 2016-2019.
- Seemasahitha Sanasa Rakshana Samagama has segregated its long term insurance business and general insurance business with effect from 01st July 2019. Accordingly, "Sanasa Life Insurance Company Limited" and "Sanasa General Insurance Company Limited" continue to carry on long term and general insurance businesses respectively.
- 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 with previously published figures are due to subsequent revisions.
- Values indicated within parenthesis are negative values.
- The following symbols have been used throughout: -

(a) = Reinstated and Audited figures

(b) = Provisional figures

- = nil

An Overview of Sri Lankan Insurance Industry

Global Insurance Market at a Glance

Global insurance industry continued to display steady growing outlines with premium growth reporting around 3% in real terms in 2019. This was particularly supported by solid growth in emerging markets specially in Asia. China has regained its growth potential, after being affected by life premiums contraction due to tightened regulations in 2018. As per Swiss Re publications, strong demand for health, liability and agriculture covers led general insurance premiums to enhance. But, prices in the general insurance market fluctuated within a narrow range, except for property rates which have increased over the period due to series of natural catastrophes that took place in last few years.

Interest rates remain low over the long run and this has impacted the profitability of insurers worldwide. In many jurisdictions traditional life products with fixed guaranteed rates are struggling to grow due to low yield rates and the policyholders tend to direct their savings to other favorable markets and risk profiles with high returns.

Consistent natural catastrophes put further downward pressure on general insurance profitability, making the returns to barely cover the cost of capital. As explained in the Sigma Report published by Swiss Re Institute, global insured losses from disaster events in 2019 were around USD 60 billion and out of them, USD 52 billion were due to natural catastrophes such as Typhoons Hagibis and Faxai in Japan, Hurricane Dorian in Bahamas and Cyclone Idai in Mozambique. Even though this amount is slightly lower than the annual average losses incurred in previous 10 years, the actual exposure of Australian Bushfires that lasted in the latter part of 2019 would increase the insured losses further. Hence, the growing climate risks have directed insurers and regulators like never before in history, to develop tools to understand the natural catastrophe protection gap.

In the meantime, industry analysts predict that the general insurance sector would face a fundamental structural change over the next few decades, with a possible decline in premiums from motor class, the main line of general insurance business of today, as a result of the evolution of advance driver-assistance systems and self-driving car technologies which are expected to lead to lower claims and hence also lower premium rates and volumes.

Amidst aforesaid challenges, the insurance industry is about to face unprecedented effects of COVID-19 pandemic, which has currently put the entire world at an enormous threat. Even the healthcare systems of most powerful and richest nations in the world are struggling to cope up with the situation. As many countries and regions had been locked down for months, the adverse impact on economies is widening continuously.

The pandemic-led business interruptions and volatility in the equity markets would likely to distress the pricing of instruments and hinder the investment yields of insurance companies. Death benefits and hospital benefits would be a main concern for long term insurance companies, whereas the general insurers would face losses arising out of mainly travel, employee liability, business interruption and health insurance policies. Thus, the insurers worldwide should adjust their budgets and implementation plans, and even limit the dividend distributions, as the maintenance of adequate reserves and capital positions is vital to face this situation.

Sri Lankan Economy at a Glance

Sri Lankan economy has recently been experiencing a challenging period, with increasing debt levels, effects of natural disasters, continuous depreciation of Rupee value against foreign currencies and political crisis which saw the country's debt rating being decreased. This is evidenced by substantially low economic growth rates of 3.6% and 3.3% reported for years 2017 and 2018 respectively.

Despite above difficulties, the economy was heading for a progress in the first quarter of 2019 as it reported a quarterly GDP growth of 3.7%. However, the country's growth expectations were shattered by the Easter Sunday bombings, the worst crisis since the end of civil war in 2009. The attacks devastated the tourism industry and hindered the foreign investments in a greater manner that eventually decreased the services sector growth to a record low level of 2.3% during the year. Extreme weather conditions affected the agricultural sector in 2019 reflecting a sluggish growth of 0.6%. Contraction in activities related to growing of paddy in the fourth quarter of 2019 and subdued production in the tea sector mainly due to wage related trade disputes further decelerated the agricultural growth. In line with the slowed down services sector and agricultural sector growth, the total Gross Domestic Product (GDP) of the country amounted to LKR 15,016 billion in 2019. Accordingly, the overall GDP growth rate declined to 2.3%, making it the lowest the country experienced since 2001.

As the economy started to slowly revive along with the rising tourist arrivals and improved business confidence, the outbreak of the COVID-19 pandemic provoked further uncertainties regarding the economic performance of the country in 2020. (Source - Central Bank Annual Report 2019)

Sri Lankan Insurance Market

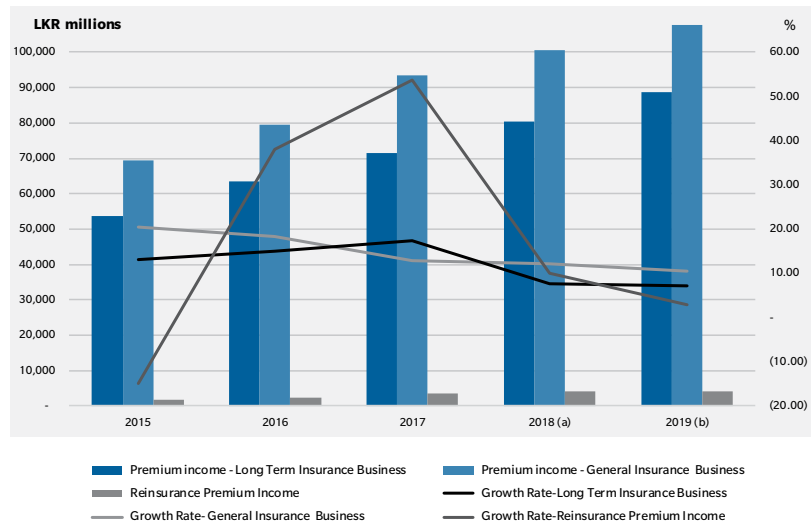
The insurance sector in Sri Lanka comprised of twenty-seven insurance companies and sixty-seven insurance brokering companies at the end of 2019. Out of the twenty-seven insurers, thirteen were operating in the long term insurance business, twelve were engaged in general insurance and two were composite insurers. During the year, a composite insurer, Seemasahitha Sanasa Rakshana Samagama segregated its long term insurance and general insurance businesses into two separate entities, namely Sanasa Life Insurance Company Limited and Sanasa General Insurance Company Limited. Over

the last two years, new registrations of insurance brokering companies have slightly increased, primarily driven by the grown interest to join the market. With intensifying competition between market players, customer retention and cost effectiveness have become more critical, forcing insurance companies to seek ways to increase sales and customer satisfaction while keeping costs low and maintaining profitability. This has led to the emergence of new alternative distribution channels, such as online platforms, mobile applications and social media etc., which drive premium growth at lower costs. Meanwhile, the tactics followed by insurance companies such as obtaining exclusive bancassurance rights, were observed during the year, which depict signs of extreme level of competition.

In 2019, the insurance industry displayed an overall growth of 8.64% in nominal terms compared to previous year by reporting total Gross Written Premium (GWP) of LKR 196,513 million (2018: LKR 180,880 million). The growth in premium was mainly driven by long term insurance business and followed by general insurance business, which accounted premium upturns of LKR 8,487 million and LKR 7,146 million respectively (2018: LKR 8,723 million and 7,197 million).

Sluggish growth experienced in previous year in general insurance business continued in 2019 as well, demonstrating 7.10% premium growth (2018: 7.71%), making it the lowest growth rate reported during last five years. However, unlike in previous years the contribution made to premium growth by Motor class declined substantially in 2019. New motor vehicle registrations fell down during the year due to increased excise duties and luxury taxes, coupled with the effect of collapsed exchange rate and import restrictions imposed by the government. This might have led the motor premiums to grow at a slow pace compared to previous years.

Chart 1
Premium Income & Growth Rate of the Insurance Industry



Long term insurance business managed to continue its growth at a moderate level reporting 10.57% premium increase during the year (2018: 12.19%), even with the challenging environment prevailed after the Easter Sunday attacks. Increased awareness on insurance, attractive product development and improved customer service of insurers have paved the way for premium growth over the last few years. Rising ageing population created opportunities for insurers to provide health and social care for senior citizens by introducing attractive insurance plans. Furthermore, the demand for health benefit riders on long term policies are expected to increase with the impact of COVID-19 pandemic.

As depicted in Table 1, though the penetration level of the country is still at a rather low level compared to other countries in the South Asian region, it has marginally improved during last five years from 1.12% in 2015 to 1.31% by the end of 2019. Insurance knowledge of general public and their understanding

of the perceived value of insurance are still at developing stages. However, over the last few years, consumer trust on insurance and behavioral intention to purchase insurance products have been gradually increasing due to aforesaid public awareness programs and improved services & product developments.

Furthermore, the Insurance Density which represents the ratio of insurance premiums to total population of the country, has grown during last five years, displaying positive indicators of insurance development in Sri Lanka. The Financial Intelligence Unit of the Central Bank (FIU) issued Customer Due Dilligence (CDD) Rules applicable to long term insurance companies in May 2019. In order to enhance the supervision of Anti-Money Laundering & Countering the Financing of Terrorism (AML/CFT) in the insurance industry. The IRCSL in collaboration with FIU has conducted AML onsite inspections at several long term insurance companies during the year.

Table 1
Premium Income & Penetration

	2015	2016	2017	2018 (a)	2019 (b)
Premium Income - Long Term Insurance Business (LKR millions)	53,691	63,477	71,571	80,294	88,781
Growth Rate in Premium Income - Long Term Insurance Business (%)	20.39	18.23	12.75	12.19	10.57
Premium Income - General Insurance Business (LKR millions)	69,271	79,590	93,389	100,586	107,732
Growth Rate in Premium Income - General Insurance Business (%)	13.18	14.90	17.34	7.71	7.10
Total Premium Income - Insurance Business (LKR millions)	122,962	143,067	164,960	180,880	196,513
Growth Rate in Total Premium Income - Insurance Business (%)	16.22	16.35	15.30	9.65	8.64
Reinsurance Premium Income (LKR millions)**	1,738	2,397	3,683	4,056	4,174
Gross Domestic Product at Current Market Price (LKR billions)*	10,951	11,996	13,328	14,366	15,016
GDP Growth Rate % *	5.00	4.50	3.60	3.30	2.30
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.12	1.19	1.24	1.26	1.31
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.49	0.53	0.54	0.56	0.59
Penetration % (Premium of General Insurance Business as a % of GDP)	0.63	0.66	0.70	0.70	0.72
Insurance Density - (Total Premium Income - Insurance Business/ Population) LKR	5,864	6,747	7,693	8,347	9,013
Population '000 (Mid Year) *	20,970	21,203	21,444	21,670	21,803

* Source: Central Bank of Sri Lanka and Department of Census and Statistics. Gross Domestic Product at current market price has updated from 2015 onwards based on the Annual Report of Central Bank of Sri Lanka 2019.

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

Total Assets of Insurance Companies

Maintaining an efficient asset & liability management is vital for insurers to meet solvency and capital needs while complying with the regulatory requirements. A sound asset portfolio would relieve the pressure on profitability and often decides an insurer's success, specially in a context of high claims and expenses. Despite the challenging economic conditions, the total asset base of the insurance industry recorded a moderate growth of 10.44% in 2019 compared to the 8.38% growth recorded in 2018. Table 2 and chart 2 illustrate the information on total assets of insurance industry for last five years.

While the assets of general insurance business grew at a slow pace, long term insurance business posted a moderate growth of 12.76% during the year, becoming the main contributor to the total asset growth. Investments in corporate debt instruments and government securities were the key drivers of asset composition in 2019, whereas the Sri Lanka Financial Reporting Standard (SLFRS) 16 required insurers to recognize a 'right of use asset' for operating lease arrangements from 2019 onwards which also added a slight exposure to total asset base. A composite insurer, SLIC and long term insurers; Ceylinco Life, AIA Life and Union

Life are the core contributors to the total asset portfolio followed by Allianz General and Ceylinco General which represented the highest asset bases among general insurance companies.

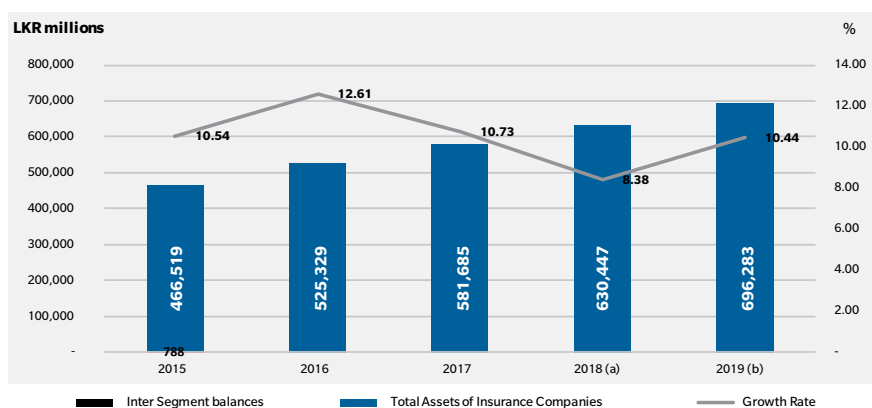
Despite the constant reduction observed in previous two years, NITF managed to display a notable growth in the assets of their reinsurance business, recording a total of LKR 6,690 million as at 31st December 2019. This was predominantly driven by the substantial increase in the investments held in Government Debt Securities relating to the reinsurance business of NITF.

Table 2
Total Assets of Insurance Companies

	2015	2016	2017	2018 (a)	2019 (b)
Long Term Insurance (LKR millions)	312,713	345,589	391,890	430,759	485,723
Growth Rate - Long Term Insurance (%)	26.57	10.51	13.40	9.92	12.76
General Insurance (LKR millions)	151,177	173,985	185,583	196,005	203,870
Growth Rate - General Insurance (%)	(13.41)	15.09	6.67	5.62	4.01
Reinsurance (LKR millions)	3,417	5,755	4,212	3,683	6,690
Growth Rate - Reinsurance (%)	11.48	68.42	(26.82)	(12.54)	81.63
Total (LKR millions)	*466,519	525,329	581,685	630,447	696,283
Growth Rate - Total (%)	10.54	12.61	10.73	8.38	10.44

* Inter segment transactions have been eliminated

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



Distribution of Total Assets of Major Financial Sectors

Reduced business confidence caused by the Easter Sunday attacks and the resulting economic contraction of the country during the year slowed down the performance of the financial sector and its expansion compared to 2018. Table 3 and chart 3 contain the details regarding the distribution of assets between major financial sectors in Sri Lanka. As illustrated, the total asset base of the financial sector reported a reduced growth of 6.17% at the end

of 2019 compared to 11.23% growth reported in 2018. The growth was predominantly driven by the banking sector and followed by the contractual savings institutions. Increase in non-performing loans (NPLs) and advances have been a major concern for both banking sector, other deposit taking financial institutions and specialized financial institutions, which weakened their asset quality during the year to its lowest level since 2014 (Source – Central Bank Annual Report 2019). Comprising of 33 licensed banks, the

Banking Sector recorded total assets worth of LKR 14,442.1 billion by the end of 2019 which accounted for 71.6% of the total asset portfolio of Sri Lanka's financial industry. However, as explained in the Central Bank Annual Report 2019, the lower demand for loans and advances and tightened credit screening by banks due to increasing NPLs resulted in the Banking Sector assets to grow at a slow pace of 5.33% in 2019 compared to 15.25% growth reported in previous year.

Table 3
Distribution of Total Assets of Major Financial Sectors

Financial Sectors	2015		2016		2017		2018		2019	
	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%
Banking Sector	9,503.7	68.7	10,575.8	69.5	11,897.4	69.7	13,711.4	72.2	14,442.1	71.6
Other Deposit Taking Financial Institutions	1,044.2	7.6	1,246.7	8.2	1,370.4	8.0	1,603.2	8.4	1,647.2	8.2
Specialized Financial Institutions	557.8	4.0	335.4	2.2	388.9	2.3	241.1	1.3	282.6	1.4
Contractual Savings Institutions	2,257.5	16.3	2,536.6	16.7	2,838.0	16.6	2,807.4	14.8	3,096.5	15.4
Insurance Companies*	466.5	3.4	525.3	3.5	581.7	3.4	630.4 (a)	3.3	696.3 (b)	3.5
Total	13,829.6	100	15,219.8	100	17,076.4	100	18,993.5	100	20,164.7	100

Source: Central Bank of Sri Lanka Annual Report – 2019

* Assets of insurance companies were reinstated based on data received from insurance companies

Other Deposit Taking Financial Institutions were represented by licensed finance companies, rural banks and co-operative societies of which total assets stood at LKR 1,647.2 billion as at 31st December 2019 demonstrating a weakened year to year growth of 2.74% in comparison to the growth of 16.99% in 2018.

However, the Specialized Financial Institutions managed to recover their asset base in 2019 after the substantial drop down observed in previous year. This was an outcome of the asset increase of unit trusts followed by the significant expansion of the number of units issued and the number of unit holders during the year. Accordingly, the asset base of Specialized Financial Institutions increased from LKR 241.1 billion in 2018 to LKR 282.6 billion in 2019 showing a growth of 17.21%.

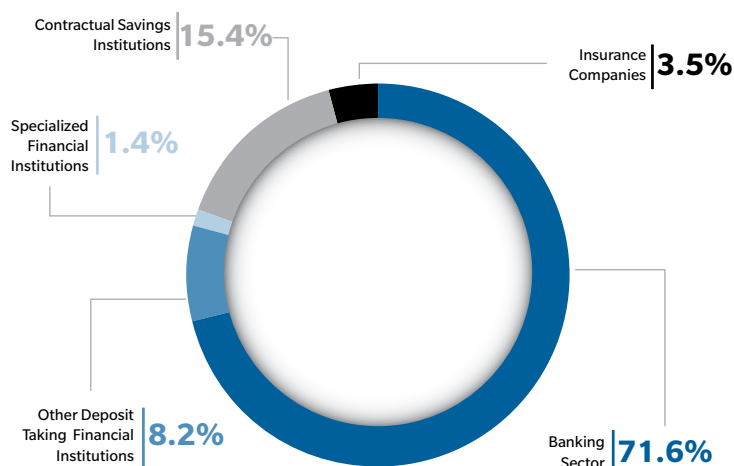
Contractual Savings Institutions dominated by the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) also recorded a moderate growth of 10.30% during the year. This growth was mainly due to the combined effect of the net contributions of EPF and ETF members, and the income generated through investments of the funds. Insurance companies also contributed positively to the overall asset portfolio of the financial sector by posting assets worth of LKR 696.3 billion in 2019 showing a moderate growth of 10.45% than the previous year. Accordingly, insurance companies held 3.5% of the total assets of financial sector in 2019 (2018: 3.3%).

Profitability

Unfavorable economic conditions prevailed in the country during the year coupled with negative effects created by Easter Sunday attacks challenged the performance of the insurance industry.

Chart 3

Distribution of Total Assets of Major Financial Sectors as at 31st December 2019



Accordingly, the overall profitability (profit before tax) of the industry reported as LKR 30,544 million for year 2019, demonstrating a year to year decrease of 22.35% compared to LKR 39,335 million reported in 2018 (Table 4).

Long term insurance business displayed an increasing trend in its profitability during last two years mainly as a result of surplus transfers made by many insurers, including the One-off Surplus and the substantial profit earned by Janashakthi Life in 2018 from selling of its subsidiary investment of Janashakthi General to Allianz General. However, in 2019, the profitability showed a decline of 24.92% compared to 2018, after certain life insurers namely SLIC, Union Life, Sanasa Life, HNB Life, Arpico and Allianz Life reporting decreased profits for the year, largely driven by escalated claims and contracted surplus transfers.

The overall profitability of general insurance business was largely impacted by the decreased performance of Allianz General, Ceylinco General and Amana General during the year mainly driven by the increased claims specially in 'Suraksha Scheme' of Allianz General. Accordingly, the total profit before tax of general insurance business amounted to LKR 11,130 million in 2019 (2018: LKR 11,737 million), exhibiting a decline of 5.17% compared to year 2018.

However, NITF, LOLC General and SLIC reported notable upturns in profitability compared to last year. The improved profitability of NITF was predominately driven by the GWP increase of Agrahara, NNDIS and SRCC schemes. Further, insurance claims pertaining to NNDIS scheme fell down notably compared to 2018.

Table 4
Profitability of Insurance Companies

Insurer	2018(a)			2019(b)		
	Long Term Insurance (LKR'000)	General Insurance (LKR'000)	Total (LKR'000)	Long Term Insurance (LKR'000)	General Insurance (LKR'000)	Total (LKR'000)
AIA Life	1,616,852	-	1,616,852	3,167,397	-	3,167,397
Allianz Gen.	-	647,973	647,973	-	(1,691,424)	(1,691,424)
Allianz Life	85,583	-	85,583	46,603	-	46,603
Amana Gen.	-	23,986	23,986	-	(264,168)	(264,168)
Amana Life	(62,976)	-	(62,976)	(29,478)	-	(29,478)
Arpico	198,834	-	198,834	83,485	-	83,485
Ceylinco Gen.	-	2,335,822	2,335,822	-	1,734,516	1,734,516
Ceylinco Life	7,157,389	-	7,157,389	8,211,937	-	8,211,937
Continental	-	427,023	427,023	-	506,285	506,285
Cooperative Gen.	-	405,776	405,776	-	368,873	368,873
Cooplife	43,737	-	43,737	57,592	-	57,592
Fairfirst	-	520,205	520,205	-	614,175	614,175
HNB Life	1,297,848	-	1,297,848	1,106,535	-	1,106,535
HNB Gen.	-	282,806	282,806	-	354,826	354,826
Janashakthi Life	9,855,686	-	9,855,686	591,571	-	591,571
LIC	(133,772)	-	(133,772)	(240,571)	-	(240,571)
LOLC Gen.	-	181,870	181,870	-	730,806	730,806
LOLC Life	(263,142)	-	(263,142)	145,948	-	145,948
MBSL	-	(149,235)	(149,235)	32,115	(79,206)	(47,091)
NITF*	-	1,717,284	*3,288,840	-	3,134,564	*3,008,485
Orient	-	94,742	94,742	-	169,429	169,429
People's	-	847,017	847,017	-	912,029	912,029
Sanasa Life	249,819	-	249,819	16,386	-	16,386
Sanasa Gen.	-	4,475	4,475	-	97,599	97,599
Softlogic Life	1,094,762	-	1,094,762	2,603,557	-	2,603,557
SLIC	2,753,607	4,396,994	7,150,601	2,038,641	4,541,432	6,580,073
Union Life	2,132,392	-	2,132,392	1,708,463	-	1,708,463
Total	26,026,618	11,736,739	39,334,913	19,540,181	11,129,736	30,543,839

*Includes profit/loss before tax of crop and reinsurance business amounting to LKR 536 million (2018: LKR 229 million) and LKR 662 million loss (2018: LKR 1342 million profit) respectively.

Shareholders' Funds of Insurance Companies

Primarily driven by the profitability generated during the year, the total shareholders' funds of insurance industry grew by 7.02% from LKR 195,542 million in 2018 to LKR 209,271 million by the end of 2019. However, the reduced profitability of many insurers led the above growth rate to be less than that of reported in 2018 (10.61%).

One-off Surplus which is maintained as 'Restricted Regulatory Reserve'

remained unchanged at LKR 16,248 million compared to last year, whereas the Stated Capital amounted to LKR 43,891 million in 2019 (2018: LKR 41,430 million) demonstrating a moderate growth of 5.94% due to capital infusions recorded mainly by insurers, LOLC Life, MBSL, Sanasa Life and Sanasa Gen during the year. As a result of impressive profits before tax reported by Ceylinco Life, AIA Life and Softlogic Life, total other reserves of the industry remained at a resilient position of LKR 149,132 million at the end of 2019.

As exhibited in Table 5, the composite insurer SLIC reported the highest shareholders' funds in the industry amounting to LKR 60,912 million followed by Ceylinco Life, AIA Life and Union Life. Similar to previous year, Ceylinco General and Allianz General maintained the highest level of shareholders' funds among the general insurers. Constant losses incurred by LIC and Amana Life resulted in reducing their reserves further and ended up reporting the lowest shareholders' funds as at 31st December 2019.

Table 5
Total Shareholders' Funds of Insurance Companies

Insurer	2018 (a)		2019(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	18,698,864	9.56	511,922	6,080,848	14,048,613	20,641,383	9.86
Allianz Gen.	11,114,237	5.68	8,619,972	-	1,377,284	9,997,256	4.78
Allianz Life	1,325,815	0.68	739,624	-	862,259	1,601,883	0.77
Amana Gen.	1,935,856	0.99	2,124,823	-	(383,044)	1,741,779	0.83
Amana Life	547,777	0.28	580,033	-	(10,473)	569,560	0.27
Arpico	1,432,318	0.73	675,565	-	840,319	1,515,884	0.72
Ceylinco Gen.	11,145,323	5.70	500,200	-	11,197,392	11,697,592	5.59
Ceylinco Life	26,425,582	13.51	500,001	3,456,184	27,535,891	31,492,076	15.05
Continental	1,731,618	0.89	750,000	-	1,251,919	2,001,919	0.96
Cooperative Gen.	2,360,158	1.21	1,515,757	-	1,086,282	2,602,039	1.24
Cooplif	785,213	0.40	544,260	-	348,966	893,226	0.43
Fairfirst	5,138,088	2.63	3,131,949	-	2,531,469	5,663,418	2.71
HNB Life	5,515,881	2.82	1,171,875	381,156	4,724,964	6,277,995	3.00
HNB Gen.	1,378,434	0.70	1,150,000	-	436,349	1,586,349	0.76
Janashakthi Life	9,321,040	4.77	4,853,752	1,795,829	2,986,706	9,636,286	4.60
LIC	460,893	0.24	500,000	-	(207,022)	292,978	0.14
LOLC Gen.	1,293,985	0.66	700,000	-	1,164,891	1,864,891	0.89
LOLC Life	720,022	0.37	1,250,000	256,134	(181,375)	1,324,760	0.63
MBSL	419,141	0.21	2,280,022	-	(738,745)	1,541,277	0.74
NITF	6,995,501	3.58	-	-	6,153,313	6,153,313	2.94
Orient	768,777	0.39	825,000	-	61,154	886,154	0.42
People's	3,375,147	1.73	1,350,000	-	2,305,436	3,655,436	1.75
Sanasa Life	864,300	0.44	1,044,844	-	118,217	1,163,061	0.56
Sanasa Gen.	254,317	0.13	508,995	-	168,179	677,174	0.32
Soft logic Life	6,670,963	3.41	1,062,500	798,004	6,358,415	8,218,919	3.93
SLIC	61,191,386	31.29	6,000,000	98,237	54,813,348	60,911,585	29.11
Union Life	13,671,688	6.99	1,000,000	3,381,934	10,280,968	14,662,903	7.01
Total	195,542,325	100	43,891,092	16,248,326	149,131,676	209,271,094	100

Note: 2018 published figures have been revised in line with the audit adjustments (mainly due to negative income tax expenses/income tax refunds of many insurers)

Analysis of Branches, Employees and Agents of Insurers

Availability of an extensive branch network all over the country enhances the insurance companies’ capacity to reach more policyholders and serve them more efficiently. However, during the year, few main insurers restructured their branch network which resulted in declining the total branch network to 2,069 from 2,147 reported in 2018. Out of overall branch network, the majority is based in Western Province which accounted to 670 in 2019 as it represents the highest policyholder base in the country. The composition of the total branches stood as 1,119 long term insurance branches, 806 general insurance branches and 144 composite insurance branches.

Employment opportunities created by insurance companies totalled to 19,841 in 2019 displaying a slight increase compared to 19,437 reported in 2018. However, more than 60% of them are centered in Western Province. General insurance companies possessed 52% of total employees followed by long term insurers (33%) and composite insurers (15%).

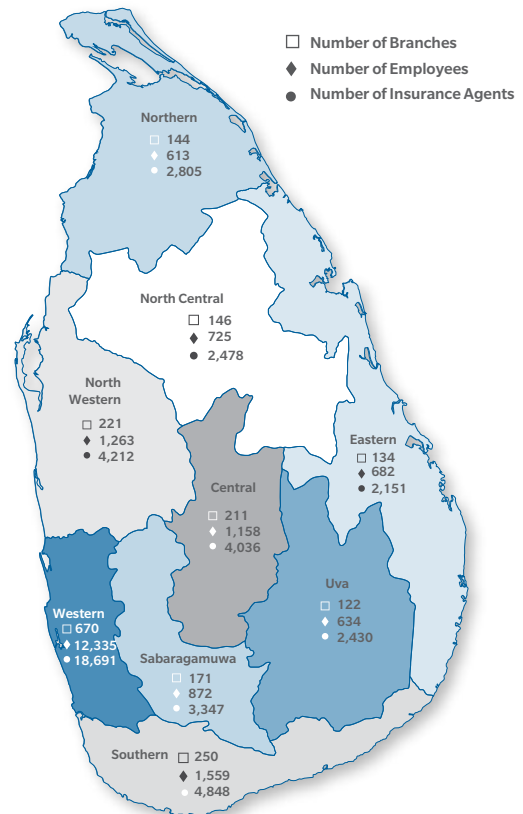
An efficient agency force is considered as one of the key factors which decide the growth and success of the industry, though managing them has been a challenging task for many insurers. While new entrants to the agency force increase year by

year, substantial number of agents have been terminated by insurance companies mainly on the grounds of poor performance, misappropriation of funds collected from policyholders and other financial frauds. As a result of same, the total number of agents servicing in insurance industry only showed a slight increase during the year from 44,904 to 44,998. Many insurers such as Softlogic Life, Arpico, LOLC Life and HNB Life expanded their agency network in 2019. Similar to previous years, over 40% of total agents are in Western Province and the long term insurance business claimed the majority of agency force in 2019.

Table 6
Number of Branches, Employees and Agents as at 31st December 2018 and 2019

Province	No. of Branches		No. of Employees		No. of Agents	
	2018	2019	2018	2019	2018	2019
Central Province	204	211	1,070	1,158	3,768	4,036
Eastern Province	166	134	682	682	2,272	2,151
North Central Province	144	146	753	725	2,257	2,478
North Western Province	233	221	1,151	1,263	4,497	4,212
Northern Province	162	144	622	613	2,683	2,805
Sabarakgamuwa Province	160	171	866	872	3,166	3,347
Southern Province	274	250	1,554	1,559	5,015	4,848
Uva Province	124	122	632	634	2,204	2,430
Western Province	680	670	12,107	12,335	19,042	18,691
Total	2,147	2,069	19,437	19,841	44,904	44,998

Chart 4
Number of Branches, Employees and Agents as at 31st December 2019



Distribution Channels of Insurance Companies

Over the last few years, technological developments have made a huge impact for insurance distribution worldwide, though the gravity of same is yet to be properly experienced in Sri Lankan context. As customers continue to incorporate the use of internet in their daily lives, online platforms, websites, mobile applications and social media have become attractive mediums for insurers to advertise and distribute their insurance products. These factors displayed positive prospects as the contribution given by mobile and internet including social media (covered in ‘Direct’ category in Chart 5 below) to overall GWP

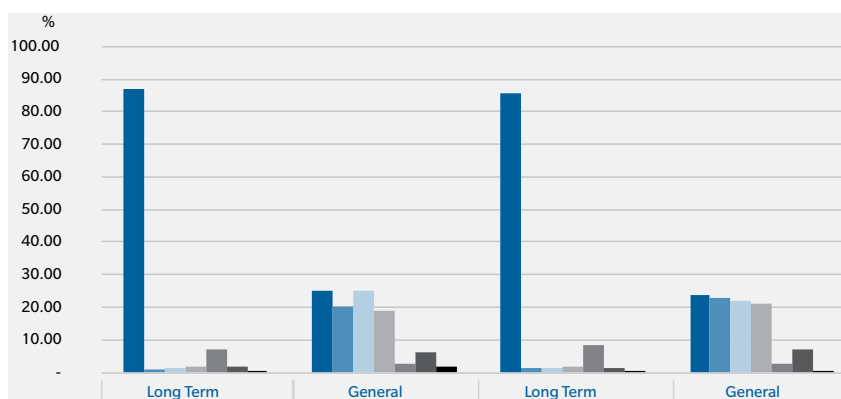
generation has increased in 2019 compared to 2018.

As exhibited in Chart 5, agents continued its dominance in long term insurance market, accounting for 85.72% of total GWP distribution in 2019. Significance of bancassurance as a mode of distribution further increased during the year in long term insurance business with contribution growing from 7.14% to 8.18% year to year. In fact, few long term insurers acquired exclusive bancassurance rights from certain banks during the year with an aim to enhance their competitive advantage in premium growth.

Premium distribution of general insurance business in 2019 was

equally contributed by agents, brokers, exclusive sales force such as marketing officers and direct business which accounted for 23.69%, 22.81%, 22.15% and 21.07% of total GWP generation respectively. Direct business mainly comprised of government insurance schemes and other premiums of NITF due to its nature of products, and further included walking customers, mobile applications and internet. Related/ Group companies represent the proportion of GWP generated from companies within the same group that the insurer belongs to, which reported as 6.85% in 2019 (2018: 6.17%) with regard to general insurance business.

Chart 5
Distribution Channels of Insurance Companies



	2018		2019	
Agents	86.94	25.01	85.72	23.69
Brokers	1.01	20.02	1.30	22.81
Exclusive Sales Force Except Agents	1.13	25.24	1.26	22.15
Direct	1.80	18.93	1.92	21.07
Bancassurance	7.14	2.65	8.18	2.79
Related/Group Companies	1.74	6.17	1.41	6.85
Others	0.24	1.98	0.21	0.64

Note: 2018 published percentages have been revised due to classification changes done in this year.

Long Term Insurance Business Gross Written Premium

A number of advancements that took place within the long term insurance industry during 2019 paved the way to a moderate growth of 10.57% with the overall gross written premium of LKR 88,781 million. In the face of the economic and political downturn in 2019 coupled with the Easter Bombings that occurred in April 2019,

the life insurance sector sustained its growth by improving operational processes to assure quality customer service and catering to changing needs of customers in a highly challenging environment. The long term insurance industry operated in a very competitive market with 13 long term insurance companies and 02 composite insurers. Four companies have collaborations with foreign insurance companies.

However, recorded GWP growth for the year 2019 showcase a contraction from previous year's growth of 12.19% (LKR 80,294 million) and the performance slowed down during the year 2019 compared to the previous year mainly due to subdued economic activities and the uncertainty caused by the Easter Sunday attacks which occurred during the year. Further, from the year 2015 onwards, life insurance

industry has been posting a declining trend of GWP growth and year under review recorded the lowest. However, the GWP in terms of value witnessed 65% improvement from the period 2015 to 2019.

Although penetration level of long term insurance business still reflects a flat curve. Opportunities for expansion

in the sector is developing and the industry has potential to grow by recovering from economic downturn. The persistent trends of adopting new technology such as Insure-Tech will be a key to witness evolution and even socio economic and environmental factors which longing the consumer demand will be a new approach to long term insurers. However, the impact

of outbreak of pandemic COVID-19 which started from December 2019 will affect the long-term financial outlook of insurers.

Table 7 illustrates the company-wise GWP and Market share of long term insurance companies.

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

Insurer	2015		2016		2017		2018 (a)		2019 (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	8,433,333	15.71	10,103,915	15.92	11,510,581	16.08	12,739,351	15.87	13,848,283	15.60
Allianz Life	919,144	1.71	1,040,269	1.64	1,178,817	1.65	1,301,254	1.62	1,403,858	1.58
Amana Life	928,294	1.73	820,727	1.29	792,174	1.11	827,948	1.03	851,293	0.96
Arpico	482,447	0.90	745,386	1.17	1,038,085	1.45	1,387,432	1.73	1,635,336	1.84
Ceylinco Life	13,456,828	25.06	15,027,600	23.67	15,765,484	22.03	17,812,774	22.18	18,718,553	21.08
Cooplif	494,598	0.92	466,997	0.73	626,972	0.88	619,881	0.77	774,601	0.87
HNB Life	2,788,715	5.19	3,554,078	5.60	3,963,642	5.54	4,420,513	5.51	5,175,044	5.83
Janashakthi Life	2,550,782	4.75	2,943,963	4.64	2,902,873	4.06	3,008,842	3.75	3,511,660	3.96
LIC	386,885	0.72	473,867	0.75	582,114	0.81	522,698	0.65	598,897	0.67
LOLC Life	1,209,578	2.25	1,896,558	2.99	2,467,166	3.45	2,610,785	3.25	2,682,522	3.02
MBSL	203,235	0.38	235,533	0.37	123,732	0.17	65,839	0.08	54,757	0.06
Sanasa Life	311,434	0.58	367,637	0.58	454,056	0.62	521,193	0.65	527,464	0.59
SLIC	10,470,079	19.50	11,893,640	18.74	2,517,119	17.49	13,205,802	16.45	14,820,025	16.69
Softlogic Life	4,091,042	7.62	5,635,701	8.88	7,530,935	10.52	10,005,733	12.46	12,531,283	14.11
Union Life	6,964,390	12.97	8,270,751	13.03	10,117,630	14.14	11,243,915	14.00	11,647,757	13.12
Total	53,690,783	100	63,476,622	100	71,571,380	100	80,293,960	100	88,781,332	100
Growth Rate(%)	20.40		18.23		12.75		12.19		10.57	

Similar to previous years, Ceylinco Life was able to secure its position as the market leader by generating GWP of LKR 18,719 million for the year 2019 (2018: LKR 17,813 million) and accounted for 21.08% of the total GWP. However, the market share of the market leader deteriorated along the period of 2015 to 2019 by 3.98% with the increased competition of other

players. The decline of the market share of Ceylinco Life for the year ended 2019 recorded as 1.1%.

SLIC and AIA Life affirmed the second and the third positions in terms of GWP in 2019 by recording GWP amounted to LKR 14,820 million (2018: LKR 13,206 million) and LKR 13,848 million (2018: LKR 12,739 million) respectively with market shares of 16.69% and

15.60%. Market share of AIA Life has dropped by 0.27% in 2019 while SLIC has been able to marginally gain its market share by 0.24%. However, SLIC has lost 2.81% of market share during the period of 2015 to 2019. These three companies' contribution towards total GWP has slightly dropped to 53.37% in 2019 compared to 54.50% in 2018.

Softlogic Life had acquired the fourth place in terms of GWP by generating LKR 12,531 million (2018: LKR 10,006 million) with a market share of 14.11% (2018: 12.46%) surpassing Union Life who was the fourth largest contributor to GWP for many years. Union Life had recorded GWP worth LKR 11,648 million (2018: LKR 11,244 million) and the market share recorded as 13.12% (2018: 14.00%).

Despite the industry growth rate, Softlogic Life has doubled its share of the market in the last five years to reach 14.1% which portrays a fast growing company, mainly due to marketing strategy adopted by the company catering to unique customer requirements.

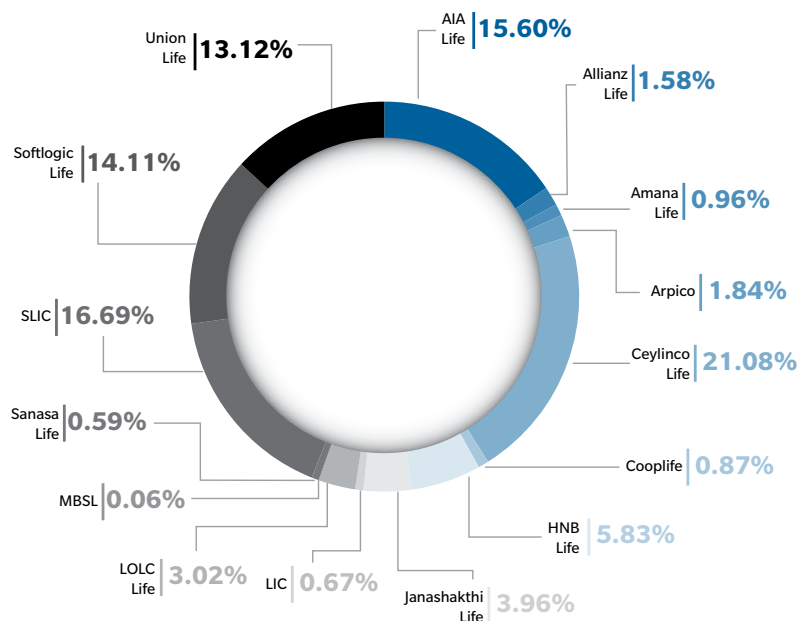
All long term insurers reported growth in GWP compared to previous year except MBSL which was suspended

during the period 28th June 2017 to 2nd April 2019. Further, significant growth was visible from Cooplife and LIC in terms of recording growth rates equivalent to 25% and 15% in 2019 despite the negative growth reported in 2018. Further, drop in GWP growth rate was highlighted from Arpico and Sanasa Life as 18% and 1% recorded in year 2019 compared to 34% and 15% recorded in year 2018.

Chart 6 depicts each long term insurer's market share in terms of GWP.

Chart 6

Company - wise Market Share of Gross Written Premium - Long Term Insurance Business for the year ended 31st December 2019



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

Market share of top five contributors to GWP and other insurers during 2015 to 2019 are illustrated in Chart 7.

Gross Written Premium of long term insurance industry is concentrated with top five contributors accounting to 80.61% of the total GWP worth LKR 71,566 million (2018: LKR 65,008 million), while the remaining 10 insurers hold 19.39% worth LKR 17,215 million (2018: LKR 15,286

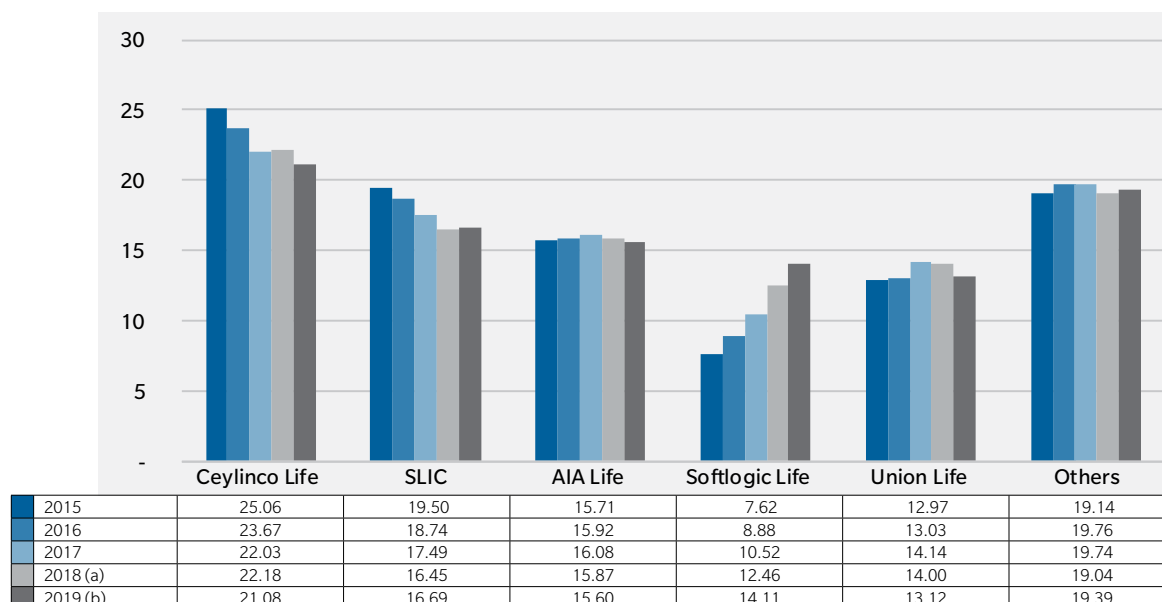
million) collectively. Ceylinco Life, SLIC, AIA Life, Softlogic Life and Union Life achieved the top five market shares in the long term insurance market in 2019. Softlogic Life outpaced and attained the fourth position in the year 2019 from fifth position in previous year.

The dominant player, Ceylinco Life remains in the top position for many years servicing customers. However, Ceylinco Life depicted a decline in market share during the last five years. The second largest contributor - SLIC could marginally increase its market

share by 0.24% in the year 2019. Third and fifth contributors AIA Life and Union Life have slightly decreased GWP in 2019 against 2018. Softlogic Life as the fourth contributor has taken 14.11% of the market and indicated a continuous progress in their market share during last five years. However, the total market share of the remaining players almost held consistent during the last five years as depicted in Chart 7. Accordingly, approximately 80% of market share in the long term insurance business exchanged between top five players during the last five years.

Chart 7

Top Five Contributors and Other Insurers for the years 2015 to 2019 - Long Term Insurance Business



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

Gross written premium of long term insurance business consists 24.08% (2018: 25.61%) of participating business, 36.52% (2018: 38.51%) of non participating business, 37.27% (2018: 33.32%) of universal life and 2.13% (2018: 2.57%) of linked long term business in year 2019. SLIC

owned 47% worth of participating business portfolio out of total participating business. SLIC, Ceylinco Life and Softlogic Life collectively contributed 92% of total participating business reported in 2019.

A trend towards universal life business has been drawn by the long term insurers since the contribution to total GWP of universal life business has been improved by 3.95% in 2019 against 2018. The contribution from linked

long term products declined over the years and generated GWP of LKR 1,892 million in 2019.

Overall retention ratio of life insurance business was 95.84% in 2019 (2018: 95.81%) as depicted in Table 8. An increase of 10% in premium ceded to reinsurers recorded in overall life insurance business mainly recorded from non participating business which corresponds to the reported growth of GWP.

Table 8

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

Class	2017			2018 (a)			2019 (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	19,187,271	148,134	99.23	20,560,064	152,573	99.26	21,380,056	151,684	99.29
Non Participating	50,327,490	2,661,364	94.71	30,922,561	2,214,357	92.84	32,422,036	2,984,257	90.80
Universal Life				26,751,609	900,185	96.64	33,087,161	473,569	98.57
Linked Long Term	2,056,618	59,872	97.09	2,059,725	98,671	95.21	1,892,079	84,394	95.54
Total	71,571,380	2,869,370	95.99	80,293,960	3,365,786	95.81	88,781,332	3,693,903	95.84

Assets of Long Term Insurance Business

Total assets of long term insurance business have recorded a considerable growth of 12.76% amounting to LKR 485,723 million as at 31st December 2019, surpassing the previous year growth of 9.65% amounted to LKR 430,759 million recorded as at 31st December 2018 as depicted in Table 9. The growth in total assets was mainly driven by the increase in financial investments. Further, adopting SLFRS 16 with effect from 1st January 2019 allowed the insurers to recognize additional right-of-use lease assets in the Balance Sheet.

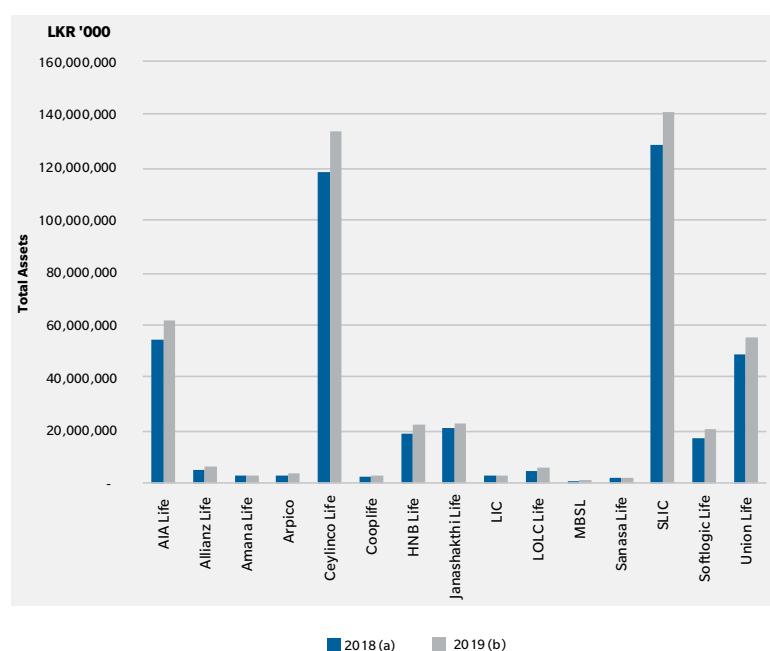
Total Assets of Long term insurance industry is highly concentrated in two companies (SLIC & Ceylinco Life) accounting for about 56.53% of the total long term industry assets. SLIC and Ceylinco Life holds 29.05% and 27.48% of total assets amounting to LKR 141,097 million and LKR 133,459 million respectively. AIA Life and Union Life owned 12.76% (LKR 61,973 million) and 11.37% (LKR 55,249 million) worth of assets in the market securing the third & fourth positions respectively. Accordingly, these four firms accounted for 80.66% of total long term insurance assets collectively.

Janashakthi Life, HNB Life and Softlogic Life were able to secure fifth, sixth and seventh positions respectively in terms of the total assets of long term insurance business. All companies were able to enhance their total assets during the year 2019 while MBSL, LOLC Life, Arpico, Cooplife and Alliance Life depicted a growth exceeding 20% against the year 2018. Chart 8 visualizes company - wise analysis of total assets as at 31st December 2019 & 2018.

Table 9
Company-wise Analysis of Total Assets - Long Term Insurance Business

Insurer	2018 (a)		2019 (b)	
	(LKR '000)	%	(LKR '000)	%
AIA Life	54,405,486	12.63	61,973,401	12.76
Allianz Life	5,256,584	1.22	6,314,300	1.30
Amana Life	2,877,575	0.67	2,919,019	0.60
Arpico	2,996,478	0.70	3,719,090	0.77
Ceylinco Life	118,059,390	27.41	133,458,907	27.48
Cooplife	2,502,305	0.58	3,054,977	0.63
HNB Life	18,678,274	4.34	22,152,378	4.56
Janashakthi Life	20,921,406	4.86	22,508,304	4.63
LIC	2,766,230	0.64	3,110,665	0.64
LOLC Life	4,683,738	1.09	5,985,833	1.23
MBSL	850,132	0.20	1,287,877	0.16
Sanasa Life	1,893,220	0.44	2,209,112	0.45
SLIC	128,418,012	29.81	141,097,026	29.05
Softlogic Life	17,332,967	4.02	20,682,874	4.26
Union Life	49,116,729	11.40	55,249,152	11.37
Total	430,758,524	100	485,722,913	100

Chart 8
Company - wise Analysis of Total Assets as at 31st December 2018 & 2019 - Long Term Insurance Business



Concentration of Assets as at 31st December 2018 & 2019 - Long Term Insurance Business

Table 10 and Chart 9 provide detailed information on concentration of assets of long term insurance business among diverse asset categories as at 31st December 2018 and 2019.

Similar to previous years, long term insurers have given primacy on investing in government debt securities to remain liquid and comply with the regulatory requirements. Hence, government debt securities amounting to LKR 193,385 million (2018: LKR 177,086 million) continues to be the main portion, occupying 39.81% of total assets. However, assets in government securities as a share of its total assets slightly declined to 39.81% at the end of 2019 compared to 41.11% at the end of 2018.

A trend towards investment in corporate debts was visible in 2019 recording a growth of 31.43% compared to previous year. Corporate debt amounting to LKR 106,695 million (2018: LKR 81,181 million) in 2019 represents 21.97% (2018: 18.85%) of total assets and became the second largest attractive investment instrument of long term insurers.

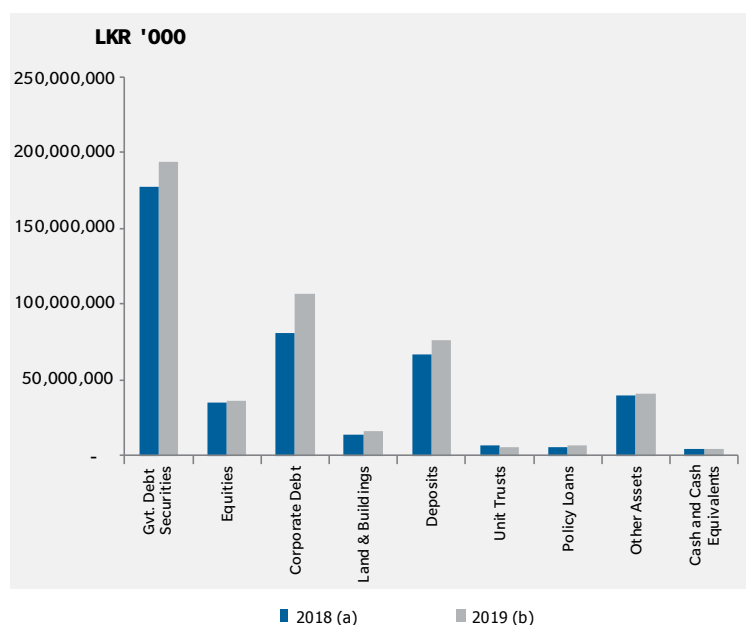
Investments in deposits amounted to LKR 76,097 million (2018: LKR 66,853 million) and accounted 15.67% (2018: 15.52%) of total assets. Unlike the accelerated growth in deposits (63.13%) recorded in previous year, only 13.83% increase has been recorded in year 2019 due to slashing interest rates aftermath the Easter terrorists attack in April.

Equity investments reached to LKR 35,865 million (2018: LKR 35,112 million) and accounted 7.38% (2018: 8.15%) of total assets recording only 2.14% growth against year 2018 mainly due to volatile movement in price indices in equity market throughout the year.

Table 10
Concentration of Assets as at 31st December 2018 and 2019 - Long Term Insurance Business

Type of Asset	2018 (a)		2019 (b)	
	LKR '000	%	LKR '000	%
Government Debt Securities	177,085,744	41.11	193,384,762	39.81
Equities	35,112,119	8.15	35,864,744	7.38
Corporate Debts	81,180,677	18.85	106,694,774	21.97
Land & Buildings	13,606,144	3.16	15,547,326	3.20
Deposits	66,853,162	15.52	76,097,450	15.67
Unit Trusts	6,884,886	1.60	5,584,810	1.15
Policy Loans	6,048,322	1.40	6,810,982	1.40
Other Assets	40,084,935	9.31	41,229,509	8.49
Cash and Cash Equivalents	3,902,535	0.91	4,508,555	0.93
Total	430,758,524	100	485,722,913	100

Chart 9
Concentration of Assets as at 31st December 2018 & 2019 - Long Term Insurance Business



Main investment categories namely, government debt securities, corporate debt, deposits and equity collectively accounted 84.83% (2018: 83.63%) of the total assets of long term insurance business.

Further, other assets as at 31st December 2019 amounted to LKR 41,230 million and represented 8.49%

of total asset portfolio. This category reported 2.86% increase compared to the previous year and, mainly comprised of deferred tax assets, property plant & equipment, premium receivable, intangible assets etc. The decrease in unit trusts was mainly due to selling large volume of unit trusts by one long term insurer during the year 2019.

Investment Income – Long Term Insurance Business

Surpassing the subdued economic conditions fueled by slashing interest rates and volatile equity market throughout the year, overall investment income presented a rigorous growth of 18.26% (2018: 7.71%) amounting to LKR 43,538 million compared to LKR 36,817 million reported in 2018. The growth was largely driven by bank deposits, equity and government treasury bonds. Further, income from government debt securities, corporate debts and bank deposits collectively contributed to 95.38% of the total investment income. Average investments of long term insurance business in 2019 reached to LKR 407,738 million (2018: LKR 367,586 million) recording an increase of 10.92%.

In 2019, average amount of investment in government debt securities which

represented the largest portion of total average investments amounted to LKR 185,235 million (2018: LKR 180,218 million) and generated an investment yield of 10.77% (2018: 10.58%) which represented an increase in investment yield compared to 2018. Corporate debt which represented a significant portion of the investment portfolio had generated an investment income of LKR 10,461 million (2018: LKR 9,525 million) and grew by 9.83% year on year. However, investment yield of corporate debt declined to 11.14% in 2019 compared to 12.36% reported in 2018.

Deposits generated an investment income of LKR 9,717 million (2018: LKR 6,521 million) from banks and finance companies. Interest income from average investments in deposits generated an investment yield of 13.59% in 2019 compared to 12.09%

earned in 2018. Accordingly, the highest investment yield ratio was reported by deposits out of all financial investments in 2019.

Investment income generated from equities aggregated to LKR 2,651 million (2018: LKR 1,271 million) in 2019 and reflected an investment yield of 8.88% (2018: 4.09%). The increase in investment income from equities was largely driven by capital gains of LKR 1,515 million in 2019, which includes realized gains against LKR 26 million reported in preceding year.

Unit trusts and policy loans generated relatively moderate investment returns in 2019 with investment yield ratios of 5.71% (2018: 3.39%) and 5.01% (2018: 2.00%) respectively.

The overall investment yield was 10.68% in 2019 compared to 10.02% in 2018.

Table 11
Breakup of Investment Income and Average Investments - Long Term Insurance Business

Category	2018 (a)			2019 (b)		
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)
Government Debt Securities	19,071,108	180,217,863	10.58	19,949,101	185,235,253	10.77
- Treasury Bonds	17,323,247	-	-	18,756,653	-	-
- Treasury Bills	296,376	-	-	208,077	-	-
- Others (REPO)	1,451,485	-	-	984,370	-	-
Equity	1,271,035	31,042,874	4.09	2,651,114	29,848,261	8.88
- Capital Gain/Losses	26,459	-	-	1,514,819	-	-
- Dividend	1,244,576	-	-	1,136,295	-	-
Corporate Debts	9,524,794	77,060,034	12.36	10,460,658	93,937,725	11.14
- Debentures	9,433,711	-	-	10,288,882	-	-
- Commercial Papers	91,083	-	-	157,358	-	-
- Asset Backed Securities	-	-	-	-	-	-
- Other Similar Financial Instruments	-	-	-	14,418	-	-
Land and Buildings	73,859	12,341,897	0.60	82,742	14,576,735	0.57
Deposits	6,520,896	53,950,925	12.09	9,716,917	71,475,306	13.59
- Bank	5,975,784	-	-	9,009,462	-	-
- Finance Companies	545,112	-	-	707,455	-	-
Unit Trust	233,578	6,883,088	3.39	355,937	6,234,848	5.71
Policy Loans	121,875	6,089,456	2.00	321,937	6,429,652	5.01
Others	610,768	1,151,807	-	(88,103)	1,762,070	-
Total	36,817,146	367,586,137	10.02	43,538,406	407,737,781	10.68

Note:

Investment income recorded under "Other" category does not fully represent the corresponding assets as it includes various income items such as Notional Tax Income for withholding tax on treasury bonds and bills, staff loan interest, savings account interest etc. Hence, figures representing "Other" category were removed from the total amounts and "Investment Yield" was not computed for same.

Solvency Position of Insurance Companies - Long Term Insurance Business

In accordance with Solvency Margin (Risk Based Capital) Rules, the IRCSL continues to monitor that insurers take on a risk-focused approach to assess capital adequacy and seek to reflect the relevant risks with the objective of enhancing both policyholder and insurer's protection and ensure that they perform in a sustainable basis. Timely and appropriate regulatory and supervisory measures assured the overall steadiness of the industry without causing any major concerns during the year.

Under RBC Rules, insurers are required to maintain a minimum Total Available Capital (TAC) of LKR 500 million and Capital Adequacy Ratio (CAR) of 120% in order to comply capital adequacy requirements. Table 12, 13 and 14 demonstrate details relating to Risk Based Capital (RBC) of long term insurers for the year 2018 & 2019. The average CAR and total TAC of long term insurance business recorded for the year 2019 as 298% (2018: 304%) and LKR 220,371 million (2018: LKR 197,574 million) respectively. CAR under the Risk Based Capital (RBC) regime measures adequacy of the Total Available Capital as against the Risk Capital Required which indicates the capability of insurers to absorb risk in relation to its capital position. All long term insurance companies

had satisfied the minimum CAR requirement as at 31st December 2019 and one insurer had recorded a CAR below 160% which is the Enforcement Level prescribed by the IRCSL. All long term insurers except one insurer have complied the minimum TAC of LKR 500 million as at 31st December 2019. Accordingly, necessary action has been taken for the non-compliant in terms of the Solvency Margin (Risk Based Capital) Rules 2015.

Further, SVCC which reflects the risk of extreme adverse scenario if all life insurance contracts are surrendered simultaneously amounted to LKR 3,853 million as at 31st December 2019 and significantly decelerated compared to year 2018.

Table 12
Company-wise Analysis of Solvency Position – Long Term Insurance Business as at 31st December 2018 & 2019

Insurer	As at 31 st December 2018 (a)				As at 31 st December 2019 (b)			
	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)
AIA Life	19,221,556	2,934,346	974,079	655	23,479,150	3,674,691	121,861	639
Allianz Life	1,209,377	297,583	98,240	406	1,447,524	223,007	471,435	307
Amana Life	493,210	282,745	-	174	508,242	267,470	-	190
Arpico	1,618,804	413,912	406,492	391	1,802,462	485,405	349,870	371
Ceylinco Life	53,860,075	14,813,327	8,129	364	61,948,169	17,865,001	10,631	347
Cooplif	773,800	321,092	-	241	885,437	469,593	-	189
HNB Life	6,636,693	2,082,131	451,835	319	7,921,589	2,461,800	416,272	322
Janashakthi Life	9,841,633	2,923,139	728,421	337	9,376,364	3,125,593	119,593	300
LIC	476,371	248,126	-	192	395,312	275,015	-	144
LOLC Life	634,156	455,978	-	139	1,280,311	588,513	-	218
MBSL	141,348	57,775	-	245	548,464	199,502	-	275
Sanasa Life	577,288	282,015	2,953	205	711,479	390,784	19,312	182
SLIC	79,905,443	18,286,644	1,325,178	437	83,505,746	19,148,373	1,046,379	436
Softlogic Life	7,828,045	3,935,366	1,450,442	199	8,151,141	4,489,448	1,041,915	182
Union Life	14,356,049	5,495,622	164,406	261	18,409,499	5,002,806	255,663	368
Total/Overall	197,573,848	52,829,802	5,610,175	304	220,370,890	58,667,000	3,852,929	298

Note:

Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL where figures submitted for the Annual Report were used.

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

TAC of long term insurers mounted up to LKR 220,371 million (2018: LKR 197,574 million) as at 31st December 2019 and posted an enriched growth of 11.54% against previous year. According to Solvency Margin (Risk Based Capital) Rules, TAC is computed by adding 'Tier 1' and 'Tier 2' capital and subtracting items specified as 'deductions'. Table 13 provides the composition of TAC pertaining to long term insurers as at 31st December 2019. Substantial improvement in TAC was noted from Ceylinco Life mainly

from Tier 1 capital backed by adjusted retained earnings and valuation surplus and growth was reached to LKR 8,088 million in 2019. Furthermore, AIA Life, Union Life and SLIC also recorded significant improvements in TAC basically which arrived from Tier 1 capital. All long term insurers recorded growth in TAC in 2019 compared to previous year except Janashakthi Life and LIC where both insurers recorded contraction in Tier 1 capital.

Tier 1 capital which comprised of share capital, retained earnings, any adjustments to retained earnings, unallocated valuation surplus and 50% of future projected bonuses for participating business are defined as the perma-

nent capital fully available to cover the losses. Tier 1 capital amounted to LKR 234,867 million as at 31st December 2019 compared to LKR 212,586 million as at 31st December 2018 and improved by 10.48%.

Tier 2 capital which lacks some characteristics of higher quality capital paralleled to Tier 1 comprised of cumulative irredeemable preference shares, redeemable preference shares, etc., and improved by 1.70% against the previous year 2018. The deductions mainly comprised of intangible or illiquid assets amounted to LKR 33,728 million (2018: LKR 33,923 million) almost unchanged compared to previous year.

Table 13
Total Available Capital (TAC) Requirement of Insurance Companies – Long Term Insurance Business.

Insurer	As at 31 st December 2018 (a) - (LKR '000)	As at 31 st December 2019 (b) - (LKR '000)			
	TAC (LKR '000)	Tier 1 (LKR '000)	Tier II (LKR '000)	Deductions (LKR '000)	TAC (LKR '000)
AIA Life	19,221,556	21,454,885	6,273,764	4,249,499	23,479,150
Allianz Life	1,209,377	2,144,362	-	696,838	1,447,524
Amana Life	493,210	475,917	88,127	55,801	508,242
Arpico	1,618,804	2,283,238	-	480,776	1,802,462
Ceylinco Life	53,860,075	68,914,794	3,753,287	10,719,912	61,948,169
Cooplif	773,800	1,050,665	99,888	265,115	885,437
HNB Life	6,636,693	10,589,626	381,156	3,049,192	7,921,589
Janashakthi Life	9,841,633	9,715,399	1,795,829	2,134,864	9,376,364
LIC	476,371	398,314	61,899	64,901	395,312
LOLC Life	634,156	1,291,704	256,134	267,527	1,280,311
MBSL	141,348	769,573	-	221,109	548,464
Sanasa Life	577,288	1,253,400	4,060	545,981	711,479
SLIC	79,905,443	85,681,871	155,614	2,331,739	83,505,746
Softlogic Life	7,828,045	10,418,385	890,713	3,157,957	8,151,141
Union Life	14,356,049	18,424,468	5,471,340	5,486,309	18,409,499
Total	197,573,848	234,866,600	19,231,811	33,727,521	220,370,890

Note:

Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL where figures submitted for the Annual Report were used.

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

Table 14 depicts the company-wise analysis of RCR which comprises of main risk categories computed under the RBC Rule. It consists of credit risk, concentration risk, market risk, reinsurance risk, liability risk and operational risk as at 31st December

2018 and 2019. RCR can be defined as aggregate of the capital required to address relevant and material categories of risk.

Total risk capital charges after diversification grew at a modest rate in year 2019 and increased by 11.05% to LKR 58,667 million compared LKR 52,830 million in 2018. Prior to diversification same amounted to LKR 76,581 million in 2019. Market

risk continues to be the major risk encountered by the long term insurers in 2019 similar to preceding years, occupying 54.65% of total RCR before diversification and equaled to LKR 41,848 million. 23.29% and 8.97% of total RCR before diversification occupied by liability risk and concentration risk respectively. Thereupon, these three risk categories represented 86.91% (2018: 87.80%) of total risk capital charges prior to diversification.

Table 14

Company - wise Analysis of Risk Capital Required (RCR) as at 31st December 2018 and 2019 – Long Term Insurance Business

Insurer	As at 31 st December 2018 (a) (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	2,375	5,900	216,028	791	189,745	43,419	458,258	297,583
Amana Life	18,882	153,823	104,693	512	43,188	29,076	350,175	282,745
Arpico	33,831	121,978	135,120	264	292,926	26,911	611,030	413,912
Ceylinco Life	1,426,249	733,458	12,362,089	4,393	2,659,740	1,162,007	18,347,936	14,813,327
Cooplif	53,770	41,319	193,484	-	138,573	24,960	452,107	321,092
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	66,591	2,468,861	2,397	863,013	197,909	3,846,741	2,923,139
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	43,589	-	26,513	8,505	85,641	57,775
Sanasa Life	25,283	164,414	88,412	341	40,565	18,776	337,791	282,015
SLIC	1,264,435	2,382,087	14,045,424	-	4,449,082	1,265,728	23,406,756	18,286,644
Softlogic Life	167,517	608,112	1,990,814	-	2,793,684	170,954	5,731,081	3,935,366
Union Life	218,989	603,863	4,542,621	-	1,089,026	477,063	6,931,561	5,495,622
Total	4,165,104	5,960,347	38,896,493	11,050	15,653,460	4,229,299	68,915,755	52,829,802

Insurer	As at 31 st December 2019 (b) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before Diversification	RCR after Diversification
AIA Life	470,921	677,436	1,394,906	-	2,580,737	612,344	5,736,344	3,674,691
Allianz Life	2,563	5,057	104,964	1,105	184,830	51,426	349,945	223,007
Amana Life	20,138	148,814	95,430	449	23,613	29,118	317,560	267,470
Arpico	41,291	141,501	194,599	211	303,031	34,744	715,377	485,405
Ceylinco Life	1,563,802	1,051,504	14,986,895	4,878	2,708,943	1,345,605	21,661,627	17,865,001
Cooplif	87,808	13,345	331,666	-	179,742	29,625	642,187	469,593
HNB Life	336,655	356,165	1,662,346	1,617	677,346	217,332	3,251,461	2,461,800
Janashakthi Life	355,358	131,977	2,535,244	2,433	757,422	211,997	3,994,432	3,125,593
LIC	38,898	40,181	183,824	27	74,306	31,308	368,543	275,015
LOLC Life	21,935	63,311	259,741	5,399	469,213	58,451	878,049	588,513
MBSL	5,786	151,119	40,484	37	25,653	12,878	235,957	199,502
Sanasa Life	24,066	268,721	94,441	220	46,149	21,596	455,192	390,784
SLIC	1,604,482	2,340,302	14,480,502	-	5,011,022	1,434,825	24,871,132	19,148,373
Softlogic Life	202,984	847,336	1,688,459	-	3,551,671	199,656	6,490,106	4,489,448
Union Life	385,195	633,902	3,794,651	158	1,243,261	555,585	6,612,752	5,002,806
Total	5,161,880	6,870,671	41,848,153	16,534	17,836,939	4,846,489	76,580,665	58,667,000

Note:

Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL where figures submitted for the Annual Report were used.

Number of Insurance Policies Issued and Policies in Force – Long Term Insurance Business

At the end of 2019, total number of long term insurance policies in force was 3,402,663 and increased by 6.35% compared to 3,199,354 policies in force at the end of 2018. The life insurance industry in Sri Lanka continued expanding during year 2019 and issued 736,961 new life insurance policies, increasing by 3.63% compared to 711,126 new policies issued in 2018 as indicated in chart 10.

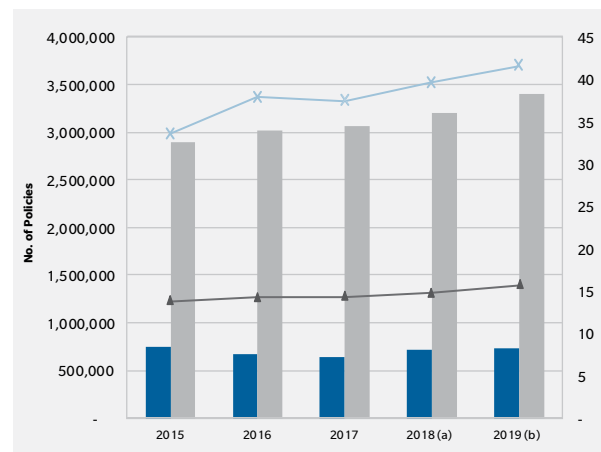
Number of life insurance policies in force as a percentage of total population was 15.61% in 2019 compared to 14.76% recorded in 2018. Number of life policies in force as a percentage of labour force has been continued to rise over time except in year 2017. This trend continued in 2019 and increased to 41.59% which demonstrate to the fact that the sector as a whole continues to thrive.

The trend line reflects the way forward for life insurance business in Sri Lanka and the potential of expansion in a market known for its low penetration rates.

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

Table 15 provides detailed information on product-wise policies in force and sum insured for the year 2018 and 2019. Mainly products are categorized in to endowment, universal life, term, whole and others which includes health plans, unit linked, annuity & group life. In 2019, total sum assured amounted to LKR 3,849,146 million and grew by 25.97% against LKR 3,055,587 million recorded in 2018. Total number of policies in force expanded to 3,402,663 as at the end of 2019 against 3,199,354 recorded in year 2018.

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



■	No. of New Life Policies issued	740,511	668,714	643,483	711,126	736,961
—x—	No. of Life Policies in Force	2,889,763	3,009,427	3,068,866	3,199,354	3,402,663
■	No. of Life Policies in Force as % of the Total Population*	13.77	14.19	14.31	14.76	15.61
—▲—	No. of Life Policies in Force as % of the Labour Force*	33.56	37.86	37.39	39.55	41.59

*Source: mid-year labour force and population – Department of Census and Statistics & Central Bank of Sri Lanka

Similar to previous years, endowment products represent the majority of policies in force amounting to 1,225,008 though number of policies decelerated over the years and recorded 2.83% drop compared to previous year. However, in terms of sum assured, endowment category claims only LKR 439,951 million out of total sum assured for the year 2019. Conversely, number of policies in the category of 'other' has been grown rigorously by 43.97% compared to previous year due to innovative product characteristics introduced by the insurers and growth recorded was mainly driven by two insurers due to increase in mortgage protection plans and group life policies. Accordingly, there were 710,021 (2018: 493,169)

life policies in force in the category of 'other' at the end of the year 2019 with a total sum assured amounting to LKR 1,801,924 million (2018: LKR 1,323,437 million).

Number of universal life policies also marginally increased by 5.48% and recorded as 942,677 (2018: 893,697) with a total sum assured amounting to LKR 433,120 million (2018: LKR 393,397 million). Term insurance also represented significant portion of the sum assured and slightly decreased by 4.96% in terms of policies in force in the year 2019. Unlike the previous year, category of whole life insurance depicted a declining trend in terms of both policies in force and sum assured.

Table 15
Product - wise Policies in Force and Sum Insured for 2018 and 2019 - Long Term Insurance Business

Type of Product	2018		2019	
	No. of Policies in Force	Sum Insured (LKR '000)	No. of Policies in force	Sum Insured (LKR '000)
Term Insurance	527,307	920,092,488	501,176	1,172,542,129
Universal Life	893,697	393,397,498	942,677	433,120,480
Whole Life Insurance	24,435	1,635,183	23,781	1,608,526
Endowments	1,260,746	417,025,131	1,225,008	439,950,741
Others	493,169	1,323,437,053	710,021	1,801,923,679
Total	3,199,354	3,055,587,353	3,402,663	3,849,145,555

Insurance Policy Lapses – Long Term Insurance Business

Chart 12 depicts a slight reduction in lapse rates in terms of new insurance policies and total insurance policies in year 2019. Total lapsed life insurance policies amounted to 249,744 (2018: 268,339) in year 2019 and 86,139 (2018: 86,484) out of same consists of new policies lapsed. Accordingly, new insurance policy lapses also slightly decreased by 345 policies during the year 2019.

Further, total policy lapses as a percentage of total policies in force was 7.34% (2018: 8.39%) while new policy lapses as a percentage of new policies issued was 11.69% (2018: 12.16%) in 2019.

Chart 11
Product-wise Policies in Force for 2018 and 2019 - Long Term Insurance Business

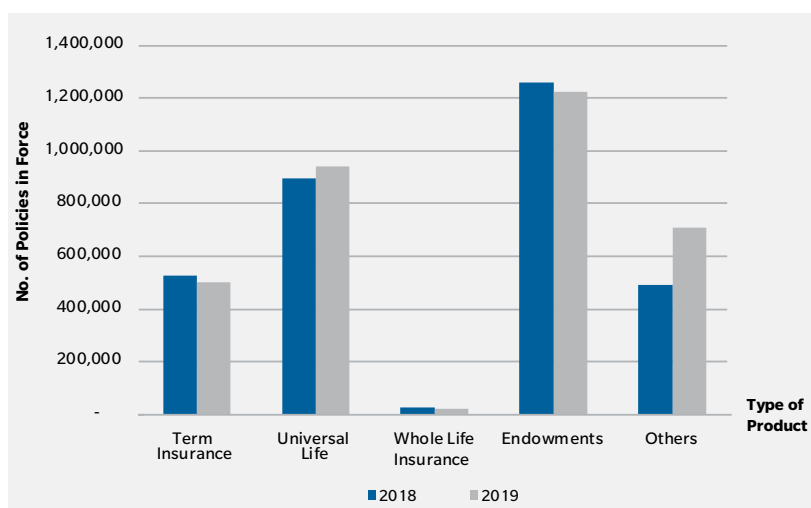
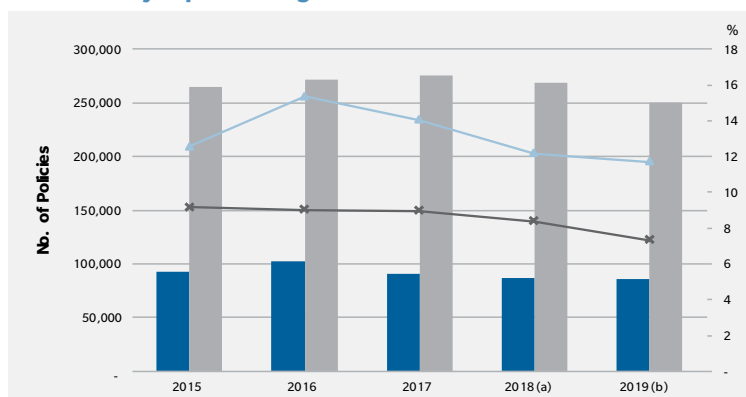


Chart 12
Insurance Policy Lapses – Long Term Insurance Business



	New Insurance Policies Lapsed	93,008	102,697	90,350	86,484	86,139
	Total Insurance Policies Lapsed	264,473	271,586	275,039	268,339	249,744
	New Insurance Policies Lapsed as a % of New Policies Issued	12.56	15.36	14.04	12.16	11.69
	Total Insurance Policies Lapsed as a % of Total Policies in Force	9.15	9.02	8.96	8.39	7.34

Claims Incurred by Insurance Companies – Long Term Insurance Business

A total of LKR 36,079 million (2018: LKR 34,416 million) claims incurred was reported during the year 2019, which is an increase of 4.83% over 2018. As depicted in Chart 13, total claims incurred comprised of disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders.

Maturity benefits account for the largest percentage of the total claims incurred, accounting 52.25% of total claims and amounted to LKR 18,852 million (2018: LKR 18,343 million) for the year 2019 and in line with the contractual obligations.

Surrender claims represented a significant portion of the claims incurred which amounted to LKR 7,070 million and represented 19.59% of the total claims. Further, death claims witnessed a significant growth of 24.08% in terms of value and represented 9.78% of total claims incurred in 2019.

Number of Insurance Claims - Long Term Insurance Business

An increasing trend of number of claims incurred has been posted during the last five years and total number of claims for the year 2019 has slightly climbed by 3.85% to 429,606 (2018: 413,685). The category of 'other' accounts for the largest percentage of the total number of claims incurred. Number of claims from 'other benefits' accounted 46.07% of total claims and reached to 197,906 (2018: 166,745) and continued rising year on year.

The number of maturity benefit claims was 130,723 (2018: 153,856) and represented 30.43% of the total claims and depicted a decline of 15.04%

Other benefits which include health benefits, advance payments, bonus, cancellations and refunds etc. amounted to LKR 5,618 million which is 15.57% of the total claims incurred and recorded a

significant growth of 7.20% year on year. During 2019, disability benefits have gone up by 2.70% which amounted to LKR 1,011 million.

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

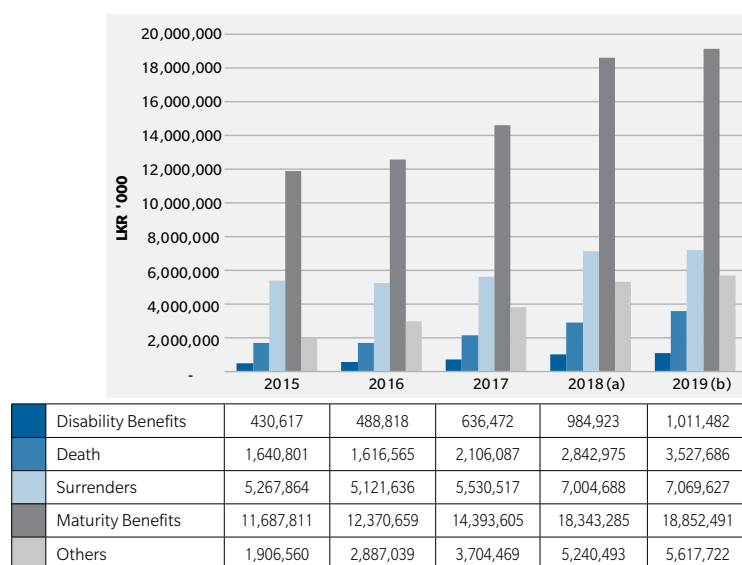


Table 16
Number of Insurance Claims - Long Term Insurance Business

	2015	2016	2017	2018 (a)	2019 (b)
Disability Benefits	14,081	9,521	10,749	10,737	11,427
Death	6,747	8,418	11,247	11,935	12,920
Surrenders	42,814	46,484	47,191	70,412	76,630
Maturity Benefits	120,661	108,680	128,266	153,856	130,723
Other benefits	112,337	143,336	145,452	166,745	197,906
Total	296,640	316,439	342,905	413,685	429,606

in the year 2019. Surrender claims represented 17.84% of total number of long term insurance claims and amounted to 76,630 (2018: 70,412). Further, disability benefits had slightly risen in 2019 and recorded as 11,427 (2018: 10,737).

Table 16 depicts the category wise break up of number of long term insurance claims incurred for the years 2015 to 2019.

General Insurance Business

Gross Written Premium

As depicted in Table 17, general insurance industry of Sri Lanka grew at a rate of 7.10% with the overall Gross Written Premium (GWP) of LKR 107,732 million in year 2019, being one of the most challenging years in the recent past. The slower growth can be explained with reduction in motor premium due to sustained tax rises on imported vehicles, intense price competition among general insurers, adverse weather conditions and subdued economic activities that caused mainly by the Easter Sunday attacks in April 2019.

The growth momentum of general insurance business was driven mainly by non-motor lines in 2019 changing the history of general insurance industry. The contribution of Government introduced insurance schemes to cater national interest such as 'Suraksha Student Insurance Policy', 'Agrahara Health Insurance Scheme', 'National Natural Disaster Scheme' etc. became the main driving force of the growth.

The GWP of general insurance business in terms of value witnessed 55.52% improvement from the period 2015 to 2019. The general insurance industry depicts enhanced

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

However, the impact of COVID-19 pandemic which has been spreading during the latter part of the year would affect the financial outlook of general insurers in terms of reducing insurable exposures due to negative impact across a range of products like health, travel, event cancellation, business interruption, employer's liability, income protection etc.

Table 17
Company - wise Gross Written Premium and Market Share - General Insurance Business

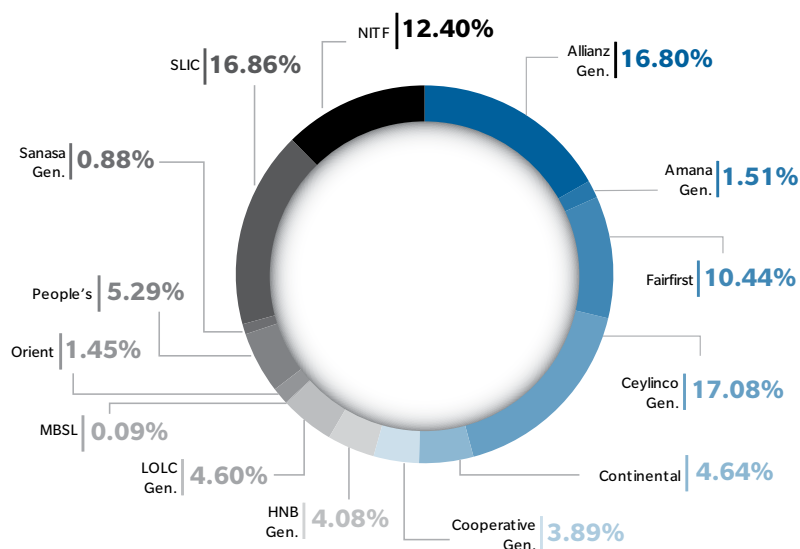
Insurer	2015		2016		2017		2018 (a)		2019 (b)	
	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)	GWP (LKR '000)	Market Share (%)
AIA Gen.	3,297,840	4.76	-	-	-	-	-	-	-	-
AIG	3,141	0.00	-	-	-	-	-	-	-	-
Allianz Gen.	3,244,844	4.68	4,247,691	5.34	5,956,142	6.38	17,983,748	17.88	18,095,258	16.80
Amana Gen.	1,438,732	2.08	1,474,186	1.85	1,686,270	1.81	1,841,067	1.83	1,621,461	1.51
Ceylinco Gen.	12,921,561	18.65	15,265,433	19.18	17,012,087	18.22	18,137,933	18.03	18,401,405	17.08
Continental	2,309,413	3.33	3,088,064	3.88	3,892,780	4.17	4,545,405	4.52	5,002,548	4.64
Cooperative Gen.	1,691,705	2.44	2,420,130	3.04	2,966,679	3.18	3,692,397	3.67	4,192,960	3.89
Fairfirst	1,908,901	2.76	2,361,614	2.97	9,610,990	10.29	10,980,850	10.92	11,247,669	10.44
HNB Gen.	2,577,224	3.72	2,982,385	3.75	3,662,008	3.92	4,062,171	4.04	4,394,457	4.08
Janashakthi Gen.	7,406,160	10.69	10,137,864	12.74	11,740,185	12.57	-	-	-	-
LOLC Gen.	2,476,961	3.58	3,096,834	3.89	3,795,106	4.06	4,318,721	4.29	4,954,896	4.60
MBSL	1,159,208	1.67	972,976	1.22	260,806	0.28	(512)	0.00	96,217	0.09
NITF	4,961,413	7.16	6,420,822	8.07	8,114,412	8.69	9,644,901	9.59	13,358,203	12.40
Orient	746,935	1.08	810,728	1.02	1,179,000	1.26	1,376,398	1.37	1,564,902	1.45
People's	3,637,404	5.25	4,166,727	5.24	4,587,432	4.91	5,354,368	5.32	5,694,164	5.29
Sanasa Gen.	349,527	0.50	384,481	0.48	569,509	0.61	732,379	0.73	945,162	0.88
SLIC	13,583,222	19.61	15,198,381	19.10	18,355,361	19.65	17,916,274	17.81	18,163,072	16.86
Union Gen.	5,557,189	8.02	6,561,571	8.23	-	-	-	-	-	-
Total	69,271,380	100	79,589,888	100	93,388,766	100	100,586,101	100	107,732,375	100
Growth Rate (%)	13.18		14.90		17.34		7.71		7.10	

Amongst these challenges general insurers can explore new opportunities since the general insurance industry has the potential to grow by recovering from economic downturn. Accordingly, pursuing new developments in the global arena such as Insurtech to introduce innovative, cost effective insurance products to the general public is expected to be one major development that insurers will focus on, going forward.

As depicted in Table 17 and Chart 14, Ceylinco General led the market by achieving a market share of 17.08% (2018: 18.03%) and recorded a premium income of LKR 18,401 million in 2019. SLIC achieved the second largest market share by recording GWP of LKR 18,163 million (2018: LKR 17,916 million) which reflected a marginal increase in GWP 2018 year on year with the market share of 16.86% in year 2019 (2018: 17.81%). Allianz General generated GWP worth of LKR 18,095 million (2018: LKR 17,984 million) to achieve the third largest market share of 16.80% (2018: 17.88%).

NITF has achieved a remarkable milestone while recording a double digit market share of 12.40% (2018: 9.59%) and became the fourth largest market player in terms of GWP worth of LKR 13,358 million (2018: LKR 9,645 million), surpassing Fairfirst who was the fourth largest contributor to GWP in year 2018. NITF had improved its performance significantly during 2019 in terms of GWP mainly due to increase in premium paid by the Government of Sri Lanka for "National Natural Disaster Insurance Scheme" (NNDIS) from LKR 500 million to LKR 1,500 million coupled with increase in contribution received from Agrahara and premium income generated via Strike, Riot, Civil Commotion and Terrorism (SRCC & T) cover managed by the NITF. There had been a sudden spike in demand for terrorism cover in the country under SRCC & T due to the Easter bombings in April 2019, that snuffed out over 250 lives. Accordingly, SRCC & T recorded a

Chart 14
Company-wise Market Share of Gross Written Premium - General Insurance Business for the year ended 31st December 2019



rigorous growth in GWP amounting to LKR 6,307 million (growth rate 37.67%) as at 31st December 2019, the highest reported during last five years.

Fairfirst generated GWP worth of LKR 11,248 million in 2019 (2018: LKR 10,981 million) to achieve the fifth largest market share of 10.44% (2018: 10.92%).

Except Amana General all general insurers showed improved performance in terms of GWP during the year.

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

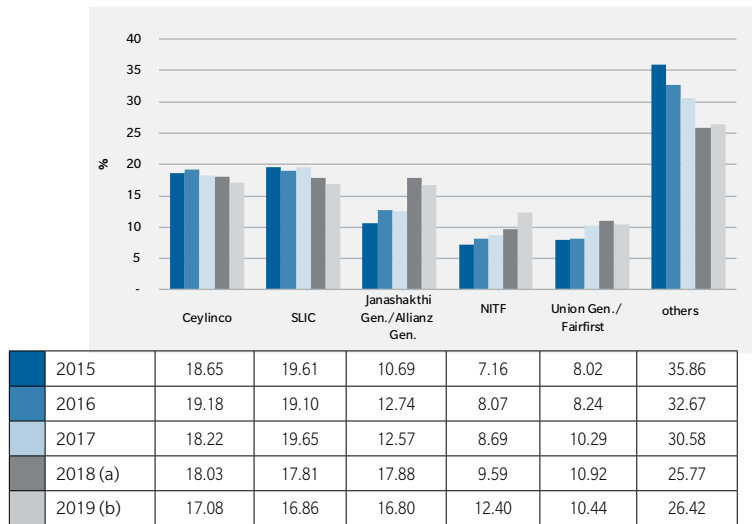
In 2019, general insurance industry largely driven by few players namely Ceylinco General, SLIC, Allianz General, NITF and Fairfirst which controlled total of 73.58% and recorded total GWP worth of LKR 79,266 million (2018: LKR 74,664 million), while the remaining nine insurers held a market share of 26.42%

and generated GWP worth LKR 28,467 million (2018: LKR 25,922 million) collectively.

As illustrates in Chart 15, Ceylinco General and SLIC were leading the general insurance market by contributing to aggregate market share of 33.94 % in 2019 (2018: 35.84%). However, market shares of both Ceylinco General and SLIC have slightly dropped in year 2019 compared to 2018. Allianz General's market share has declined to 16.80% in 2019 compared to 17.88% in 2018 and became the third in the market. NITF as the fourth largest contributor has captured 12.40% of the market and indicated a noticeable progress in their share in year under review compared to previous years.

Fairfirst achieved the fifth position in the general insurance market by recording market share of 10.44% (2018: 10.92%).

Chart 15
Market Share of Top Five Contributors to GWP and Other Insurers for the Years 2015 to 2019 - General Insurance Business



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

Class wise analysis of gross written premium during the period 2015 to 2019 is shown in Table 18 and Chart 16. Fire, marine, motor, health and miscellaneous insurance businesses constitute the main sub-classes of general insurance business. In addition, premiums pertaining to SRCC & T cover provided by NITF is also depicted separately.

Motor insurance business has reported GWP of LKR 63,733 million in 2019 (2018: LKR 62,363 million) and market share of 59.16% (2018: 62.00%). In 2019, motor has reported the lowest growth rate of 2.20% compared to the consecutive double digit growths reported during last four years. This

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

Class	Gross Written Premium (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	6,604,074	7,479,910	8,597,489	8,821,655	8,270,010
Marine	1,996,862	2,086,394	2,191,654	2,403,366	2,385,567
Motor	42,622,205	49,333,000	56,047,640	62,363,476	63,732,958
Health	8,534,364	10,036,518	14,649,440	14,161,542	16,578,713
Miscellaneous	6,495,454	7,120,742	7,866,260	8,254,421	10,457,778
Sub Total	66,252,959	76,056,564	89,352,484	96,004,460	101,425,025
SRCC & T	3,018,421	3,533,324	4,036,283	4,581,641	6,307,350
Total	69,271,380	79,589,888	93,388,766	100,586,101	107,732,375

Class	Growth (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	3.95	13.26	14.94	2.61	(6.25)
Marine	4.44	4.48	5.05	9.66	(0.74)
Motor	19.10	15.74	13.61	11.27	2.20
Health	12.39	17.60	45.96	(3.33)	17.07
Miscellaneous	(3.37)	9.63	10.47	4.93	26.69
Sub Total	13.51	14.80	17.48	7.44	5.65
SRCC & T	6.46	17.06	14.23	13.51	37.67
Total	13.18	14.90	17.34	7.71	7.10

Class	Percentage Share (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	9.53	9.40	9.21	8.77	7.68
Marine	2.88	2.62	2.35	2.39	2.21
Motor	61.53	61.98	60.02	62.00	59.16
Health	12.32	12.61	15.69	14.08	15.39
Miscellaneous	9.38	8.95	8.42	8.21	9.71
Sub Total	95.64	95.56	95.68	95.45	94.15
SRCC & T	4.36	4.44	4.32	4.55	5.85
Total	100	100	100	100	100

was mainly due to the decline in personal vehicle imports coupled with the increased tax structure on most categories of personal vehicle imports in the Government Budget 2019 as reported by the Central Bank of Sri Lanka.

Health represented the second largest category of the general insurance business by recording GWP of LKR 16,579 million (2018: LKR 14,162 million) with a significant growth of 17.07% year on year. Government introduced insurance schemes such as 'Suraksha Student Insurance Policy' and 'Agrahara Health Insurance Scheme' witnessed the growth in health insurance business.

Miscellaneous insurance business generated premium income of LKR 10,458 million (2018: LKR 8,254 million) and represented 9.71% of the total GWP. Growth rate of miscellaneous insurance business has significantly increased to 26.69% compared to 4.93% recorded in the year 2018. This is mainly due to increase in premium generated through NNDIS and Contractors' All Risk insurance covers.

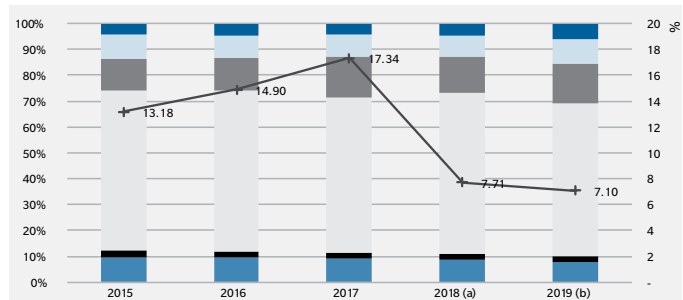
GWP of fire insurance business amounted to LKR 8,270 million (2018: LKR 8,822 million) and accounted 7.68% share of the total GWP (2018: 8.77%) while recorded a negative growth of 6.25% compared to year 2018 (2018: 2.61%).

As stated above SRCC & T subscriptions has risen by 37.67% to LKR 6,307 million (2018: LKR 4,582 million) in 2019, reporting the highest growth over the last five years.

Category-wise Analysis of GWP of Miscellaneous Insurance Business

Table 19 illustrates the GWP generated from different insurance segments categorized under miscellaneous insurance business in 2018 and 2019. Miscellaneous insurance business mainly consists of Personal Accident, Air Craft Hull, NNDIS, Contractors' All Risk, Others etc. Total GWP generated

Chart 16
Class-wise Analysis of GWP from 2015 to 2019 - General Insurance Business



Category	2015	2016	2017	2018 (a)	2019 (b)
SRCC & T	4.36	4.44	4.32	4.55	5.85
Miscellaneous	9.38	8.95	8.42	8.21	9.71
Health	12.32	12.61	15.69	14.08	15.39
Motor	61.53	61.98	60.02	62.00	59.16
Marine	2.88	2.62	2.35	2.39	2.21
Fire	9.53	9.40	9.21	8.77	7.68
Industry Growth	13.18	14.90	17.34	7.71	7.10

Table 19
Category-wise Analysis of GWP of Miscellaneous Insurance premium for 2018 & 2019

Category	GWP LKR '000	
	2018 (a)	2019 (b)
Title	488,362	399,180
Personal Accident	1,673,887	1,694,374
Contractors' All Risk	467,916	1,140,043
Professional Indemnity	334,698	441,897
Travel Insurance	532,025	477,130
Fidelity Guarantee	117,853	92,779
Burglary	395,880	401,421
Cash in transit including cash in safe	436,850	433,592
Goods in Transits	125,159	115,912
Products Liability	148,401	167,535
Public Liability	450,273	535,243
Bankers' Indemnity	397,674	413,313
Air Craft Hull	1,061,979	1,616,254
WCI	709,476	696,591
National Natural Disaster Insurance Scheme	500,000	1,500,000
Others	902,693	1,102,389
Subtotal	8,743,127	11,227,652
Less: Total of SRCC & T due to NITF	(460,879)	(711,516)
Coinsurance Premium	(27,827)	(58,360)
Total	8,254,421	10,457,776

from miscellaneous insurance excluding SRCC & T was LKR 10,458 million (2018: LKR 8,254 million) and significantly increased by 26.69% compared to year 2018. This growth in GWP mainly generated through the sub class, NNDIS which amounted to LKR 1,500 million in 2019 (2018: LKR 500 million) and was introduced by

the Sri Lankan Government since 01st April 2016. This is a protection scheme to cover damages caused to uninsured lives, properties etc. Further, there was a noticeable growth recorded in terms of GWP via Contractors' All Risk which amounted to LKR 1,140 million (2018: LKR 468 million).

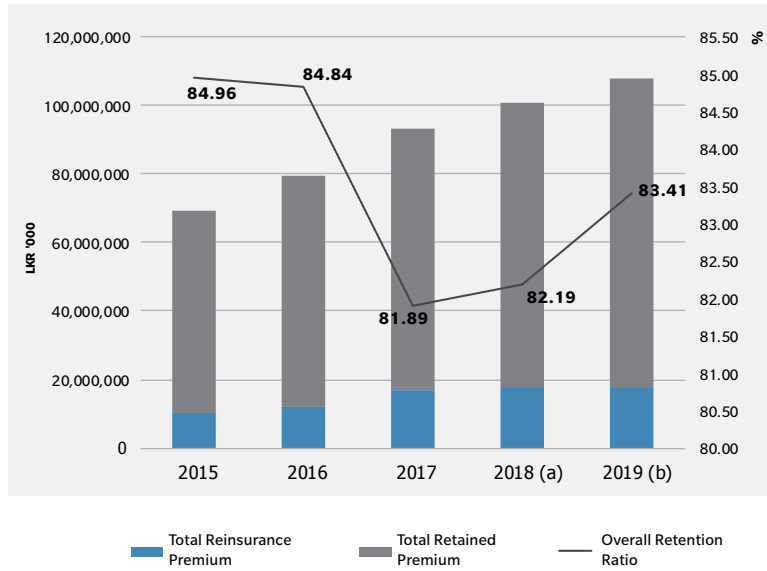
Personal Accident had generated the highest GWP under miscellaneous insurance business which amounted to LKR 1,694 million (2018: LKR 1,674 million) while reporting a slight growth of 1.22% in 2019 compared to year 2018. Moderate growth was visible in few miscellaneous insurance business categories, such as Air Craft Hull, Professional Indemnity, Public Liability and Products Liability year on year. Others showed in the Table 19 mainly comprised of Hull All Risk, Personal Insurance Products etc. and recorded GWP of LKR 1,102 million in 2019 showing a positive growth of 22.12% compared to GWP worth of LKR 903 million generated in 2018.

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

Table 20 and Chart 17 depict the GWP generated by insurance companies, reinsurance premium ceded to reinsurers and retention levels of main classes of general insurance business from 2015 to 2019. As indicated in Table 20, general insurance business has ceded reinsurance premium amounting to LKR 17,813 million (excluding SRCC & T) out of the total GWP of LKR 101,425 million (2018: LKR 96,004 million) in 2019.

Accordingly, general insurers recorded an overall retention ratio of 82.44% (excluding SRCC & T) in year 2019

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



(2018: 81.42%), a slight increase compared to the previous year. Motor insurance business remained the highest retained class of general insurance business for last five years and recorded a retention ratio of 93.36% (2018: 93.11%) in year 2019.

Health insurance recorded significant retention ratio of 91.11% in 2019 (2018: 87.49%) and indicated an increase of 3.62%. Accordingly, premium ceded to reinsurance for health insurance has decreased to LKR 1,473 million in 2019 from LKR 1,771 million recorded in 2018.

Fire class of insurance business recorded the lowest retention ratio for last five years which amounted to 26.70% and declined further compared to the retention ratio of 30.81% recorded in 2018. Similarly, marine insurance business also recorded low retention ratios for last five years and recorded 48.58% for the year 2019 (2018: 50.07%). These classes recorded low retention ratio due to high risk in claim exposure transfer to reinsurers to minimize the claim risk.

Table 20
Gross Written Premium, Reinsurance Premium and Retention by Insurers - General Insurance Business

Class	GWP (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	6,604,074	7,479,910	8,597,489	8,821,655	8,270,010
Marine	1,996,862	2,086,394	2,191,654	2,403,366	2,385,567
Motor	42,622,205	49,333,000	56,047,640	62,363,476	63,732,958
Health	8,534,364	10,036,518	14,649,440	14,161,542	16,578,713
Miscellaneous	6,495,454	7,120,742	7,866,260	8,254,421	10,457,778
Sub Total	66,252,959	76,056,563	89,352,484	96,004,460	101,425,025
SRCC & T	3,018,421	3,533,324	4,036,283	4,581,641	6,307,350
Total	69,271,380	79,589,888	93,388,766	100,586,101	107,732,375

Class	Reinsurance Premium (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	5,137,042	5,959,242	6,947,675	6,103,609	6,061,765
Marine	1,154,511	1,174,266	1,177,400	1,200,069	1,226,580
Motor	1,115,036	1,233,466	2,152,508	4,296,451	4,229,957
Health	3,012,362	486,984	2,682,617	1,771,091	1,473,033
Miscellaneous		3,213,645	3,840,459	4,462,894	4,821,722
Sub Total	10,418,951	12,067,604	16,800,660	17,834,113	17,813,058
SRCC & T	-	-	108,750	81,656	55,564
Total Reinsurance Premium	10,418,951	12,067,604	16,909,410	17,915,770	17,868,622

Class	Retention (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	1,467,033	1,520,667	1,649,814	2,718,046	2,208,244
Marine	842,351	912,129	1,014,254	1,203,297	1,158,987
Motor	41,507,169	48,099,534	53,895,132	58,067,024	59,503,000
Health	12,017,456	9,549,533	11,966,823	12,390,451	15,105,680
Miscellaneous		3,907,097	4,025,800	3,791,528	5,636,056
Sub Total	55,834,008	63,988,960	72,551,823	78,170,347	83,611,967
SRCC & T	3,018,421	3,533,324	3,927,533	4,499,984	6,251,787
Total Net Written Premium	58,852,429	67,522,284	76,479,356	82,670,331	89,863,753

Class	Retention as a Percentage of GWP (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	22.21	20.33	19.19	30.81	26.70
Marine	42.18	43.72	46.28	50.07	48.58
Motor	97.38	97.50	96.16	93.11	93.36
Health	79.96	95.15	81.69	87.49	91.11
Miscellaneous		54.87	51.18	45.93	53.89
Sub Total	84.27	84.13	81.20	81.42	82.44
SRCC & T	100	100	97.31	98.22	99.12
Overall Retention Ratio	84.96	84.84	81.89	82.19	83.41

Company-wise Analysis of Total Asset- General Insurance Business

Table 21 & Chart 18 depict the distribution of assets among general insurance companies as at 31st December 2018 and 2019.

Total assets of general insurance business grown at slow phase of 4.01% to LKR 203,870 million in 2019 (2018: LKR 196,005 million) due to unfavorable market and economic conditions prevailed in the country.

Similar to previous years, SLIC constituted the largest portion of assets among general insurers and represented 34.86% (2018: 36.15%) of general insurance industry assets by recording assets worth of LKR 71,059 million (2018: LKR 70,854 million). However, their share of assets had slightly decreased by 1.29% compared to year 2018.

Allianz General assets has been notably reduced by 13.23% to LKR 29,548 million in 2019 compared to LKR 34,053 million reported in 2018. Ceylinco General, Fairfirst and NITF represented 14.02% (2018: 14.23%), 7.86% (2018: 7.61%) and 7.20% (2018: 6.08%) of total assets and claimed third, fourth and fifth positions respectively in the year 2019.

It is interesting to note that 78.43% (2018: 81.44%) of total assets of insurance companies are concentrated among top five companies while the balance 21.57% (2018: 18.56%) are owned by other nine companies.

Concentration of Assets of General Insurance Business

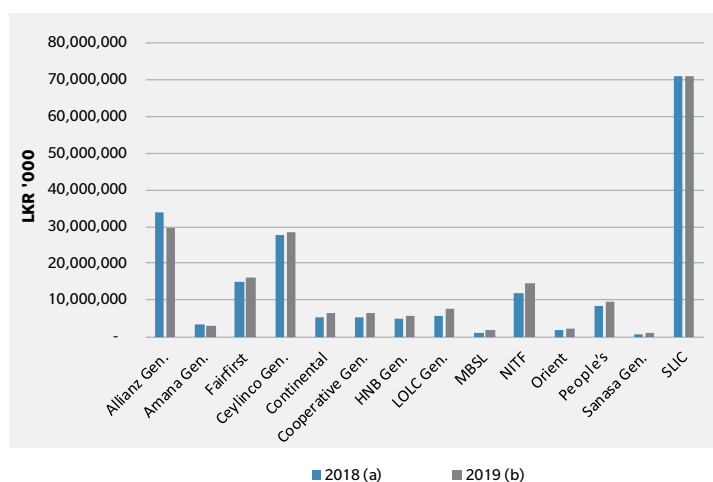
Concentration of assets of general insurance business among different asset categories as at 31st December 2018 and as at 31st December 2019 is reflected in Table 22 and Chart 19.

Government debt securities continued to be the main investment category due to low risk and regulatory requirements. Hence, out of total assets government debt securities accounted for LKR 54,814 million (2018: LKR 53,189 million) representing 26.89% (2018: 27.14%).

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

Insurer	2018 (a)		2019 (b)	
	LKR '000	%	LKR '000	%
Allianz Gen.	34,052,708	17.37	29,547,615	14.49
Amana Gen.	3,327,423	1.70	2,822,858	1.38
Ceylinco Gen.	27,899,029	14.23	28,586,500	14.02
Continental	5,284,712	2.70	6,610,621	3.24
Cooperative Gen.	5,492,747	2.80	6,622,720	3.25
Fairfirst	14,917,948	7.61	16,025,516	7.86
HNB Gen.	4,773,910	2.44	5,644,112	2.77
LOLC Gen.	5,505,042	2.81	7,540,029	3.70
MBSL	868,408	0.44	1,682,661	0.83
NITF	11,909,582	6.08	14,679,797	7.20
Orient	2,007,118	1.02	2,208,665	1.08
People's	8,417,568	4.29	9,600,978	4.71
Sanasa Gen.	694,728	0.35	1,238,079	0.61
SLIC	70,854,183	36.15	71,059,444	34.86
Total	196,005,105	100	203,869,596	100

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



Investments in equities amounted to LKR 32,329 million (2018: LKR 34,259 million) as at 31st December 2019 and recorded negative growth of 5.63% as a result of downturn in the stock market during 2019 amidst adverse developments in the domestic & global environment. However, equity investment represented the second largest asset category in general insurance business and accounted for 15.86% (2018: 17.48%) of total asset in 2019.

Deposits in Banks and Finance companies represented 11.72% of total assets and accounted for LKR 23,897 million in 2019 (2018: LKR 20,351 million) while recording a growth of 17.42% compared to 2018. Premium receivable from policyholders and intermediaries amounted to LKR 22,862 million (2018: LKR 23,667 million) in 2019 representing 11.21% of total assets and slightly dropped by 3.4% compared to the year 2018. Corporate debts are also one of the

main investment categories of general insurance business which represented 8.15% of total assets in 2019 (2018: 6.89%). In the year 2019, there was an increase in corporate debts up to LKR 16,613 million (2018: LKR 13,505 million) and had recorded a growth of 23.02% corresponding to 2018. The said growth was largely due to interest rate applicable on corporate debt instruments remaining high during 2019 as reported by Central Bank of Sri Lanka.

Investment Income – General Insurance Business

Table 23 illustrates the breakup of investment income, average investments and investment yield ratio of different asset categories in general insurance business for the years 2018 and 2019. The average investments amounted to LKR 138,464 million has increased by 6.69% compared to LKR 129,787 million recorded in the year 2018. The total investment income recorded for the year 2019 amounted to LKR 12,578 million (2018: LKR 9,380 million) and reached an overall investment yield of 9.08% in 2019 (2018: 7.23%).

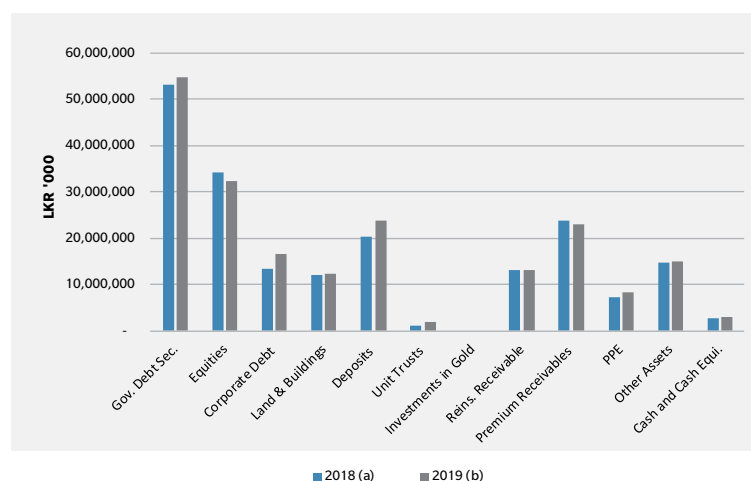
Similar to previous year, average amount of investment in government debt securities which represented the largest portion of average investments amounted to LKR 54,001 million (2018: LKR 47,534 million) and generated an investment yield of 9.17%, (2018: 9.91%) at slashing interest rates over government debt securities during 2019.

Average investment in equities represented a significant portion of the investment portfolio and generated investment income of LKR 2,872 million which grew by LKR 2,566 million year on year resulting investment yield of 8.63% (2018: 0.84%). The increase in investment income from equities was largely driven by the dividend income of LKR 2,783 million by one large insurer out of its unlisted subsidiary investment. Except to the aforesaid dividend income the overall listed equity market showed a poor performance in 2019.

Table 22
Concentration of Assets as at 31st December 2018 & 2019 - General Insurance Business

Type of Asset	2018 (a)		2019 (b)	
	LKR '000	%	LKR '000	%
Government Debt Securities	53,189,008	27.14	54,813,771	26.89
Equities	34,259,179	17.48	32,329,010	15.86
Corporate Debts	13,504,819	6.89	16,613,054	8.15
Land & Buildings	11,984,083	6.11	12,205,956	5.99
Deposits	20,351,392	10.38	23,896,705	11.72
Unit Trusts	1,229,474	0.63	1,962,072	0.96
Reinsurance receivables	13,059,051	6.66	13,071,993	6.41
Premium receivable from policyholders and intermediaries	23,666,720	12.07	22,862,086	11.21
Property Plant and Equipment	7,314,626	3.73	8,245,249	4.04
Other Assets	14,659,052	7.48	14,863,884	7.29
Cash and cash equivalents	2,787,702	1.42	3,005,818	1.47
Total	196,005,106	100	203,869,597	100

Chart 19
Concentration of Assets as at 31st December 2018 & 2019 - General Insurance Business



Deposits generated an investment income of LKR 2,589 million (2018: LKR 2,140 million) inclusive of interest income from Banks and Finance companies and reflected an investment yield of 11.70% (2018: 11.07%).

Accordingly, the highest investment yield ratio was reported by deposits out of all financial investments.

Further, corporate debts continued to be attractive by recording an average investment amounting to LKR 15,059 million (2018: LKR 13,130 million) while representing an investment yield of 11.44% (2018: 11.74%).

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

Category	2018 (a)			2019 (b)		
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Yield Ratio (%)
Government Debt Securities	4,712,050	47,534,405	9.91	4,950,605	54,001,390	9.17
- Treasury Bonds	2,499,753	-	-	2,743,083	-	-
- Treasury Bills	1,315,775	-	-	1,363,360	-	-
- Others (REPO)	896,522	-	-	844,162	-	-
Equity	305,772	36,307,360	0.84	2,872,148	33,294,094	8.63
- Capital Gain/Losses	(259,131)	-	-	88,909	-	-
- Dividend	564,903	-	-	2,783,239	-	-
Corporate Debts	1,541,159	13,130,058	11.74	1,722,851	15,058,937	11.44
- Debentures	1,483,310	-	-	1,623,188	-	-
- Commercial Papers	57,849	-	-	99,663	-	-
Land and Buildings	-	11,676,822	-	-	12,095,019	-
Deposits	2,139,716	19,336,823	11.07	2,588,873	22,124,048	11.70
- Banks	1,669,174	-	-	2,054,773	-	-
- Finance Companies	470,543	-	-	534,100	-	-
Unit Trusts	88,013	1,378,872	6.38	58,203	1,595,773	3.65
Gold	-	-	-	-	-	-
Others	593,076	422,698	-	384,991	294,799	-
Total	9,379,785	129,787,038	7.23	12,577,671	138,464,061	9.08

Solvency position of Insurance Companies- General Insurance Business

In the year 2019, the IRCSL entrusted its supervisory and regulatory framework through timely and appropriate measures over the risk based capital level of general insurers with a view to enhancing the policyholders' protection by minimizing the risk of default and to bring more transparency and resilience to the insurance sector.

The RBC methodology measures the amount of available capital relative to the risks inherent in liabilities and the adequacy of capital to absorb unforeseen losses.

Table 24, 25 and 26 demonstrate the details relating to Risk Based Capital (RBC) of general insurers in terms of the Solvency Margin (Risk Based Capital) Rules 2015. Further, the aforesaid tables illustrate RBC details for the year 2019 as per SLFRS

16 where companies are required to recognize leases in the Balance Sheet for lease contracts as 'Right of Use Asset' and 'Lease Liability' with effect from 01st January 2019. Accordingly, "Clarification on Application of SLFRS 16 – Leases to the Solvency Margin Rules 2015" has been provided by the IRCSL which came to effect from 31st December 2019.

The average CAR of general insurance business recorded for the years 2018 and 2019 stood at 166% and 213% respectively. All general insurers have exhibited resilience amidst a challenging business environment that prevailed in both global and domestic contexts by reporting CAR well above the regulatory minimum CAR requirement of 120% as at 31st December 2019, unlike the previous year. As depicted in Table 24, all general insurance companies reported CAR above the enforcement level of 160% as at 31st December 2019 as stipulated in the Enforcement Strategy on RBC issued by the IRCSL.

Further, except Amana General, all insurance companies were able to comply with the minimum TAC requirement of LKR 500 million as at 31st December 2019.

The CAR reported by the general insurance segment of NITF was 563% and 660% as at 31st December 2018 and 2019 which was not considered in Table 24 below. Though the CAR of the general insurance business is computed by considering SRCC & T, the Directions were imposed by the IRCSL stressing the fact that SRCC & T fund should be utilized for the purpose of same was established as per SRCC & T Regulation No. 1 of 2008. Accordingly, without SRCC & T, the CAR of NITF was very much below the minimum CAR requirement of 120% and has turned to negative ratios of 331% and 399% as at 31st December 2018 and 31st December 2019.

Table 24
Company-wise Analysis of Solvency Position - General Insurance Business as at 31st December 2018 & 2019

Insurer	As at 31 st December 2018 (a)			As at 31 st December 2019 (b)		
	TAC (LKR'000)	RCR (LKR'000)	CAR (%)	TAC (LKR '000)	RCR (LKR'000)	CAR (%)
Allianz Gen.	8,144,763	3,632,835	224	6,515,992	3,901,094	167
Amana Gen.	514,583	276,025	186	493,293	247,534	199
Ceylinco Gen.	5,260,754	3,044,281	173	5,978,705	3,220,685	186
Continental	1,545,782	623,260	248	1,836,265	721,772	254
Cooperative Gen.	1,353,242	759,566	178	1,698,652	907,055	187
Fairfirst	3,188,331	1,723,550	185	3,960,925	2,187,118	181
HNB Gen.	1,171,520	585,201	200	1,391,752	616,879	226
LOLC Gen.	1,093,268	634,029	172	1,742,118	832,159	209
MBSL	(244,292)	136,264	(179)	522,190	283,548	184
Orient	628,248	242,456	259	768,495	255,346	301
People's	3,036,641	1,279,479	237	3,141,246	1,264,299	248
Sanasa Gen.	116,699	148,533	79	533,062	256,532	208
SLIC	25,110,666	12,524,166	200	26,163,057	12,350,481	212
Total	50,920,206	25,609,646	166	54,745,752	27,044,502	213

Note: Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL

Company-wise Analysis of Total Available Capital (TAC) as at 31st December 2018 & 2019 - General Insurance Business

Table 25 illustrates TAC pertaining to general insurance business as at 31st December 2018 and 31st December 2019. According to Solvency Margin (Risk Based Capital) Rules, TAC is an aggregate of Tier 1 and Tier 2 capital and subtracting items specified as 'deductions'.

Overall TAC of the general insurance business was LKR 54,746 million as at 31st December 2019 and marginally increased by 7.51% compared to LKR 50,920 million recorded as at 31st December 2018. Tier 1 capital consists of issued and fully paid-up ordinary shares, capital reserves and other adjustments for retained earnings amounting to LKR 81,474 million in 2019 (2018: LKR 84,946 million). Tier 2 capital amounted to LKR 8,486 million which cannot exceed 50% of Tier 1 capital as per the Solvency Margin (RBC) Rules 2015. Deductions from TAC comprised of inadmissible loans and advances, prepayments, inventory, pledged assets, deferred income tax etc. which amounted to LKR 35,214 million in the year 2019.

The TAC of NITF as general insurance segment was LKR 6,459 million and LKR 6,540 million as at 31st December

2018 and 2019 was not considered in Table 25. However, NITF was directed to comply with minimum TAC requirement of LKR 500 million separately for general insurance business without considering SRCC & T. Accordingly, without SRCC & T, the TAC of the general insurance segment

was negative LKR 2,083 million and LKR 3,822 million as at 31st December 2018 and 31st December 2019 respectively. These matters have been highlighted to the NITF and Department of Treasury Operations, which they expect to comply with the segregation of insurance and reinsurance businesses.

Table 25
Company-wise Analysis of Total Available Capital (TAC) as at 31st December 2018 & 2019 - General Insurance Business

Insurer	TAC as at 31 st December 2018 (a) (LKR'000)	As at 31 st December 2019 (b)			
		Tier 1 (LKR'000)	Tier II (LKR'000)	Deductions (LKR'000)	TAC (LKR'000)
Allianz Gen.	8,144,763	9,262,690	-	2,746,697	6,515,992
Amana Gen.	514,583	1,386,604	302,432	1,195,743	493,293
Ceylinco Gen.	5,260,754	11,059,405	468,226	5,548,926	5,978,705
Continental	1,545,782	1,966,790	-	130,525	1,836,265
Cooperative Gen.	1,353,242	2,182,940	421,742	906,031	1,698,652
Fairfirst	3,188,331	5,789,907	-	1,828,982	3,960,925
HNB Gen.	1,171,520	1,546,966	-	155,215	1,391,752
LOLC Gen.	1,093,268	2,021,724	-	279,606	1,742,118
MBSL	(244,292)	892,131	(3,400)	366,541	522,190
Orient	628,248	858,278	-	89,783	768,495
People's	3,036,641	3,652,950	-	511,704	3,141,246
Sanasa Gen.	116,699	638,570	-	105,508	533,062
SLIC	25,110,666	40,215,323	7,296,794	21,349,060	26,163,057
Total	50,920,206	81,474,279	8,485,794	35,214,321	54,745,752

Note: Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL

Company-wise Analysis of Risk Capital Required (RCR) as at 31st December 2018 & 2019- General Insurance Business

The RCR includes credit risk, concentration risk, reinsurance risk, market risk, insurance liability risk and operational risk. Table 26 illustrates the company wise composition of various risk charges relating to the Risk Based Capital requirement as at 31st December 2018 and 2019. Total RCR recorded by general insurance

companies amounted to LKR 27,045 million (2018: LKR 25,610 million) after diversification. The general insurance sector is considered to be largely exposed to concentration risk being the main risk category which represented 31.15% (2018:31.45%) of the total risk capital charges before diversification in the year 2019. Similar to previous year, the liability risk charge was the second largest risk category of the industry, which amounted to LKR 11,050 million in the year 2019 compared to LKR 10,675 million

recorded in 2018. However, as depicted in Table 26, liability risk is the major risk that has been encountered by the majority of general insurers during 2019 similar to the preceding year. Market risk represented 29.28% (2018:28.37%) of the total risk capital charges before diversification and became the third largest risk category increased marginally by 8.90% in 2019 compared to the year 2018. Accordingly, these three risk categories represented above 90% share of total risk capital charges before diversification.

Table 26
Company-wise Analysis of Risk Capital Required (RCR) as at 31st December 2018 & 2019- General Insurance Business

Insurer	As at 31 st December 2018 (a) (LKR '000)							RCR before Diversification	RCR after Diversification
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk			
Allianz Gen.	171,105	1,756,511	850,202	39,489	2,274,785	292,628	5,384,719	3,632,835	
Amana Gen.	19,073	156,677	35,724	11,204	160,367	29,784	412,829	276,025	
Ceylinco Gen.	200,544	1,310,057	784,432	201,960	1,724,169	244,779	4,465,941	3,044,281	
Continental	110,459	72,465	238,212	23,173	434,587	46,655	925,551	623,260	
Cooperative Gen.	102,980	216,076	296,847	8,623	429,092	52,797	1,106,416	759,566	
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	130,323	185,458	21,123	526,920	49,737	925,762	634,029	
MBSL	4,164	81,762	26,363	4,666	69,387	8,651	194,994	136,264	
Orient	24,023	124,491	32,290	3,758	156,201	17,973	358,736	242,456	
People's	136,663	612,648	237,891	6,239	802,455	78,781	1,874,677	1,279,479	
Sanasa Gen.	5,793	87,400	43,982	1,852	51,805	7,040	197,873	148,533	
SLIC	144,615	5,456,490	6,496,868	102,198	2,744,674	690,886	15,635,730	12,524,166	
Total	1,026,070	10,943,021	9,874,091	610,558	10,675,134	1,671,351	34,800,226	25,609,646	

Insurer	As at 31 st December 2019 (b) (LKR '000)							RCR before Diversification	RCR after Diversification
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk			
Allianz Gen.	150,270	2,112,929	809,124	56,456	2,314,253	271,122	5,714,155	3,901,094	
Amana Gen.	20,821	155,490	14,344	8,341	144,798	26,585	370,379	247,534	
Ceylinco Gen.	251,653	1,434,138	889,040	196,997	1,621,495	246,035	4,639,358	3,220,685	
Continental	101,481	106,767	258,939	26,567	523,304	57,573	1,074,631	721,772	
Cooperative Gen.	98,794	235,237	379,357	14,822	537,405	60,446	1,326,062	907,055	
Fairfirst	50,803	942,834	880,683	141,810	839,011	121,529	2,976,669	2,187,118	
HNB Gen.	60,806	211,162	119,661	12,983	463,003	49,564	917,179	616,879	
LOLC Gen.	22,708	136,823	352,249	39,798	619,815	63,866	1,235,259	832,159	
MBSL	7,590	228,732	30,136	4,380	82,290	16,600	369,727	283,548	
Orient	25,556	147,984	15,740	3,229	166,580	19,821	378,910	255,346	
People's	170,641	241,118	504,659	17,730	847,603	85,957	1,867,709	1,264,299	
Sanasa Gen.	7,875	173,878	66,600	1,284	57,945	11,500	319,082	256,532	
SLIC	187,158	5,313,217	6,432,786	67,442	2,832,715	704,002	15,537,320	12,350,481	
Total	1,156,156	11,440,310	10,753,318	591,840	11,050,217	1,734,600	36,726,441	27,044,502	

Note: Figures recorded for 2019 were obtained from the Annual Returns submitted to the IRCSL for year ended 31st December 2019 except for MBSL

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, net earned premium generated from main sub-classes of general insurance business including SRCC & T was LKR 88,002 million and grew by 8.83% compared to LKR 80,863 million recorded in year 2018. The growth in GWP favorably influenced the said growth rate recorded in the net earned premium in year 2019.

Total net claims incurred including SRCC & T increased during the last five years. However, during 2019 it displayed a moderate increase and amounted to LKR 58,436 million depicting a year on year growth of 11.28% (2018: 9.85%). Net claims incurred by all sub classes of general insurance business had increased in year 2019 compared to previous year except for miscellaneous insurance business.

Similar to previous years, motor insurance business has recorded the highest net earned premium, which amounted to LKR 58,753 million (2018: LKR 56,891 million) and represented 71.27% (2018:74.05%) of the sub total of net earned premium while indicating a marginal increase of 3.27% compared to same recorded in 2018. Further, motor insurance business maintained its position as the largest sub sector of net claims incurred amounted to LKR 34,704 million (2018: LKR 34,682 million) which represented 59.39% (2018: 66.04%) of the total claims incurred including SRCC & T in 2019 which resulted in net claims ratio of 59.07% (2018: 60.96%).

Health insurance business has recorded a net earned premium amounting to LKR 15,315 million (2018: LKR 12,386 million) representing 18.58% of total net earned premium and recorded a growth of 23.65% for the year 2019 compared to the previous year. This class of business recorded the second highest net claims incurred amounting to LKR 16,739 million (2018: LKR 12,148 million) representing 28.65% (2018: 23.13%) of the total net claim incurred

(including SRCC & T) and reported a significant growth of 37.79% year on year. However, high cost in health care industry was a challenge for all insurance companies which resulted in recording significant net claims ratio of 109.30% compared to 98.08% in 2018.

Miscellaneous insurance business recorded a net earned premium of LKR 5,008 million and increased by 11.48% compared to LKR 4,492 million recorded in year 2018. Despite the said growth in net earned premium, net claims incurred by miscellaneous insurance business had reduced by 5.81% compared to year 2018. Further this class of business has recorded net claims ratio of 65.03% in 2019 compared to claims ratio of 76.97% recorded in year 2018 by showing a reduction of 11.94%. The said decline of net claims incurred in miscellaneous class was largely due to decrease in net claims incurred by National Natural Disaster Insurance Scheme (NNDIS) under NITF to LKR 893 million in year 2019 compared to LKR 1,358 million reported in year 2018.

Net claims incurred for fire insurance business amounted to LKR 2,581 million which shows a notable growth of 52.12% compared to LKR 1,697 million recorded in year 2018. This sub class has reported the highest net claim ratio of 118.20% compared to the claim ratio of 86.69% recorded in year 2018, largely due to continuous hazards caused by adverse weather conditions coupled with Easter bombing in April 2019 causing

significant damages to property under fire class.

Similar to previous years, marine insurance recorded the lowest net claims incurred amounting to LKR 463 million (2018: LKR 454 million) and reported claims ratio of 39.45% (2018:41.10%).

During the year under review, SRCC & T reported robust growth in net earned premium and net claims incurred amounting to LKR 5,569 million (2018: LKR 4,032 million) and LKR 693 million (2018: LKR 76 million) respectively due to the consequences of Easter Sunday attack in April 2019.

As reflected in Table 27 and Chart 20, general insurance companies have reported the highest expenses (including SRCC & T) which amounted to LKR 33,474 million in the year 2019 when compared to last five years. Accordingly, expenses showed an increase of 10.36% compared to LKR 30,333 million recorded in year 2018. Net expenses which considered for SRCC & T by NITF have increased to LKR 1,412 million in 2019 from LKR 843 million recorded in year 2018.

Net combined ratio which reflects the aggregate of net claims ratio and net expenses ratio has slightly increased to 104.44% in 2019 from 102.45% recorded in year 2018. The combined ratio which reflects the total claims and expenses incurred by the general insurance business recorded above 100% since 2017.

Chart 20
Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business

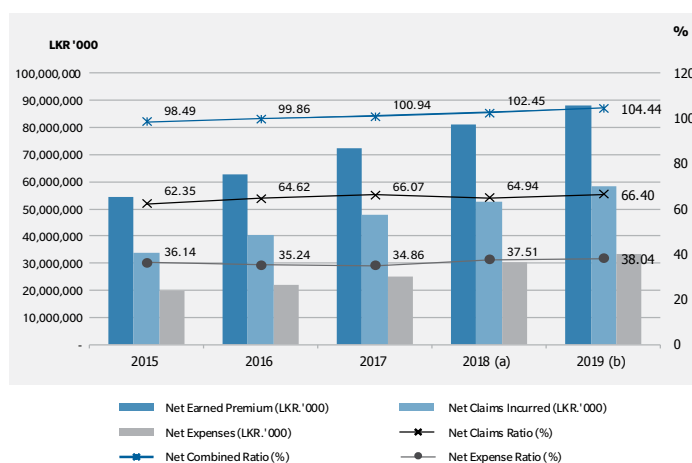


Table 27
Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business

Class	Net Earned Premium (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	1,283,463	1,213,542	1,721,160	1,957,237	2,183,580
Marine	797,026	903,170	991,573	1,104,376	1,173,537
Motor	37,958,834	44,593,900	50,580,010	56,891,349	58,752,984
Health	8,071,777	9,349,093	11,435,476	12,386,134	15,315,057
Miscellaneous	3,270,599	3,306,901	3,891,564	4,492,033	5,007,719
Sub Total	51,381,699	59,366,606	68,619,783	76,831,128	82,432,877
SRCC & T	2,914,630	3,274,297	3,734,321	4,031,846	5,568,739
Total	54,296,329	62,640,903	72,354,104	80,862,975	88,001,616

Class	Net Claims Incurred (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	645,231	1,024,290	1,640,062	1,696,698	2,581,074
Marine	295,624	266,057	345,331	453,917	462,919
Motor	24,274,415	28,966,019	31,134,209	34,681,762	34,703,545
Health	6,958,816	8,065,476	10,511,212	12,148,224	16,739,265
Miscellaneous	1,677,736	2,121,221	4,186,860	3,457,623	3,256,712
Sub Total	33,851,822	40,443,063	47,817,674	52,438,224	57,743,515
SRCC & T	780	33,677	(10,519)	76,068	692,926
Total	33,852,602	40,476,740	47,807,154	52,514,292	58,436,440

Class	Net Claims Ratio (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	50.27	84.40	95.29	86.69	118.20
Marine	37.09	29.46	34.83	41.10	39.45
Motor	63.95	64.96	61.55	60.96	59.07
Health	86.21	86.27	91.92	98.08	109.30
Miscellaneous	51.30	64.15	107.59	76.97	65.03
Sub Total	65.88	68.12	69.68	68.25	70.05
SRCC & T	0.03	1.03	(0.28)	1.89	12.44
Total	62.35	64.62	66.07	64.94	66.40

Description	Net Expenses (LKR '000)				
	2015	2016	2017	2018 (a)	2019 (b)
Net Expenses for all classes of General Insurance Business except SRCC & T	19,134,713	21,421,928	24,491,746	29,490,544	32,062,276
SRCC & T	486,985	653,706	732,786	842,515	1,411,974
Total	19,621,698	22,075,634	25,224,532	30,333,059	33,474,250

Description	Net Expense Ratio (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	37.24	36.08	35.69	38.38	38.90
Net Expense Ratio of General Insurance Business	36.14	35.24	34.86	37.51	38.04

Description	Net Combined Ratio (%)				
	2015	2016	2017	2018 (a)	2019 (b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	103.12	104.21	105.38	106.63	108.94
Net Combined Ratio of General Insurance Business	98.49	99.86	100.94	102.45	104.44

Number of Policies representing Gross Written Premium - General Insurance Business

Table 28 reflects the number of insurance policies pertaining to different sub-classes of general insurance business which had contributed to generate GWP from 2015 to 2019.

The total number of insurance policies related to all sub-classes of general insurance business has increased by 3.64% to 6,728,073 in 2019 from 6,492,003 policies reported in 2018.

Similar to previous year motor insurance business accounted for the largest number of policies from a single sub-class of general insurance business in the year 2019 and represented 88.61% (2018: 86.49%) of total policies in year 2018 which comprised of third party insurance policies of 2,895,485 (2018: 2,821,529) and comprehensive insurance policies of 3,065,956 (2018: 2,793,372). Accordingly, majority of motor policies was represented by comprehensive insurance policies indicating that people tend to obtain insurance to cover wider range of protection, than merely look for a minimum level of protection for low premium to fulfil compulsory requirement. Number of insurance policies of

Table 28
Number of Policies representing Gross Written Premium - General Insurance Business

Class	No. of policies				
	2015	2016	2017	2018 (a)	2019 (b)
Fire	227,800	246,058	241,884	245,027	232,469
Marine	190,720	191,966	172,733	187,338	179,084
Motor	4,531,187	5,075,622	5,390,222	5,614,901	5,961,441
3rd Party Only	2,460,596	2,628,255	2,784,920	2,821,529	2,895,485
Comprehensive	2,070,591	2,447,367	2,605,302	2,793,372	3,065,956
Health	15,053	16,040	11,893	17,267	23,393
Miscellaneous	202,038	238,921	311,084	427,470	331,686
Total	5,166,798	5,768,607	6,127,816	6,492,003	6,728,073

health insurance business have increased by 35.48% in 2019 compared to the number of insurance policies recorded in 2018. However, the number of miscellaneous insurance policies have reduced substantially by 22.41% in 2019. Further number of marine & fire insurance policies have slightly decreased by 4.41% and 5.13% respectively in 2019 compared to 2018.

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

Table 29 and Chart 21 illustrate the details of new, renewed and policies in force for years 2018 and 2019. The total number of policies in force pertaining to all classes of general insurance business amounted to 6,672,241 in 2019 (2018: 6,393,900) and increased by 4.35% compared

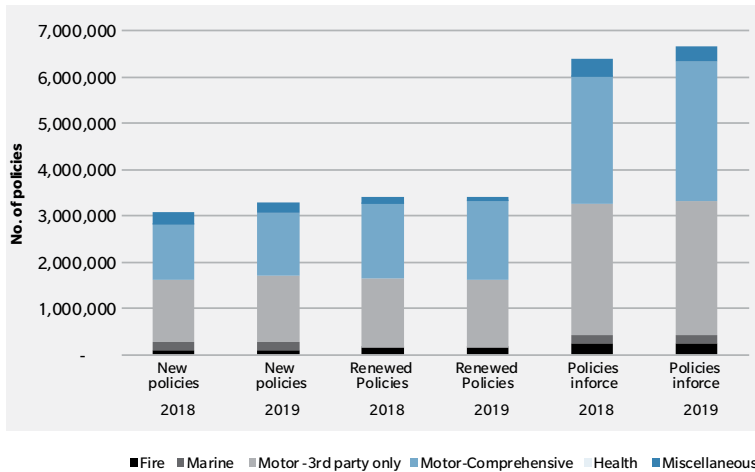
to 2018. Similar to previous years, motor insurance represented the largest number of insurance policies in force as at end of the year 2019 by recording 5,935,214 policies (2018: 5,571,194) comprising of third party policies of 2,897,534 (2018: 2,819,590) and 3,037,680 comprehensive policies (2018: 2,751,604). During the year, policies in force for marine, fire and miscellaneous have decreased by 3.55%, 5.65% and 18.90% respectively compared to previous year. Health policies in force have increased by 40.37% in 2019 compared to 2018.

In the year 2019, insurance companies had underwritten 3,285,509 new policies by recording 7.12% increase compared to previous year. Total renewed policies stood at 3,414,769 compared to 3,394,775 policies renewed in year 2018.

Table 29
Details of New, Renewed and Policies in Force - General Insurance Business

Category	2018			2019		
	New policies	Renewed Policies	Policies inforce at year end	New policies	Renewed Policies	Policies inforce at year end
Fire	87,735	157,142	244,976	85,417	149,869	231,127
Marine	183,594	4,256	178,908	176,076	4,087	172,564
Motor	2,523,101	3,100,420	5,571,194	2,789,135	3,161,298	5,935,214
3rd party only	1,329,968	1,492,035	2,819,590	1,438,245	1,456,199	2,897,534
Comprehensive	1,193,133	1,608,385	2,751,604	1,350,890	1,705,099	3,037,680
Health	9,790	7,465	16,665	15,574	7,794	23,392
Miscellaneous	262,811	125,492	382,157	219,307	91,721	309,944
Total	3,067,031	3,394,775	6,393,900	3,285,509	3,414,769	6,672,241

Chart 21
Details of New, Renewed and Policies in Force - General Insurance Business



Reinsurance Business

The NITF commenced accepting the risk of reinsurance from year 2008 with its primary objective of being the ‘National Reinsurer’ to all primary insurance companies operating in Sri Lanka. It is mandatory for general insurance companies in Sri Lanka to obtain 30% of the total sum of reinsurance business from NITF since 2013 in terms of the Government Gazette Notification No. 1791/4 of 31st December 2012.

During the year 2019, the NITF has reported LKR 4,174 million as reinsurance premium income, increased by 2.89% compared to LKR 4,056 million recorded in 2018. In 2019, LKR 449 million had been ceded to reinsurers as retrocession premium by NITF which reduced by 22.23% year on year.

The NITF has incurred claims amounted to LKR 3,560 million in 2019 compared to LKR 1,504 million in 2018 which showed a notable growth of 137% year on year due to relevant share of few large claims ceded to NITF by an insurer.

However, due to high retention levels retained by NITF, only LKR 498 million had been claimed from reinsurers in 2019. Further, no claims had been ceded to reinsurers during 2018 and 2017. Accordingly, IRCSL informed NITF to revisit the effectiveness of retrocession arrangement. Due to substantial

increase in claims incurred in year 2019, reinsurance business of NITF had incurred underwriting loss and Net loss before tax of LKR 763 million and LKR 662 million respectively compared to underwriting profit and Net profit before tax of LKR 1,130 million and LKR 1,342 million respectively generated in year 2018.

Total assets of reinsurance operation had showed a notable growth of 81.63% to LKR 6,690 million in 2019 compared to 2018. Investments in government debt securities reported under NITF’s reinsurance business has significantly improved by 318% to LKR 2,484 million as at 31st December 2019 against LKR 594 million reported as at 31st December 2018. Accordingly, out of total assets under reinsurance business, Government debt securities represented 37.13%. Further receivables from retrocession arrangements represented 23.61% of the total assets. However, there is no adequate financial investments to support the reinsurance business where only 47% of the reinsurance liability has been covered via Financial Investments.

The CAR reported by reinsurance segment of NITF was very much below the minimum CAR requirement of 120% and has turned to negative ratios of 67% and 64% as at 31st December 2018 and 31st December 2019. Similarly, the TAC

of reinsurance business was far below the minimum TAC requirement of LKR 500 million and further deteriorated to negative figures of LKR 1,085 million and LKR 899 million as at 31st December 2018 and 31st December 2019 respectively. These matters have been highlighted to the NITF and Treasury, which they expect to comply with the segregation of insurance and reinsurance businesses.

Insurance Brokering Companies

By the end of 2019, 67 insurance brokering companies operated in the market and generated a Gross Written Premium (GWP) amounting to LKR 29,317 million. Accordingly, total GWP generated through insurance brokering business recorded a growth of 16.97% in 2019 when compared to LKR 25,063 million generated in 2018. This total GWP consisted of premium income generated through long term insurance business and general insurance business which amounted to LKR 1,095 million and LKR 28,223 million respectively. Out of the total GWP generated, 96.26% represented GWP of general insurance business and only 3.74% represented GWP of long term insurance business.

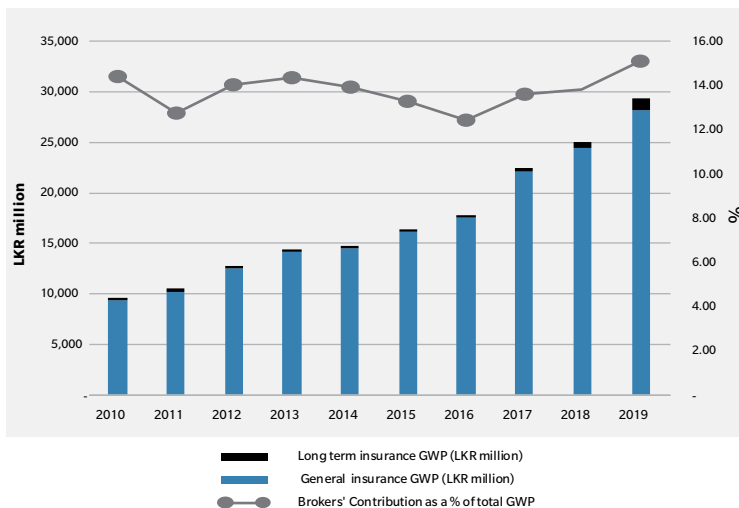
Insurance brokering companies have generated 26.20% of the total GWP of general insurance business which amounted to LKR 107,732 million (including SRCC & T premium). Similar to previous years, the contribution of insurance brokering companies towards long term insurance business was insignificant in 2019. As per the details provided by the brokering companies, only 1.23% of the total GWP of long term insurance business (LKR 88,781 million) was generated through them.

In 2019, thirty-one insurance brokering companies procured GWP exceeding LKR 100 million each and these insurance brokering companies collectively generated GWP amounting to LKR 27,897 million. The remaining thirty-six insurance brokering companies generated LKR 1,420 million as depicted in Table 30.

Table 30
Gross Written Premium generated through Insurance Brokering Companies - 2019

No.	Name of the Broker	Gross Written Premium - 2019					
		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	24,536	2.24	985,649	3.49	1,010,184	3.45
2	Aitken Spence Insurance Brokers (Pvt) Ltd.	-	-	857,685	3.04	857,685	2.93
3	Alfinco Insurance Brokers (Pvt) Limited	208	0.02	946,017	3.35	946,225	3.23
4	Allion Insurance Brokers (Pvt) Ltd.	33,806	3.09	86,644	0.31	120,450	0.41
5	AMTRUST Insurance Brokers (Pvt) Ltd.	2,503	0.23	152,818	0.54	155,320	0.53
6	Aseki Insurance Brokers (Pvt) Ltd.	-	-	2,127,693	7.54	2,127,693	7.26
7	Assetline Insurance Brokers Limited	28,858	2.64	2,117,281	7.50	2,146,139	7.32
8	Ceynergy Insurance Brokers (Pvt) Ltd.	21,977	2.01	146,430	0.52	168,406	0.57
9	CF Insurance Brokers (Pvt) Limited	846	0.08	3,385,228	11.99	3,386,074	11.55
10	Colombore Insurance Brokers (Pvt) Ltd.	7,416	0.68	311,527	1.10	318,943	1.09
11	Commercial Insurance Brokers (Pvt) Ltd.	25,565	2.34	2,487,291	8.81	2,512,856	8.57
12	Delmege Insurance Brokers (Pvt) Limited	202,480	18.50	1,237,916	4.39	1,440,396	4.91
13	Essajee Carimjee Insurance Brokers (Pvt) Limited	137,288	12.54	547,992	1.94	685,280	2.34
14	Equity Insurance (Pvt) Limited	19	0.00	106,529	0.38	106,547	0.36
15	Find My Insurance & Reinsurance Brokers (Pvt) Ltd.	14,926	1.36	142,861	0.51	157,787	0.54
16	Finlay Insurance Brokers (pvt) ltd	24,316	2.22	1,176,712	4.17	1,201,028	4.10
17	George Steuart Insurance Brokers (Pvt) Limited	26,996	2.47	874,878	3.10	901,875	3.08
18	Global Insurance Brokers and Services (Pvt) Ltd.	9,018	0.82	151,098	0.54	160,116	0.55
19	InsureMe Insurance Brokers (Pvt) Ltd.	66,410	6.07	510,271	1.81	576,681	1.97
20	Life & General Ins. Brokers Ceylon (Pvt) Ltd.	7,230	0.66	181,784	0.64	189,014	0.64
21	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	31,714	2.90	997,180	3.53	1,028,894	3.51
22	Mercantile Insurance Brokers (Pvt) Ltd.	9,506	0.87	383,300	1.36	392,806	1.34
23	Nations Insurance Brokers Limited	105,282	9.62	2,155,293	7.64	2,260,575	7.71
24	Procure Insurance Brokers (Pvt) Limited	8,708	0.80	363,020	1.29	371,728	1.27
25	Protection & Assurance Ins. Brokers (Pvt) Ltd.	915	0.08	621,724	2.20	622,639	2.12
26	Protection & Utmost Insurance Brokers (Pvt) Ltd.	103,239	9.43	74,703	0.26	177,942	0.61
27	Reliance Insurance Brokers (Pvt) Ltd.	48,743	4.45	1,103,794	3.91	1,152,537	3.93
28	Senaratne Insurance Brokers (Pvt) Ltd	21,728	1.98	1,279,658	4.53	1,301,386	4.44
29	Senkadagala Insurance Brokers (Private) Ltd.	-	-	976,401	3.46	976,401	3.33
30	Strategic Insurance Brokers (Pvt) Limited	12,782	1.17	87,835	0.31	100,617	0.34
31	Zenith Insurance Brokers (Pvt) Limited	36,456	3.33	307,031	1.09	343,487	1.17
	Sub Total	1,013,469	92.60	26,884,242	95.25	27,897,711	95.17
	Other Insurance Brokering Companies (36)	81,176	7.40	1,338,402	4.75	1,419,579	4.83
	Grand Total	1,094,645	100	28,222,645	100	29,317,290	100

Chart 22
Gross Written Premium generated through insurance brokering companies from 2010 to 2019



Note: In 2019, GWP of Redmo Swiss Insurance Brokers has been excluded from general insurance due to non-submission of data.

REVIEW OF OPERATIONS

SUPERVISORY REVIEW

Insurance Companies

Legislation

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 IRCSL 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, long term insurance companies are required to submit Actuarial Reports and Abstracts along with their Annual Statutory Returns.

Due to numerous requests from insurance companies to grant an extension of time to file the Annual/Actuarial returns, the IRCSL granted a one-month extension up to 31st May 2019 considering the difficulties encountered with the Easter Sunday attack.

The Commission monitored the timely submission of Returns and examined them for accuracy and compliance with the relevant Rules and Regulations of the IRCSL. Insurance companies were advised to rectify the deviations observed from statutory requirements, within stipulated deadlines. Follow up actions were also taken by the IRCSL where necessary. In addition, certain matters observed during the review of returns were addressed at the onsite inspections conducted.

Based on the information submitted, the IRCSL observed that, certain insurers had been making payments to its parent company for using the acronym and / or trade mark of its parent company, classifying same as Royalty payments. During the year, the IRCSL issued Direction # 20 'Prohibition of payments to

parent, related and / or unrelated companies by insurers for using the 'acronym and / or trade mark' prohibiting to make such payments.

Further, many insurance companies have recorded significant amounts of 'premium deposits received from policyholders/proposers not recognized to GWP' as liability balances in different forms such as excess, advance, unidentified, proposal and expired policy premiums etc. Insurers had not taken adequate actions to refund these amounts to policyholders or proposers. Certain companies have written back/transferred such liabilities to Income Statement as income after keeping for some time period. Therefore, the IRCSL instructed insurers to take all efforts to refund such monies, which belong to the public and not to write back/ transfer same to the income statement with effect from financial year 2019, until such time the IRCSL issues further instructions.

b) Assessment of Financial Vulnerability of Insurance Company and Group

Insurance companies are required to submit their Risk Assessment Report (RAR) to the IRCSL each year, as a part of their Annual Returns. Accordingly, during the year, the IRCSL 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

In terms of Section 31(1) of the Act, all insurance companies are required to inform annually, their Reinsurance Arrangements to the IRCSL and comply with the terms and conditions on reinsurance placements issued by the Commission. The IRCSL reviews the

reinsurance arrangements in order to ensure the reinsurance covers are obtained from the 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 has 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 their 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 IRCSL within forty-five days from the end of each quarter as per the provisions in the Act.

Quarterly Returns that were submitted during the year 2019 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 for both long term and general insurance companies. Further, a comprehensive ratio analysis on profitability, expenses and claims has been carried out to assess the insurers' performance. These ratios are analyzed and compared with the industry averages as early warning indicators.

Along with the Quarterly Returns, insurers are required to submit Compliance Certifications in order to verify that they comply with the provisions of the Act, Rules and Regulations prescribed by the IRCSL and the relevant provisions of the Financial Transactions Reporting Act, No. 6 of 2006.

e) **Monthly Returns**

During 2019, four insurance companies were required to submit Monthly Returns to the IRCSL. Out of which, three companies were required to submit same under RBC framework and one company required to submit only the Balance Sheet and Income Statement. Said decision was taken due to non-compliances reported by these companies and the requirement to examine their financial stability and compliance in a frequent manner. Accordingly, the Commission reviewed the Monthly Returns submitted by these companies, in order to ensure their financial position compliance with the provisions of the Act, Rules and Regulations.

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 required 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 the 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 comply with the Solvency Margin (Risk Based Capital) Rules and rectify the same within stipulated timelines.

3. Monitoring Compliance with Investment Specifications

a) **Investment in Government Securities**

All insurance companies are required to invest their insurance funds 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 should be invested in government securities. The Commission monitors compliance with the said provision Monthly, Quarterly and Annual basis, based on the returns and relevant supporting documents submitted.

Any non-compliance or deviations observed by the Commission are communicated 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 Monthly, Quarterly and Annual basis, based on the returns submitted to ensure compliance with Determination 1.

During the year, the IRCSL observed non-compliances and

deviations with the requirements of Determination 1, of an insurer. Accordingly, the company was informed to do necessary rectifications to comply with Determination 1 with immediate effect. The company has subsequently made relevant corrections and complied with the Determination 1.

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 take corrective actions by requiring such company to comply with the Enforcement Strategy on RBC. The purpose of this is to identify troubled insurance companies at early stages so that practical and effective remedies can be introduced to resolve problems before they grow beyond control and become a significant enforcement issue. This will enable the Commission to commence supervisory intervention before a significant deterioration of financial conditions or Solvency concerns leading to a crisis situation. During the year, five companies reported Capital Adequacy Ratio between 120% to 160% and accordingly they were required to comply with requirements under the Enforcement Strategy.

5. Onsite Inspections

During the year 2019, 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 enterprise risk management, internal controls, corporate governance, financial condition, investments, underwriting and other operational functions, 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 segregating 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.

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 2018

Information and statistics of the insurance industry submitted by insurance companies for the year ended 31st December 2018 were collated and published in "Industry Handbook - 2018" 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. Risk Tool

Based on the financial and other information submitted by insurers through Annual Returns and Quarterly Returns, the IRCSL developed an internal risk tool to identify each company's core risks as early warning mechanism. Accordingly, each company's risk is categorized under low, moderate and high based on the Capital Adequacy Ratio, Total Available capital, Underwriting Ratio, profitability ratio etc... and supervisory intervention will be taken.

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

a. Onsite Inspection

The Commission in collaboration with the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka conducted three AML focused onsite inspections in terms of Section 15(1) (e) read with Section 18 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), to assess whether the customer due diligence process of the insurance companies was in line with the legal and regulatory requirements as set out in the FTRA and rules and regulations issued thereunder. Observations made during the onsite inspections were communicated to the respective insurers in order to obtain their responses.

b. Meeting with the Onsite Team of the Financial Action Task Force (FATF)

The FATF, the Global policy setter on Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) listed Sri Lanka as a jurisdiction with strategic AML/CFT deficiencies in its compliance document which

is more commonly identified as "the grey list" and had provided a time bound action plan for implementation. One of the action plan items is related to supervision of financial institutions including the insurance sector.

Accordingly, the IRCSL met the team of evaluators who visited Sri Lanka on 16th September 2019 for the discussion together with officers of Financial Intelligence Unit of Central Bank of Sri Lanka on practical implementation of risk-based AML/CFT supervision in the insurance sector.

c. Development and update of Risk Tool relating to AML

In terms of the provisions of the Financial Transactions Reporting Act, No. 6 of 2006, IRCSL in collaboration of the FIU of Central Bank have initiated assessing the Money Laundering vulnerabilities of all life Insurance Companies' for year 2020.

Accordingly, a questionnaire has been developed collectively considering group wide supervision as well. The questionnaire has been developed for the purpose of collection of wide range of information related to each company, such as products, customers, politically exposed persons (PEP's), distribution channels, Corporate Governance, Policies & Procedures, Risk management, employee due diligence, compliance, internal controls etc.

The questionnaire was communicated to Life Insurers to obtain their responses in order to compile data to the Risk Tool and evaluate the level of risks of companies for year 2020.

10. 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 has been 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.

11. SLFRS 16 Leases

The Institute of Chartered Accountants of Sri Lanka has newly issued SLFRS 16 - Leases. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represent such transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The Insurance Association of Sri Lanka (IASL) made a request to issue an amended RBC Rule and Solvency Reporting template to affect presentation limitations occurred to the Financial Statements that impact the solvency positions of companies due to implementation of this standard. Accordingly, initiatives were taken to assess the impact to the industry on implementation of SLFRS 16.

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.

During 2019, majority of insurance brokering companies submitted their Quarterly Returns to the Commission within the deadline. The Commission reviewed the Quarterly Returns submitted by the 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 clarifications and 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 Inspections

During the year 2019, the Commission carried out ten on-site inspections at insurance brokering companies to assess the 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 Registration

Applications were received from the insurance brokering companies for renewal of their annual licenses for the year 2020. 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 the proposed insurance brokering 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

New registrations were not granted by the Commission during the year. However, the license to carryout General Insurance Business was issued to Sanasa General Insurance Company upon completion of the segregation process. Accordingly, the number of registered insurers are 28 with one insurance company in the liquidation process for the purpose of winding up its operations.

Appendix I: Provides names of all 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 its financial viability was in serious doubt suspended its registration 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 in compliance with the provisions of the Act. Since, the Company failed to do so, the suspension imposed on the Company remained effective from 20th July 2017 till 2nd April 2019, until it complied with the regulatory capital requirements as per the Act. The suspension imposed on the company was lifted from 3rd April 2019, subject to the company agreeing to comply with certain conditions.

The suspension imposed on Ceylinco Takaful Limited in year 2009 continued throughout the year 2019. Although Ceylinco Takaful Limited has settled all claims, other than few claims which are the subject matter of litigation, the claim settlement process could not be

concluded in view of such Court cases.

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 and 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

As per the facultative reinsurance arrangements submitted by an insurer as at 31st March 2018 & 30th June 2018, the company had reinsured with Kenya Reinsurance Corporation Limited (Kenya Re), which had ratings below the Commission prescribed ratings for terms and conditions on reinsurance arrangements. It was further observed that the aforementioned reinsurance arrangements were placed after the date of downgrading the ratings of the Kenya Re. As the Company continued with the said Reinsurer for the next quarter despite the ratings of the said Reinsurer being below the Commission prescribed ratings, the Commission issued a Warning to the said insurer for non-compliance with the aforesaid Reinsurance Terms & Conditions.

In terms of Section 57 of the Act, the Commission has issued a Direction, in year 2012, to the same insurer requiring them to refrain from obtaining facilities from Banks without the prior written approval of the Commission. However, it was noted that in 2016 and in 2017, the company has entered into agreements with Bank of Ceylon to obtain loan facilities, pledging shares of its Maldivian company and subsequently its life company respectively. The said two transactions had been carried out without obtaining the prior approval of the Commission, and thereby violated the aforesaid Direction. Therefore, the

Commission issued a warning to the company for the above two violations in 2019.

The Commission issued a warning to the Principal Officer and the Chief Financial Officer of an insurer for violating the provisions of the Act, and Directions, dated 2nd August 2017, issued by the Commission. This decision was arrived at taking into consideration the non-submissions/ delayed submissions/ inaccurate submissions of returns and other required information, by the insurer to the Commission.

Direction

The Commission observed that an insurer has been conducting its affairs in a manner that is detrimental to the national interest and prejudicial to the interests of its policyholders. It was further observed that the Principal Officer and the Chief Financial Officer of the said Company have failed to perform their duties with due diligence / care. Therefore, in consideration of the above, the Commission issued Directions to the insurer under Section 57 of the Act, out of which one Direction was issued in respect of removal of its Principal Officer and the Chief Financial Officer.

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

The Commission received four new business proposals during the year from persons who are interested to be registered as insurance brokers. The Commission granted name approvals to the said four persons to incorporate companies during the year. The Commission also granted registration to the said companies as insurance brokers during the year.

Applications from 64 insurance brokering companies, seeking renewal of registration for year 2020 were received by the Commission during the year, and renewal of registration was granted to 62 companies in view of them fulfilling necessary requirements

under the Act. The renewal of 2 insurance brokering companies were pending as at 31st December 2019 as their net capital position was below the regulatory requirement prescribed by the Commission. However, one insurance broker subsequently fulfilled the necessary requirements, enabling the Commission to renew its registration. The other company's renewal is pending as it failed to comply with the requirements.

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

Enforcement Action

Insurance Brokering Companies

Warnings

Letters of warning were issued to two insurance brokering companies by the Commission during the year under review. One warning was issued since the company failed to comply with the Direction issued to them in terms of Section 96 A of the Act which required the company to submit Returns on a monthly basis for a period of six months.

The other warning was issued to an insurance brokering company by the Commission, since the company failed to comply with Section 86 (1) of the Act.

Section 86 (1) of the Act read with Rule 7 published in Gazette Notification No. 1642/16 of 25th February 2010, inter alia, requires every insurance broker to submit its quarterly returns to the Commission within forty-five days from the end of each quarter, certified by the Principal Officer and a Director of the brokering company.

Directions

Having observed that the net capital statues of two insurance brokering companies was less than the regulatory requirement of LKR 2.5 million, the Commission directed them to infuse

capital and to submit Form 06 certified by the Registrar of Companies together with the Audited Financial Statements after the infusion to demonstrate compliance. We further required them to submit Returns, in the format of Quarterly Returns, on a monthly basis, in addition to the Quarterly Returns that the company is required to submit to Commission.

Suspensions

Having observed that five insurance brokering companies have failed to demonstrate compliance with the minimum net capital requirement within one-month period from the quarter end it became non-compliant as required by Direction # 19, the Commission suspended the registration of such companies until they demonstrated compliance. As two brokering companies had failed to demonstrate compliance within the year, its suspension was further extended by the Commission.

Registration of Loss Adjusters and Renewal of Registration of Loss Adjusters

The Commission granted registration to 6 persons as loss adjusters during the year. The Commission also renewed the registration granted to 10 persons as loss adjusters during the year.

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 this Act.

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

Regulatory/Advisory Measures

1. 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. The said cover was approved by the Commission, in terms of Section 101 of the Act, for a period of one year from June 2019.

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 Commission, except in relation to reinsurance business and for such other insurances that the Commission has given specific approval. 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.

2. The Commission has amended the Determination # 9 in respect of renewal of registration fee of Insurance Brokers on 27th February 2018. 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 on 13th August 2018. Thereafter, SLIBA requested the Commission for a further reduction in the renewal of registration fee of Insurance Brokers in year 2019. However, the Commission did not accede to the request, as the said amendment was effected after considering the comments of SLIBA.
3. 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 specified in Rule 2 (c) (i), may be considered by the Commission on a case by case basis.
4. The Commission has required an insurance company to furnish Monthly Returns to the Commission, for the 1st three months from the commencement of its business. Subsequently, after having reviewed their financial status, Commission required such company to continue monthly reporting until further notice. After having submitted monthly returns for a period of 12 months, the company requested the Commission to remove the monthly reporting requirement. The Commission acceded to their request as the company was in compliance with the requirements.
5. The Office of the Insurance Commission of Thailand has requested the Commission to enter into a Memorandum of Understanding (MOU) recognizing the increasing international activity in insurance markets and the corresponding need for mutual cooperation between the authorities. As a means for improving effectiveness in administering and enforcing the insurance laws of respective jurisdictions, the Commission granted approval to execute the said MOU and to appoint a representative to sign the MOU on behalf of the Commission. However, the execution of the MOU got postponed due to Easter Attacks in April 2019.
- Section 5 of the Act empowers the Commission to enter into any bi-lateral or multi-lateral memorandum of understanding pertaining to the sharing of information, with any local or foreign person, for the purpose of fulfilling its object and responsibility.
6. The Commission received a request from an insurance company to change their company name whilst in the process of effecting the segregation of long term insurance business and general insurance business. Accordingly, the Board of directors of such company has recommended their name change for business and branding purposes.
- A letter was issued by the Commission to the Registrar General of Companies granting approval, in terms of Section 96 of the Act, to use the word "Insurance" as part of their company name.
- In terms of Section 96 of the Act, no person, other than an insurer, a broker registered under the Act or an insurance agent of such an insurer or broker, shall, without the written approval of the Commission, use as part of its name, title or description, the word "insurance" or any of its derivatives or any other similar word in any language, to indicate that such person carries on insurance business in Sri Lanka in that name, title or description, or make any representations to such effect in any bill head, letter head, notice or advertisement.
7. The Commission has granted authorization to a number of applications made by insurance brokering companies during the year 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 approval from the Commission for the product that they wish to place.
- Having reviewed the requests of a number of insurance brokers for renewal of overseas health insurance products, the Commission has renewed the authorization period for a further year.
8. The Commission has granted approval to several brokering companies in terms of Direction # 10, for conducting business other than Insurance Brokering Business. Direction # 10 requires all insurance brokering companies to seek prior approval from the Commission to provide ancillary services, other than insurance brokering business defined in the Act.
9. The Commission has granted approval to a number of applications by insurance companies for appointment of Directors in terms of the new provisions introduced by the Amendment Act, No. 03 of 2011.
10. 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.
11. The Commission has provided its response to several applications received under the Right to Information Act, No. 12 of 2016.
12. 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.

INVESTIGATORY REVIEW

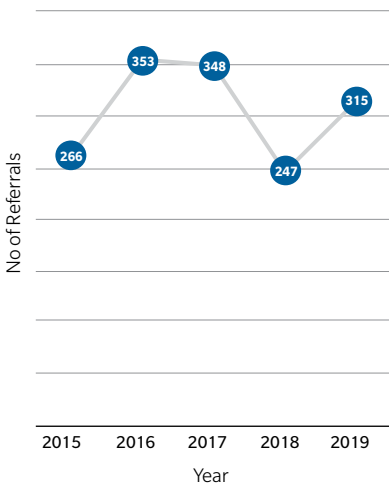
The Commission, under its overall objective of safeguarding the interests of policyholders, is empowered to investigate into and resolve disputes between insurers and claimants, which are referred to the Commission. The Commission also investigates into complaints pertaining to market conduct of any 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 on the same. 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.

Synopsis of Total Referrals

315 matters were referred to the Commission and 352 matters (which includes matters brought forward from the previous year) were settled or closed during the period under the review. The Commission upon its intervention was able to settle 54 matters in favor of the claimants amounting to Rs. 139 Million.

Chart 1 – Total annual referrals during last five (5) years



During the past five (5) year period, a total 1,529 matters have been referred to the Commission as illustrated in Chart 1, the number of matters referred to the Commission in the period under review (315) has increased compared to the previous year (247). Increasing awareness among the public regarding the Insurance Regulatory Commission of Sri Lanka may have been the reason for the increased number of referrals during the year.

Chart 2 – Month wise analysis of referrals during the year 2019

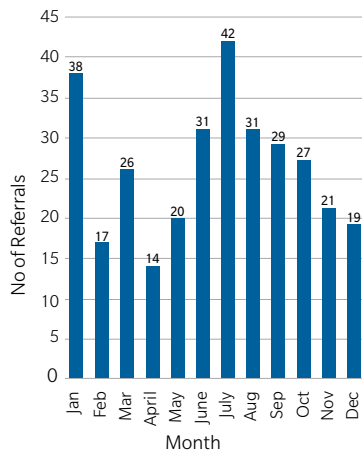


Chart 2, shows the month wise breakdown of the number of matters referred to the Commission during the year under review. Highest number of referrals (42) has been recorded in the month of July whereas the month of April recorded the lowest number of referrals (14). On average, 26 matters per month have been referred to the Commission during the year under review and the months; January, June, July, August, September and October have recorded referrals above average.

Chart 3 – Classification of total matters referred to in the year 2019

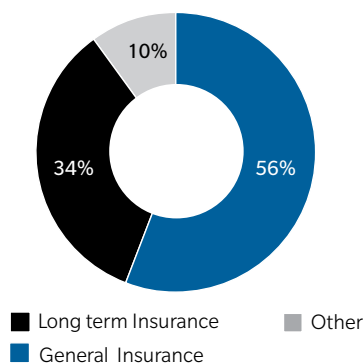


Chart 3, depicts the composition of total matters referred to Commission during the year 2019. Majority of referrals i.e. 176 (56%) were with respect to general insurance business and 107 (34%) referrals were relating to long term insurance business. The balance 32 (10%) referrals cannot be categorized into a specific line of business. When compared to previous year under review, the percentage of referrals with respect to general insurance business has increased from 49% (in 2018) to 56%, and the percentage of referrals with respect to the long term insurance business has slightly increased from 31% (in 2018) to 34%. The proportion of other referrals has significantly decreased from 20% (in 2018) to 10%.

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.

Table 1 – Referrals on general insurance business: issue wise

Issue	#	%
Claim disputes	164	93.2
Non-acceptance of liability	131	79.9
Dissatisfied with the claim offered/paid	21	12.8
Delays in settling claims	12	7.3
Other complaints	12	6.8
TOTAL	176	100.0

As shown in Table 1, out of the total referrals (176) under the general insurance business, 164 (93.2%) were claims disputes while the balance 12 referrals (6.8%) were other complaints such as mid-term policy cancellations, not responding to queries, requests for premium refunds and non-receipt of policy documents. Majority of referrals (79.9%) under claims disputes were on Non-acceptance of liability by the insurer i.e. claim repudiations.

The root-cause-analysis of referrals revealed that the main causes 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 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 Department of Government Analyst's, the Police, hospitals and 3rd party witnesses (where required). The Commission assisted the claimants in the instances where the policy covered the cause of loss and there were no fraud or deliberate misrepresentation of facts relating to the claim.

Dissatisfaction with the claim offered/paid was the other main reason for referrals (12.8%) under the claims disputes. Misinterpretation 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 were resolved by providing the required explanations to claimants in writing or during 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. In addition, delays on the part of the insured or the repairers to furnish required information and documents to finalize the claims were also observed.

Analysis of Referrals on Long Term Insurance Business

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

Table 2 – Referrals on long term insurance business: issue wise

Issue	#	%
Claims disputes	46	43.0
Non-acceptance of liability	29	63.0
Maturity and surrender benefits	11	24.0
Dissatisfied with the claims offered	6	13.0
Other complaints	61	57.0
Request to refund/cancellation or revival	35	57.3
Provision of information	5	8.2
Payment/misappropriation of premia	3	5.0
Other	18	29.5
TOTAL	107	100.0

As per Table 2, the total referrals (107) related to the long-term insurance business consists (43%) of claim disputes and (57%) of other complaints.

The main cause (63%) 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 due to the lack of awareness on relevant insurance principles and of 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 have been lapsed, due to non-payment of premium. 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 confirmed or the delay in payment could be justified.

Another 24% of claims disputes were 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 were able to be resolved by providing required clarifications to policyholders, in writing and at the discussions conducted at the Commission. Almost in all the disputes (13%) where the claimants were dissatisfied with the claim amounts, it was observed that the cause for it is the lack of clarifications or explanations provided by insurers at the time of communicating their offers to claimants.

The majority (57.3%) of the other complaints referred 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 could not be assisted, as the policyholders do not have a right to cancel a policy after the lapse of cooling-off period i.e. 21 days from the date of receipt of the policy document. However, insurers in certain instances granted relief considering the poor financial circumstances of the claimants. The requests for revival, made after the expiry of specified times period, could be assisted only where the policyholders could justify the delay in taking action to revive the policy. The primary reasons for request to refund of life insurance policy are lack of understanding of the policyholders of the importance of life insurance policy and financial difficulties faced when paying regular premium.

8.2% of complaints were resolved by providing information as required. There were only 5% of 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 (29.5%) were in relation to policy loans, modes of premium payment and the functioning of branch offices. Action was taken with regard to all such complaints based on the findings of investigations.

Other Referrals

32 complaints referred to the Commission were mainly on unfair termination and educational qualifications of agents. Action was taken, where possible, in terms of the powers conferred on the Commission under the Act.

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 IRCSL, upon taking into consideration the industry concerns revised the structure and sought the approval of the Commission for the same. In May 2019, the structure was approved in principle by the Commission. The said approved IIOC structure was shared with the industry through IASL. In July 2019, IASL informed the agreement of the industry. The IRCSL is in the process of finalizing the Terms of Reference (TOR) with the consultants and the industry.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

The awareness creation is considered a key element affecting the growth and development of the insurance industry. The concept of insurance and its benefits as a risk mitigating tool are yet to be fully understood by the general public. The focus of the Commission in Market Development and External Relations activities is to create awareness among the general public regarding the matters relating to insurance, thereby facilitating the growth and building public confidence on the insurance market.

The Commission conducted several awareness programmes during the year under review. The objective of the Commission in conducting such awareness programmes is to safeguard the interest of existing and potential policyholders by enhancing the knowledge on the importance of insurance, insurance industry & its latest developments, selecting suitable insurance products, grievance redress mechanisms available to policyholders, etc.

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:

Outreach Programmes on Insurance Awareness Creation

Programmes at Divisional Secretariats

These programmes were organised in collaboration with Divisional Secretariats. The aim of such programmes was to enhance knowledge on insurance of the public officers such as Grama Niladharies, Police, Excise department officials, Samurdhi, Sports, Development, Agricultural & other Field Officers, and 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 a suitable 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, claiming under an insurance policy and dispute resolution mechanisms available to policyholders.

Eight (08) awareness programmes on insurance were conducted on the "Divisional Day Meetings" at Yattawatte, Galenbindunuwewa, Imbulpe, Bibile, Weeraketiya, Kaduwela, Walapane and Vavuniya Divisional Secretariats covering 471 Gramaseva Niladhari Divisions. Approximately 743 government officers of the respective areas participated at these programmes.



Programmes at Div. Secretariats

In addition to the mainstream awareness programmes conducted at the Divisional Secretariats, the Commission conducted two awareness programmes for the members of District Chambers of Commerce & Industries at Galle and Ratnapura.

Enterprise Sri Lanka National Exhibition

The Commission participated at the "Enterprise Sri Lanka National Exhibition" held in Anuradhapura and Jaffna. Insurance related information was displayed in the stall set up by the Commission. A large no. of visitors attended the exhibition stall with a view to obtaining information on various matters relating to insurance. A quiz programme was held among the visitors to the stall and souvenirs were handed over to the winners. Further, at Anuradhapura exhibition site, two messengers were deployed to create awareness.



Exhibition stall at Enterprise Sri Lanka National Exhibition

Art Competition for School Children

An All Island Art Competition for school children was organized by the Commission to commemorate the "National Insurance Day" with the assistance of Ministry of Education and Insurance Association of Sri Lanka. The competition was conducted under the theme of "importance of insurance to our lives and properties". The Competition was conducted under four (04) categories between grades 6 to 13. The Commission received nearly 6,000 drawings from school children and the winners were selected by a panel of judges appointed by the Ministry of Education.

136 winners were selected out of the drawings received by the appointed panel of judges. The prizes were awarded under "Gold", "Silver", "Bronze" and "Merit" award categories. Certificates, cash awards and souvenirs were presented to the winners. The prize awarding ceremony was held in December at Nelum Pokuna Mahinda Rajapakse Theatre under the patronage of distinguished invitees.

Create Awareness through Mobile Network Operators

A short message (SMS) regarding the importance of insurance was delivered to a specific customer-base via a selected mobile network operator on 1st September 2019, to commemorate National Insurance Day.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

Disseminate information through Print Media

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

Press Releases

- Insurance Regulator issues Corporate Governance Framework for insurers.
- Performance of the insurance industry, Quarter 01, 2019.
- Performance of the insurance industry for the year 2018.
- Performance of the insurance industry during 1st Half, 2019.
- Performance of the insurance industry, Quarter 03, 2019.

Press Notices

- Role of Insurance advisors
- All-Island Art Competition for School children



Press Notice

Printed awareness materials

The existing brochure on Life Insurance and handout on Motor Insurance were reprinted and distributed mainly at the



Brochure / Handout

awareness programmes during the year under review.

Create Awareness through Electronic Media

The media has an important role to play in spreading the message to raise awareness on insurance. Thus, the Commission organised and conducted three television programmes and three 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

- Single episode of the popular teledrama “Kopi Kade”, carrying a message on insurance, telecasted on Independent Television Network (ITN).
- ‘Business Today’, a recorded discussion telecasted on Eye Channel of Sri Lanka Rupavahini Corporation (SLRC).
- ‘Sanhinda’, a live discussion telecasted on SLRC.

Radio Programmes

- ‘SLBC News in Brief Package’ aired pre-recorded short messages before the hourly news bulletins on City FM channel of Sri Lanka Broadcasting Corporation (SLBC), ten times per day for a period of thirty days.
- ‘SLBC News Package’ aired pre-recorded short messages (in three languages) before the main news bulletins in all (12) channels of SLBC.
- ‘Suriya Sirasa Morning Show’ Anchors (Sirasa FM), having guided by the information provided by the Commission, conducted live conversations on various matters relating to insurance.

ADB Capital Market Development Programme (CMDP)

Asian Development Bank (ADB), having considered the views of the Commission under the Insurance

Education Component of the Capital Market Development Programme, appointed a Consultant to advise and assist the Commission with regard to developing an Education Strategy and Implementation Plan.

The Consultant, having completed the desk review and discussions with the focused groups/key informants, which included representatives of the insurance industry, made a presentation to the Commission in March, 2019 regarding the proposals for the Education Strategy. The Commission sought the opinion of the Secretary, Ministry of Education and Senior Management of the Secretariat regarding the proposals put forth by the Consultant.

The ADB, based on the comments/ feedback of the Commission and Secretary to the Ministry of Education, revised the Education Strategy & Implementation Plan and the new version was presented to the Commission in July, 2019 for approval. The approved Consumer Education Strategy, which comprises of a delivery framework consisting of three (03) strategies and a time frame for implementation, has been incorporated in to the Action Plan 2020 of the Commission. The Consumer Education Strategy is expected to be completed by Quarter 04, 2022.

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.

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, Two Directors, Three Executives and One Secretary were recruited to the permanent cadre during the year under review. Total staff strength of the Commission stood at 48 as at 31st December 2019.

Details of qualifications of the staff are depicted in the table below:

Total No. of Employees	No. of Employees having 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
48	07	04	06	06	11	02

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 for local as well as overseas training opportunities.

Category	2019 (Rs.)	2018 (Rs.)
Local Training	1,610,639	1,264,144
Conferences & Foreign Training	10,375,090	10,589,034

Staff Welfare

Caring for the well-being of its employees has been an important factor in creating motivation and increasing their morale. Hence, 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.

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 for years 2015 to 2019.

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 2018 to 2019.

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

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

Chart 1: Cess Income and Investment Income for the period 2015-2019

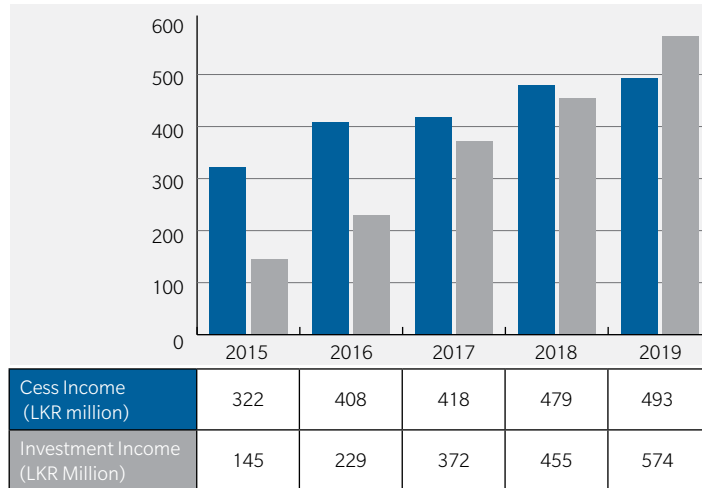
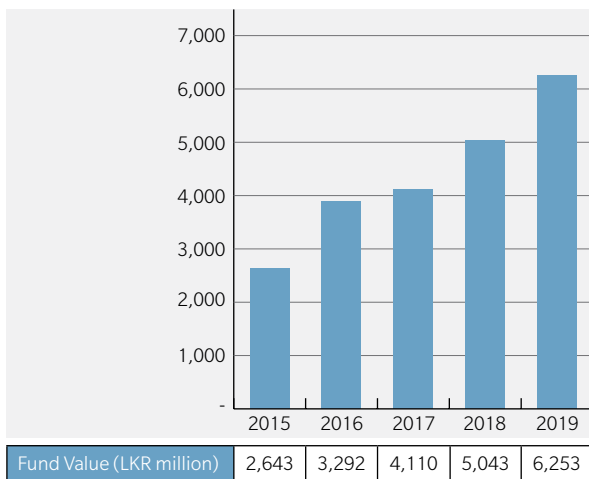
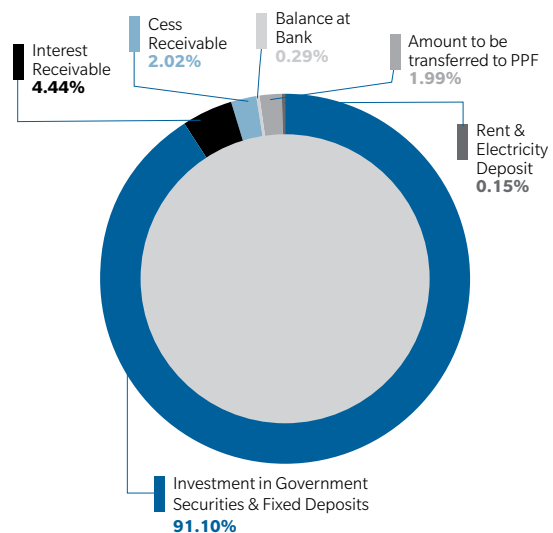


Chart 2: Policyholders’ Protection Fund Values for the period 2015 - 2019



The composition of assets of the Fund as at 31st December 2019 is depicted below:-

Chart 3: Assets Composition of Policyholders’ Protection Fund as at 31st December 2019



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
- Income from Financial Sector Modernization Project

Chart 4: Income of the Commission for the period 2015-2019

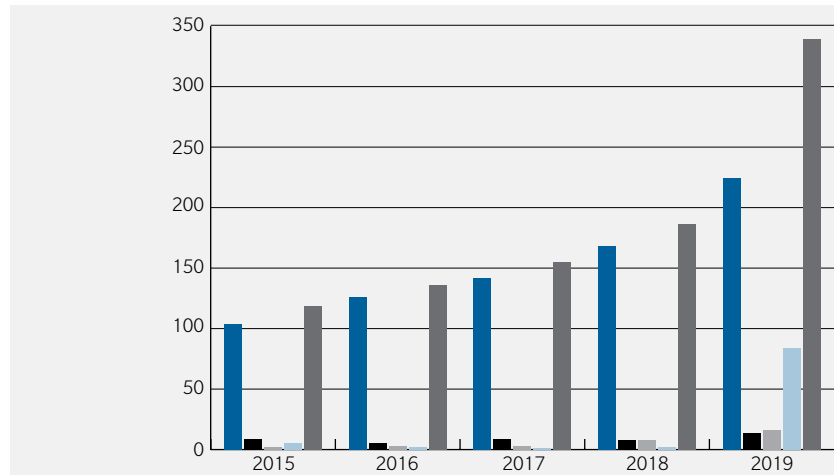


Chart 4 depicts the breakup of overall income received for the period 2015 to 2019.

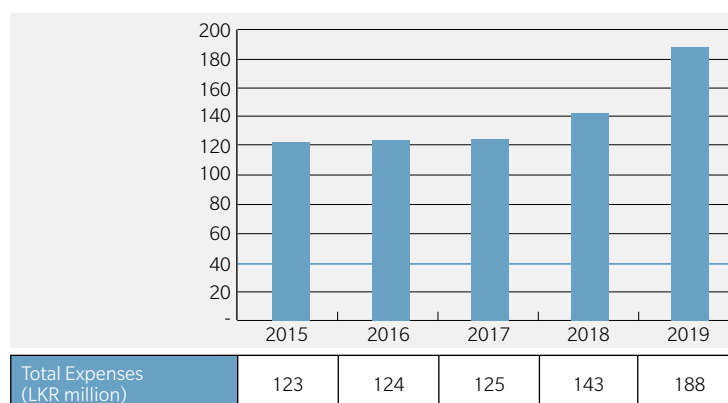
Annual Fees (LKR million)	104	126	142	168	224
Registration & Renewal Fees (LKR million)	9	5	9	8	14
Other Income (LKR million)	2	3	3	8	16
Recognition of Grants (LKR million)	5	2	1	2	84
Total Income (LKR million)	119	136	155	186	339

Expenses of the Commission

An increase of 31.56% can be seen in expenditure for the year 2019 compared to the year 2018 and the Commission has recorded a surplus of around LKR 129.2 million in the year 2019. The said surplus will be transferred to the PPF in accordance with the policy decision.

Chart 5 below depicts the total expenses of the Commission for the period 2015 to 2019.

Chart 5: Total Expenses of the Commission for the period 2015-2019



Total Expenses (LKR million)	123	124	125	143	188
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FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

AS AT 31st DECEMBER 2019

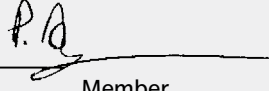
	Notes	As at 31.12.19 Rs.	As at 31.12.18 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant and Equipment	1	15,691,234	15,689,425
Policyholders' Protection Fund-Rent & Electricity Deposits and Treasury Bonds	2	1,086,252,949	1,086,252,949
Total Non Current Assets		1,101,944,183	1,101,942,374
CURRENT ASSETS			
Inventories	3	654,321	522,620
Policyholders' Protection Fund-Investments and Others	2	5,166,705,283	3,956,513,320
Other Current Assets	4	21,986,662	16,007,020
Investments in Government Securities -Repo		162,000,000	70,700,000
Cash and Cash Equivalents	5	11,455,374	2,711,448
Total Current Assets		5,362,801,640	4,046,454,408
TOTAL ASSETS		6,464,745,823	5,148,396,782
RESERVES AND LIABILITIES			
RESERVES & FUNDS			
Accumulated Fund	6 & 20	-	41,337,937
Policyholders' Protection Fund	7	6,252,958,232	5,042,765,873
Revaluation Reserve		17,689,652	17,689,652
Grant Received from Ministry of Finance		976,126	-
Total Reserves & Funds		6,271,624,010	5,101,793,462
LIABILITIES			
NON CURRENT LIABILITIES			
Grant	8	7,966,332	5,389,425
Retirement Benefit Obligation	9	15,839,021	12,155,897
Total Non Current Liabilities		23,805,353	17,545,322
CURRENT LIABILITIES			
Receipt in Advance		14,332,836	14,161,815
Other Current Liabilities	10	154,280,881	14,896,183
Bank Negative Balance	5 & 21	702,743	-
Total Current Liabilities		169,316,460	29,057,998
TOTAL RESERVES & LIABILITIES		6,464,745,823	5,148,396,782

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 88 to 98.


Razik Zarook
Chairman


Damayanthi Fernando
Director General


Member


Sathiesh Kumar
Director - Finance & Administration

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31ST DECEMBER 2019

	Notes	Year Ended 31.12.19 Rs.	Year Ended 31.12.18 Rs.
INCOME			
Revenue	11	238,813,675	176,168,849
Income from FSMP	12	81,620,094	-
Recognition of Grant	8	2,324,391	1,929,052
Interest Income	13	15,757,900	7,439,303
Other Income	14	338,154	277,233
TOTAL INCOME		338,854,214	185,814,437
EXPENDITURE			
Staff Costs	15	(112,323,915)	(79,009,564)
Professional Charges	16	-	(5,035,081)
Operational Expenses	17	(73,323,241)	(58,453,496)
FSM Project Expenses	18	(456,260)	-
Finance and Others	19	(1,568,501)	(155,451)
TOTAL EXPENDITURE		(187,671,917)	(142,653,592)
Net Surplus /(Deficit) Before Tax		151,182,297	43,160,845
Taxation	22	(22,479,379)	(1,822,908)
Surplus Transferred to Policyholders' Protection Fund	7	(129,218,719)	-
Net Surplus /(Deficit) After Tax		(515,801)	41,337,937
Actuarial Loss /(Gain) on Retirement Benefit Obligation		515,801	-
Net Surplus for the Year		-	41,337,937

The accounting policies and notes appearing on pages from 88 to 98 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY / NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2019

	Revaluation Reserves	Accumulated Surpluses/ (Deficits)	Total
Balance at 1st January 2018	7,389,652	-	7,389,652
Transferred to Accumulated Fund	-	41,337,937	41,337,937
Gain on property revaluation	10,300,000	-	10,300,000
Balance at 31st December 2018	17,689,652	41,337,937	59,027,589
Balance at 1st January 2019	17,689,652	41,337,937	59,027,589
Prior Year adjustment relevant to the Salary Revision	-	(11,643,186)	(11,643,186)
Income Tax adjustment relevant to 2018	-	(11,190,575)	(11,190,575)
Surplus on 2018 transferred to PPF	-	(18,504,176)	(18,504,176)
Surplus for the year	-	128,702,918	128,702,918
Actuarial Loss/ (Gain)	-	515,801	515,801
Transferred to Accumulated Fund	-	(129,218,719)	(129,218,719)
Balance at 31st December 2019	17,689,652	-	17,689,652

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2019

	Notes	Year Ended 31.12.19 Rs.	Year Ended 31.12.18 Rs.
Cash Flows from Operating Activities			
Surplus/(deficit) for the Period		151,182,297	41,337,937
Provision for Depreciation	1	4,899,489	3,535,279
Provision for Retirement Benefit	9	4,558,024	2,014,024
Profit/(Loss) on Disposal	14	(83,065)	-
Payment made- Retirement Benefit	9	(359,100)	(760,674)
Recognition of Grant	8	(2,324,391)	(1,929,052)
Income Tax paid	22	(17,343,545)	1,822,908
Interest Income	13	(15,757,900)	(7,439,303)
Net Increase before Working Capital Changes		124,771,809	38,581,119
Change of Working Capital			
(Increase)/Decrease in Inventories	3	(131,701)	(175,322)
(Increase)/Decrease of Receivables	4	(7,721,734)	(4,482,480)
Increase/(Decrease) of Receipt in advance		171,021	6,803,715
Increase/(Decrease) of Creditors and Accruals	10	136,025,149	(21,397,313)
Cash Flow used in Operating Activities		128,342,736	(19,251,399)
Net Cash Flows from Operating Activities		253,114,545	19,329,720
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		(131,300,000)	(28,700,000)
Investment in Fixed Deposits		40,000,000	-
Interest Income		15,724,103	6,285,506
Proceeds from Sale of Property, Plant and Equipment	14	83,065	-
Purchase of Property Plant and Equipments	1	(4,901,298)	(1,599,945)
Net Cash used in Investing Activities		(80,394,130)	(24,014,439)
Cash Flow from Financing Activities			
Capital transfer from Policyholders' Protection Fund	7	4,901,298	1,599,945
Surplus transferred to PPF 2019		(129,218,719)	-
Accumulated Surplus -2018	6	(41,337,937)	-
Grant Received from Ministry of Finance		976,126	-
Net Cash Flows from Financing Activities		(164,679,232)	1,599,945
Net Increase/(Decrease) in Cash and Cash Equivalents		8,041,184	(3,084,774)
Cash and Cash Equivalents at the beginning of the year		2,711,448	5,796,222
Cash and Cash Equivalents at the end of the year		10,752,632	2,711,448
Cash at Bank and in Hand			
Balance at Fund Management Account	5 & 21	10,197,543	4,248,455
Bank of Ceylon 1877 - as per Ledger		(702,743)	(1,537,007)
Bank of Ceylon FSMP Account		1,257,278	-
Savings - NSB		554	-
		10,752,632	2,711,448

The accounting policies and notes appearing on pages 88 to 98 form an integral part of the Financial Statements.

POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2019

	Notes	Year Ended 31.12.19 Rs.	Year Ended 31.12.18 Rs.
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		1,210,191,963	932,807,064
Net Increase before Working Capital changes		1,210,191,963	932,807,064
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities		(50,203,714)	(53,659,167)
(Increase)/Decrease of Cess Receivable		2,848,980	(2,372,466)
Increase/(Decrease) of Amount to be Transferred From PPF		(125,914,867)	29,810,751
		(173,269,601)	(26,220,882)
Net Cash from Operating Activities		1,036,922,363	906,586,182
Cash Flow from/(used in) Investing Activities			
Investments in Fixed Deposits		(1,019,563,000)	(906,097,000)
Net Cash from Investing Activities		(1,019,563,000)	(906,097,000)
Net Increase/(Decrease) in Cash and Cash Equivalents		17,359,363	489,182
Cash and Cash Equivalents at the beginning of the year		1,047,306	558,124
Cash and Cash Equivalents at the end of the year		18,406,669	1,047,306
Balance at Current Account	2	1,000,000	47,306
Balance at Fund Management Account		17,406,669	1,000,000
		18,406,669	1,047,306

Note : Statement of Cash Flow for the Policy Holders Protection Fund is an additional disclosure.

ACCOUNTING POLICIES

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Insurance Regulatory Commission of Sri Lanka is established under 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 registered office of the Commission is located at Level 11, East Tower, World Trade Centre, Colombo 01.

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 interest of the Policyholders and potential policyholders.

Powers duties and function of the Commission which are cited in the Act are as follows:

- (a) Register as insurers persons carrying on insurance business in Sri Lanka.,
- (b) Register persons as insurance brokers.,
- (c) Advise the Government on the development and regulation of the insurance industry.,
- (d) Implement the policies and programmes of the Government with respect to the insurance industry.,
- (e) Employ such officers and servants as may be necessary for the purpose of exercising, performing and discharging the powers, duties and functions of the commission.,

- (f) Acquire and hold any property, movable or immovable and sell, lease mortgage or otherwise dispose of the same.,
- (g) Enter into such contracts as may be necessary for the exercise, performance and discharges of its powers, duties and functions., and
- (h) Do all such other acts as may be necessary for the due exercise , discharge and performance of its powers, duties and functions under this Act

1.2 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. The Financial Statements have been prepared under the historical cost convention. No adjustment has been made for inflationary factors affecting these Accounts.

Where appropriate accounting policies are disclosed in succeeding notes.

1.3 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.

1.4 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.

1.5 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.

1.6 CONVERSION OF FOREIGN CURRENCY

All foreign currency transactions are converted at the rate of exchange prevailing at the time the transactions were affected. Assets and Liabilities in foreign currencies are translated at the rates of exchange prevailing at the Balance Sheet date. The resulting gains and losses are dealt within the Income and Expenditure Account.

1.7 COMPARATIVE FIGURES

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

1.8 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Commission's financial liabilities comprise receipt in advance and other payables. Financial liabilities is to the Commission has income receivables and other receivables and cash and other short - term investments that arrive directly from its operations.

1.8.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will

ACCOUNTING POLICIES

fluctuate because of changes in market prices. Market prices comprise of two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include deposits with financial institutions.

1.8.1.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to the risk of changes in market interest rates relates primarily to the Commission's obligations with floating interest rates.

1.8.1.2. Liquidity risk the Commission monitors its risk to a shortage of funds using continuous cash flow forecasts & cash budgeting.

2. ASSETS & BASES OF VALUATION

2.1 PROPERTY, PLANT & EQUIPMENT

OWNED PROPERTY PLANT & EQUIPMENT

All the Property, Plant and 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.

Subsequent cost incurred for the purpose of acquiring, extending or improving assets of a permanent nature in order to carry on or flow future economic benefits associated with the item to the Commission has been treated as capital expenditure. All other repairs

and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

DEPRECIATION

Depreciation is charged on the straight-line basis over the estimated useful life of the asset at following rates.

Asset	% 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.

Motor Vehicles are revalued once in three years. Last revaluation has been done by the Automobile Association of Ceylon for the year 2018.

2.2 INVESTMENTS

Investments include only Government securities and Fixed Deposits, Which are stated at lower of cost or face value and interest is accrued up to the year end.

These investments are stated at cost plus accrued interest up to the year end. Therefore, there is no risk arisen on financial instruments to which the IRCSL is exposed at the end of the financial year.

2.3 INVENTORIES

Inventories are stated at lower of cost or net realizable value. The cost of inventories is valued on first-in- first-out (FIFO) basis.

2.4 RECEIVABLES

Receivables are stated at estimated realizable value.

2.5 CASH AND CASH EQUIVALENTS

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

3. LIABILITIES AND PROVISIONS

All material liabilities as at the balance sheet date are included in the financial statements and adequate provision has been made for liabilities which are known to exist.

3.1 RETIREMENT BENEFITS

3.1.1 DEFINED BENEFIT PLANS - GRATUITY

The Commission has adopted the retirement benefit plan as required under the payment of Gratuity Act, No.12 of 1983 for all eligible employees. The retirement benefit plan defines an amount of benefit that an employee will receive on retirement.

The liability recognized in the statement of Financial Position in respect of defined benefit plan is calculated annually by the Commission using the Projected Unit Credit method prescribed in Sri Lanka Public Sector Accounting Standard - SLPSAS 19: Employee Benefits.

At the beginning of financial year 2019	12,155,897
Current Service Cost	1,879,168
Interest Cost	1,409,637
Previous year under provision	1,269,219
Charged to profit and loss of the statement of comprehensive income	4,558,024
Actuarial losses / (gains)	(515,801)
Benefits paid	(359,100)
At the end of financial year 2019	15,839,020

ACCOUNTING POLICIES

Gains and losses arising from changes due to over or under provision in the previous year are charged to statement of comprehensive income in the period in which they arise. The Obligation for the year has recognized immediately in statement of comprehensive income.

The principal actuarial assumptions used were as follows.

Discount Rate	: 10.5% per annum
Rate of salary increase	: 5% - 8%
Retirement Age	: 60 years

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

3.3.1 Policyholders' Protection Fund Capital Expenditure transferred from Policyholders' Protection Fund is treated as grant and recognized on the estimated useful life of the asset.

3.3.2 Financial Sector Modernization Project

Grants are recognized in the Financial Statements at their fair value. When the grant related to an expenses it is recognized as an income over the period necessary to match it with the cost, which it is intended to compensate for on a systematic basis.

Grant received from Ministry of Finance for Result Based Financing (Disbursement Linked Indicator (DLI) recognized as income. Grant received for Investment Project Financing recognized as an income according with the cost incurred.

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.
COST/REVALUATION					
Balance as at 1 st January 2019	10,300,000	14,152,432	26,635,537	141,450	51,229,419
Additions	-	1,508,944	3,392,354	-	4,901,298
Disposals	-	(18,895)	(2,271,627)	-	(2,290,522)
Balance as at 31 st December 2019	10,300,000	15,642,481	27,756,264	141,450	53,840,195
ACCUMULATED DEPRECIATION					
Balance as at 1 st January 2019	-	12,675,881	22,722,663	141,450	35,539,995
Charge for the year	2,575,000	533,646	1,790,844	-	4,899,489
Disposals	-	(18,895)	(2,271,627)	-	(2,290,522)
Balance as at 31 st December 2019	2,575,000	13,190,632	22,241,880	141,450	38,148,962
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2019					
	7,725,000	2,451,848	5,514,385	-	15,691,234
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2018					
	10,300,000	1,476,550	3,912,875	-	15,689,425

** Fully depreciated fixed assets values are as follows.

	Amount Rs.
Furniture & Fittings	5,001,628
Fixtures & Fittings	6,279,006
Office Equipment -EDP	16,741,852
Office Equipment - Others	2,552,355
Training Equipment	141,450
	<u>36,147,267</u>

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

NOTES TO THE FINANCIAL STATEMENTS

		As at 31.12.19 Rs.	As at 31.12.18 Rs.
2 POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS			
NON CURRENT ASSETS			
Rent and Electricity Deposits		9,593,949	9,593,949
Treasury Bonds		1,076,659,000	1,076,659,000
		1,086,252,949	1,086,252,949
CURRENT ASSETS			
Investment in Fixed Deposits		4,619,960,000	3,600,397,000
Interest Receivable on the Government Securities and Fixed Deposits		277,460,484	227,256,770
CESS Receivable		126,560,709	129,409,689
Balance at Fund Management Account	23	17,406,669	47,306
Balance at Bank	23	1,000,000	1,000,000
Amount to be transferred to PPF		124,317,421	(1,597,445)
		5,166,705,283	3,956,513,320
Less			
Amount to be transferred from PPF		-	-
		5,166,705,283	3,956,513,320
Total Assets		6,252,958,232	5,042,766,269
3 INVENTORIES			
Printing, Stationery and Computer Accessories		617,711	455,105
Stamps		36,610	67,515
		654,321	522,620
4 OTHER CURRENT ASSETS			
Deposits		2,896,832	212,237
Savings - NSB		-	500
Other Receivables		2,185,248	820,886
WHT Recoverable		1,208,606	1,551,524
VAT Control		3,794,678	1,874,969
Interest Receivable - Government securities		536,878	1,076,391
Staff Loans *		5,347,093	5,005,967
Advance and Pre-payments		5,393,700	1,778,025
Amount to be transferred from PPF		-	1,597,445
Provision for Acquisition		623,626	2,089,077
		21,986,662	16,007,020
*Loans Granted to Staff			
Balance as at 1 st January 2019		5,005,967	5,769,159
Loans Granted during the year		3,862,000	3,236,700
		8,867,967	9,005,859
Repayments during the year		(3,520,873)	(3,999,892)
Balance as at 31 st December 2019		5,347,093	5,005,967
5 CASH & CASH EQUIVALENTS			
Cash at Banks			
Balance at Fund Management Account	23	10,197,543	4,248,455
Bank of Ceylon 1877 - as per Ledger	23	(702,743)	(1,537,007)
Bank of Ceylon FSMP Account		1,257,278	-
Savings Account - NSB		554	-
		10,752,632	2,711,448

NOTES TO THE FINANCIAL STATEMENTS

		As at 31.12.19 Rs.	As at 31.12.18 Rs.
6 ACCUMILATED FUND			
Balance at the beginning of the year	20	41,337,937	-
Surplus for the year		-	41,337,937
Revised Salary arrears 2018 - Current Employees		(10,237,415)	-
Revised salary arrears 2018 - Ceased Employees		(985,609)	-
Revised Overtime paid for 2018		(73,217)	-
Revised Leave Encashment arrears - 2018		(346,946)	-
Income Tax for 2018		(11,190,575)	-
Balance 2018 transferred - Policyholders' Protection Fund		(18,504,176)	-
Balance at the end of the year		-	41,337,937
7 POLICYHOLDERS' PROTECTION FUND			
Opening Balance		5,042,765,873	4,109,959,205
Cess Received during the year		493,068,161	479,088,491
Interest on Repo and Call Account		3,698,834	36,710
Interest on Treasury Bond Investment		92,882,074	95,120,708
Interest on Fixed Deposits		477,484,713	359,754,785
Interest on Fund Management Account		247,397	419,017
Net Surplus of the Commission 2018		18,504,176	-
Net Surplus of the Commission 2019		129,218,719	-
		6,257,869,945	5,044,378,915
Less:			
Transfers for Capital Expenses		4,901,298	1,599,945
Total transfers- Policyholders' Protection Fund		4,901,298	1,599,945
Bank charges		10,414	13,097
		4,911,713	1,613,042
Closing Balance		6,252,958,232	5,042,765,873
8 GRANT			
Balance at the beginning of the year		5,389,425	5,718,532
Capital Expenditure from Policyholders' Protection Fund		4,901,298	1,599,945
Less: Amortized during the year		(2,324,391)	(1,929,052)
Balance at the end of the year		7,966,331	5,389,425
Note - Recognition of Grant			
The grant has been 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%	25%
Office Equipment - Others & EDP		25%	25%
Furniture Fixtures & Fittings		12.5%	12.5%
Training Equipments		25%	25%
9 RETIREMENT BENEFIT OBLIGATIONS			
Balance at the beginning of the year		12,155,897	10,902,547
Provision made during the year		3,288,805	2,014,024
Under provision of previous year		1,269,219	-
Actuarial (Gain)/ loss		(515,801)	-
(-)Payment made during the year		(359,100)	(760,674)
Balance at the end of the year		15,839,020	12,155,897

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.19 Rs.	As at 31.12.18 Rs.
10 OTHER CURRENT LIABILITIES		
Accrued Expenses	22,304,938	13,188,945
EPF Payable	1,135,994	710,207
ETF Payable	170,400	106,532
PAYE Payable	151,990	74,014
Retention Payable	36,228	-
Income Tax payable	3,359,549	-
Amount to be transferred to PPF	124,317,421	-
Others	2,804,361	816,486
	154,280,881	14,896,184
11 REVENUE		
Annual Fees from Insurance Companies	224,428,714	168,499,107
Registration and Renewal Fees	14,384,961	7,669,742
	238,813,675	176,168,849
12 INCOME FROM FSM PROJECT		
FSMP - DLI Grant	81,096,220	-
FSMP - Non DLI Grant	523,874	-
	81,620,094	-
13 INTEREST INCOME		
Interest on Fixed Deposit	10,258,118	4,608,151
Interest on Fund Management Account	286,691	420,782
Interest on Savings Account	57	-
Interest on Repos	5,213,034	2,410,370
	15,757,900	7,439,303
14 OTHER INCOME		
Interest on Vehicle Loan	30,328	31,406
Interest on Distress Loan	142,586	143,164
Profit on disposal	83,065	-
Sundry Income	82,175	102,664
	338,154	277,233

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NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.19 Rs.	As at 31.12.18 Rs.
15 STAFF COSTS		
Staff Salaries	65,968,080	41,676,378
EPF 12%	7,913,290	4,987,246
ETF 3%	1,978,323	1,246,812
Chairman - Allowance	-	129,589
Chairman - Fuel Allowance	-	25,775
Commission Members - Sitting Allowance	540,000	530,000
Interns Allowance	344,925	342,600
Overtime	400,137	209,841
Staff Medical Expenses	1,927,480	1,970,211
Staff Medical Insurance	1,615,932	1,117,854
Insurance Fire and Personal	339,294	239,222
Staff Welfare	841,693	1,163,529
Staff Training Local & Subscription	1,610,639	1,264,144
Commission Members and Staff - Overseas Training & Travelling	10,375,090	10,589,034
Performance Based Incentives	7,178,213	4,561,566
Advertising Recruitment	693,115	249,975
Directors Telephone Residence	461,959	390,112
Leave Encashment	1,218,344	687,638
Vehicle Operating Lease Charges	1,455,048	1,455,048
Driver Allowance	500	26,786
Directors Vehicle Allowance	3,246,712	3,123,699
Directors Fuel Allowance	1,066,755	1,008,482
Staff Gratuity	3,148,387	2,014,024
	112,323,915	79,009,564
16 PROFESSIONAL CHARGES		
Consultancy Fee	-	5,035,081
	-	5,035,081

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.19 Rs.	As at 31.12.18 Rs.
17 OPERATIONAL EXPENSES		
Rent	40,474,432	36,423,747
Parking Fees	730,676	606,000
Telephone Expenses & Internet	1,417,311	1,499,000
Electricity	1,859,221	1,503,455
Office Upkeep	551,193	764,913
Printing & Stationary	3,406,080	1,650,787
Public Awareness	9,834,508	2,402,923
Entertainment	-	4,000
Traveling - Local	170,842	133,883
Office Equipment Maintenance EDP & Others	2,107,863	1,743,298
International Membership of IAIS	3,413,130	3,147,964
Advertising - Others	128,925	105,050
Meeting Expenses	522,852	336,428
Subscription Newspapers & Library Books	153,471	121,387
Postage & Courier Charges	238,326	242,488
Audit Fees-Auditor General	161,400	485,000
Audit Fees-Internal	1,603,166	1,440,000
Depreciation	4,899,489	3,535,279
Name change related Expenses	-	416,496
General Expenses	109,255	80,855
Legal Expenses	1,210	98,370
Investigation Expenses	33,661	26,202
Supervision Expenses	2,500	1,775
Vehicle Maintenance	126,395	409,483
Vehicle Insurance	67,026	110,693
Vehicle Running Charges	287,862	260,688
Surcharges & Penalty	-	1,754
Safety Locker Rental	-	-
Nation Building Tax	1,022,445	901,576
	73,323,241	58,453,496
18 EXPENSES RELATED TO FSM PROJECT		
Advertizing for recruitment	450,760	-
Bank charges	5,500	-
	456,260	-
19 FINANCE & OTHER EXPENSES		
Interest on Gratuity Provision	1,409,637	-
Bank Charges	158,864	155,451
	1,568,501	155,451

NOTES TO THE FINANCIAL STATEMENTS

20. ACCUMULATED FUND

After adjusting salary revision arrears and Income Tax for the year 2018, Surplus of the Commission has been transferred to the Policy-Holders Protection Fund.

21. 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 2019 are as follows.

Balance of Current Account -	(Rs. 702,743)
Balance of Fund management Account -	Rs. 10,197,543
Total	Rs. 9,494,800

22. TAXATION

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

	2019 (Rs.)
Accounting Profit before Taxation	151,182,297
Add: Tax effect of disallowable expenses in determining taxable income/ (loss)	14,820,771
Less: Tax effect of allowable expenses in determining taxable income/ (loss)	(21,366,888)
Accounting profit/ (loss) chargeable to income taxes	144,636,179
Interest Income	15,930,814
Total Taxable Income	160,566,993
Tax rate for the year	14%
Tax for the year	22,479,379
Less: Tax Credits	(1,776,285)
Self-Assessments paid	(17,343,545)
Balance Tax Payable	3,359,549

23. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2019.

24. CONTINGENT LIABILITIES

Commission has been provisioned Rs. 623,626 for asset acquisition as at 31st December 2019 for the cooling system.

25. EVENTS AFTER THE REPORTING PERIOD

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

26. SRI LANKA FINANCIAL SECTOR MODERNIZATION PROJECT (FSMP)

The Government of Sri Lanka has sought the support of development partners such as the World Bank to provide technical and financial support to activities aimed at developing the financial sector.

The World Bank agreed to support "Sri Lanka Financial Sector Modernization Project" (FSMP) over a period of five (5) years, with the three (3) financial sector regulators as the implementing partners. The Project Development Objective (PDO) is to contribute to increasing financial market and insurance sector efficiency and use of financial/ insurance services among micro, small and medium enterprises (MSMEs) and individuals. The project will achieve the PDO through modernizing financial market infrastructure, upgrading the legal and regulatory framework for the financial system and strengthening the institutional capacity of financial sector regulators; the Central Bank of Sri Lanka (CBSL), the Securities and the Exchange Commission of Sri Lanka (SEC) and the Insurance Regulatory Commission of Sri Lanka (IRCSL).

Accordingly, a Financial Agreement has been signed between the Democratic Socialist Republic of Sri Lanka and International Development Association (Credit Number 6006-LK), a credit in an amount equivalent to Special Drawing Rights 55,400,000 (Approx. USD 75 Mn). From the Loan proceeds, the Government signed a subsidiary agreement with the IRCSL to provide by way of grant in Special drawing right 6,650,000 (Approx USD 9 Mn) and SDR 708,333 (Approx. USD 1Mn) as the respective Disbursement Linked Indicators (DLIS) are achieved by IRCSL.

NOTES TO THE FINANCIAL STATEMENTS

World Bank has remitted followings to the Ministry of Finance, Economy and Policy Development

(i) FSMP investment project financing

Date	Amount (USD)
14/01/2019	523,000

(ii) Result Based Financing

Date	Amount (USD)
27/03/2019	261,163.13
25/05/2019	64,677.66
09/10/2019	64,039.69
17/12/2019	64,803.28

27. RELATED PARTY DISCLOSURES

Mr. Mano Tittawella (Chairman) from 1st January to 17th November 2019.
 Mr. E. A. D. Perera from 1st January to 22nd November 2019.
 Mr. Yudhishtan Kanagasabai from 1st January to 25th November 2019.
 Mr. Upul Deshapriya from 1st January to 2nd December 2019.
 Mr. H. A. Karunaratne from 1st January to 31st December 2019.
 Mr. D. N. R. Siriwardena from 1st January to 31st December 2019.
 Mr. A. M. P. M. B. Atapattu from 7th February to 13th December 2019.

AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

TRE/C/IRCSL/01/2019/FA/08

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

29 January 2021

Chairman,
Insurance Regulatory Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and other Legal and Regulatory Requirements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and 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 provisions of the National Audit Act, No 19 of 2018 and the Finance Act, No.38 of 1971. My report in terms of Article 154 (6) of the Constitution will be tabled in Parliament in due course.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements give a true and fair view of the financial position of the Commission as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

- Even though the useful life of assets should be reviewed annually and the estimated errors so revealed, should be revised in terms of Sri Lanka Public Sector Accounting Standard 03, action had not been taken accordingly in respect of assets costing Rs.36,147,267 which were further in use despite being fully depreciated.
- A sum of Rs.12,282,195 which should be brought to account as non-current assets had been deposited in a private institution as refundable after a lapse of 05 years and out of the said amount, Rs.2,674,746 had been shown as current assets in the statement of financial position.
- A computer software purchased at a cost of Rs.4,723,000 in the year 2019 had not been identified and brought to account as an intangible asset of the institution whereas action had also not been taken to amortize the said asset in terms of Sri Lanka Public Sector Accounting Standard 20. Further, an expenditure of Rs.844,167 incurred for this software in the year 2019 had been shown under the payments in advance. Moreover, a written agreement entered into with the relevant supplier pertaining to the said software had also not been made available to Audit.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.



AUDITOR GENERAL'S REPORT

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards 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 intend to liquidate the Commission or to 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.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

1.4 Auditor's Responsibility for Audit of 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 users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- 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 detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 communicate with those charged with governance regarding, among other matters, significant audit findings,

AUDITOR GENERAL'S REPORT

including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that are required for the audit and as far as appears from my examination, proper accounting records have been kept by the Commission as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements of the Commission, is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, except for the matter described in the paragraph 1.2 (a).

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Commission has any direct or indirect interest in any contract entered into by the Commission which are out of the normal cause of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.
- to state that the Commission has not complied with any applicable written law, general and special directions issued by the governing body of the Commission as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.

Reference to Laws, Rules/ Directives

Description

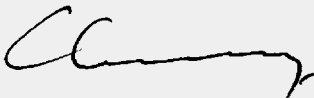
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|--|---|
| (a) Section 6(2)(d) of the Regulation of Insurance Industry Act No.43 of 2000. | Even though all such sums of money as may be received by the Commission in the exercise, performance and discharge of its powers, duties and functions should be recognized as income of the Commission, a sum of Rs.493,068,161 received as Cess in the year 2019 and interest income of Rs.574,313,018 relating to the Policyholder Protection Fund for the year 2019 had not been recognized as income of the Commission for the year under review and this position was observed to be same in the previous year as well. |
| (b) Section 48 (1) of the Regulation of Insurance Industry Act No.43 of 2000. | Every insurer shall, in respect of insurance business transacted by the insurer, cause an investigation to be made by an actuary at the end of each financial year into the financial condition of such insurance business, including a valuation of its assets and liabilities in respect of that business, and shall cause an abstract to be made in accordance with rules made in that behalf by the Board. Nevertheless, the post of Actuary of the Commission remained continuously vacant and accordingly, the Commission had failed to put in place a well-established methodology to review actuarial report presented by the insurer per year. |
| (c) Section 9.14 of Public Enterprises Circular No.PED/12 dated 02 June 2003. | A Manual of Procedure should be prepared and thereafter with the approval of the Board of Directors the concurrence of the Secretary to the Treasury should be obtained therefor. Nevertheless, the concurrence of the Secretary to the Treasury had not been received for the Manual used by the Commission even by 31 July 2020. However, it was observed that activities such as payment of advances, granting vehicle loans were being in progress in accordance with the unapproved Manual of Procedure. |
| (d) Section 07 of the Inland Revenue Act No.24 of 2017. | It was observed that the above mentioned Income Tax totaling Rs.1,067,381,178 pertaining to the year under review to be liable to Income Tax of the assessment year of the Commission had not been taken into account in the computation of liabilities. |

AUDITOR GENERAL'S REPORT

- to state that the Commission has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.
- to state that the resources of the Commission had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018

3. Other Audit Observations

- (a) In terms of Section 13 (1) (c) of the Regulation of Insurance Industry Act, the insurance companies which make applications for new registration shall pay as deposit to the Treasury such amount as may be determined by the Board. A difference of Rs.3,700,000 was observed between the schedule maintained by the Department of Treasury Operations and the schedule maintained by the Commission in connection with the money so deposited. Accordingly, it was observed that the deposit registers had not been maintained in an updated manner by comparing reasons for the relevant difference.
- (b) Further, the Commission had not taken steps to maintain details on the deposits indicated in the Paragraph (a) above in respect of 11 insurance companies registered before 2007.
- (c) The Commission had not taken action to settle withholding tax of Rs. 1,208,602 stated in the financial statements as receivables since the period before 2016, even by the end of the year under review.
- (d) As the Commission shifted towards Risk Based Capital (RBC) method introduced in place of the solvent legal framework of the insurance companies from the beginning of the year 2016, 05 posts of Executive Level had been approved in the year 2016 to establish an Actuary Unit and those 05 posts had fallen vacant.



W.P.C. Wickramaratne
Auditor General

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2019

Response of the Commission for the matters raised by the Auditor General in the report of 2019		
Auditor General's Report		Response of Insurance Regulatory Commission of Sri Lanka
Basis for Qualified Opinion		
<p>- Even though the useful life of assets should be reviewed annually and the estimated errors so revealed, in terms of Sri Lanka Public Sector Accounting Standard 03, action had not been taken accordingly in respect of assets costing Rs.36,147,267 which were further in use despite being fully depreciated.</p>		<p>As per Sri Lanka Public Sector Accounting Standard 07 the frequency of revaluation depends on the volatility and the significance of changes in the fair value of the assets. The management and the Audit Committee were of the view that the fully depreciated assets were not so volatile in nature and changes are not so significant to warrant revaluation. Further, it has been decided by the Audit Committee to revalue only the vehicles in considering the cost of revaluation. Therefore, we are of the view that our institution has taken action as per Standard No: 07.</p>
<p>- A sum of Rs.12,282,195 which should be brought to account as non-current assets had been deposited in a private institution as refundable after a lapse of 05 years and out of the said amount, Rs.2,674,746 had been shown as current assets in the statement of financial position.</p>		<p>A deposit of Rs. 9,607,449 has been paid before one year as per the rental agreement and it is correct to account it as non-current assets. The deposit of Rs. 2,674,946 has been paid in year 2019 and it is accounted as non-current assets, since it is for a period less than a year. The relevant value will be changed to non-current assets in year 2020.</p>
<p>- A computer software purchased at a cost of Rs.4,723,000 in the year 2019 had not been identified and brought to account as an intangible asset of the institution whereas action had also not been taken to amortize the said asset in terms of Sri Lanka Public Sector Accounting Standard 20. Further, an expenditure of Rs.844,167 incurred for this software in the year 2019 had been shown under the payments in advance. Moreover, a written agreement entered into with the relevant supplier pertaining to the said software had also not been made available to Audit</p>		<p>This is a payment concerning Board Pac software. The amount of Rs. 844,167/-, which has been paid for this software, is indicated as payment in advance and debited monthly to the income and expenditure account. Action is taken in this manner, since this is a license fee paid annually. This license fee is valid for a year and the software can be used only if the license is obtained. The amount of Rs. 4723,000/- you have mentioned is for five years. It has been agreed upon in the said manner only to control the price fluctuation and the said amount has not been paid. It would have been accounted as an intangible asset as you have mentioned if it was paid. However, it cannot be accounted as an intangible asset, since it is paid annually and the benefits are not received exceeding one year. Therefore, this is debited to income and expenditure account.</p>
Other Legal and Regulatory Requirements		
(a) Section 6(2)(d) of the Regulation of Insurance Industry Act No.43 of 2000	<p>Even though all such sums of money as may be received by the Commission in the exercise, performance and discharge of its powers, duties and functions should be recognized as income of the Commission, a sum of Rs.493,068,161 received as Cess in the year 2019 and interest income of Rs.574,313,018 relating to the Policyholder Protection Fund for the year 2019 had not been recognized as income of the Commission for the year under review and this position was observed to be same in the previous year as well.</p>	<p>It is clearly mentioned that all the cash received as Cess as per Section 103 (1) of the Regulation of Insurance Industry Act No: 43 of 2000 should be credited to the Policyholder Protection Fund. A separate account can be created for the Commission and the following income can be credited to the same as per Section 6 of Act No: 43 of 2000.</p> <ul style="list-style-type: none"> • Funds approved by the Parliament • Registration fees • Fees for annual renewal of registration • Other <p>Therefore, it is clearly indicated as to which income to be credited to two funds as per the provisions of the Act and the management has taken action accordingly. Further, it should be noted that the other similar Institutions that charge Cess also follow the same method. Therefore, method adopted is not erroneous.</p>
(b) Section 48 (1) of the Regulation of Insurance Industry Act No.43 of 2000.	<p>Section 48 (1) of the Regulation of Insurance Industry Act No.43 of 2000.</p> <p>Every insurer shall, in respect of insurance business transacted by the insurer, cause an investigation to be made by an actuary at the end of each financial year into the financial condition of such insurance business,</p>	<p>An Actuarial Consultant has been appointed to the Actuary Unit by the Financial Sector Modernization Project and the tasks of the division are performed along with the Executive Officers of the Unit.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2019

<p>(c) Section 9.14 of Public Enterprises Circular No.PED/12 dated 02 June 2003.</p>	<p>A Manual of Procedure should be prepared and thereafter with the approval of the Board of Directors the concurrence of the Secretary to the Treasury should be obtained therefor. Nevertheless, the concurrence of the Secretary to the Treasury had not been received for the Manual used by the Commission even by 31 July 2020. However, it was observed that activities such as payment of advances, granting vehicle loans were being in progress in accordance with the unapproved Manual of Procedure.</p>	<p>Manual of Procedure has been submitted on 30.03.2017 for the approval of the Treasury, but it has been informed by the letter of the Department of Public Enterprises No: PE/REG/IRCSL/PR dated 5.4.2018 that the evaluation is being delayed due to a lack of technical staff on the part of the Department. It has been approved by the Commission that it is appropriate to use this Manual of Procedure in the daily administration. As the Commission, we have done our best in this regard and we believe that the delay in receiving the approval of the Treasury is beyond our control. Therefore, we believe that making the payments in the same manner is more practical and wise.</p>
<p>(d) Section 07 of the Inland Revenue Act No.24 of 2017.</p>	<p>It was observed that the above mentioned Income Tax totaling Rs.1,067,381,178 pertaining to the year under review to be liable to Income Tax of the assessment year of the Commission had not been taken into account in the computation of liabilities.</p>	<p>A request has been made from the Ministry of Finance to get the Policy Holders Protection Fund exempted from the income tax and the withholding tax has been deducted only from the interest income of the fund. It has been decided not to pay the income tax on Cess and interest income until a proper answer is received from the Ministry of Finance in this regard.</p>
<p>Other Audit Observations</p>		
<p>(a) In terms of Section 13 (1) (c) of the Regulation of Insurance Industry Act, the insurance companies which make applications for new registration shall pay as deposit to the Treasury such amount as may be determined by the Board. A difference of Rs.3,700,000 was observed between the schedule maintained by the Department of Treasury Operations and the schedule maintained by the Commission in connection with the money so deposited. Accordingly, it was observed that the deposit registers had not been maintained in an updated manner by comparing reasons for the relevant difference.</p> <p>(b) Further, the Commission had not taken steps to maintain details on the deposits indicated in the Paragraph (a) above in respect of 11 insurance companies registered before 2007.</p> <p>(c) The Commission had not taken action to settle withholding tax of Rs.1,208,602 stated in the financial statements as receivables since the period before 2016, even by the end of the year under review.</p> <p>(d) As the Commission shifted towards Risk Based Capital (RBC) method introduced in place of the solvent legal framework of the insurance companies from the beginning of the year 2016, 05 posts of Executive Level had been approved in the year 2016 to establish an Actuary Unit and those 05 posts had fallen vacant.</p>	<p>The names or other details of the persons, who have deposited money, are not mentioned in the relevant schedule of the Department of Treasury Operations. Therefore, it cannot be proved whether these deposits have been made in this regard. However, all the details including the names are mentioned in the schedule maintained by the Commission. Therefore, we believe that the schedule maintained by us is accurate.</p> <p>It is expected to update the particulars by obtaining the information from the Department of Treasury Operations.</p> <p>Since the Commission has not been subjected to payment of tax before year 2016, the approval has not been granted by the IRD to settle the withholding tax of Rs. 1,208,602 paid before year 2016. The previous requests made through E&Y Accountants in this regard have been rejected.</p> <p>Recruitments have been made for the two executive posts of the Actuary Unit and action is being taken to publish newspaper advertisements for the posts of Actuary and Assistant Actuary, which have been fallen vacant, to make recruitments for the same.</p> <p>Advertisements were published on 26.02.2018 for the two posts of Actuary and Assistant Actuary and advertisements have been published on 01.09.2019 for the post of Assistant Actuary and applications have been called. However, the said recruitments have not been made since, there were no applicants with the skills at the expected level and the Assistant Actuary selected in 2018 on proving the said skills has not been recruited since he has not agreed for the salary of the Commission and expected a higher salary.</p> <p>Further, the service of a foreign Actuary is being obtained at present under FSMP implemented under a World Bank loan. Necessary action is being taken in this regard and a newspaper notification has already been published to recruit an Actuary and an Assistant Actuary. Further, two Executive Officers have already been recruited for the Actuary Unit and its operations are being carried out. The services of the foreign Actuary includes the establishment of an Actuary Unit and the Job Description for the above posts has been prepared after consulting him.</p>	

APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2019.

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 Limited	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	Sanasa General Insurance Company Limited	General Insurance
26	Sanasa Life Insurance Company Limited	Long Term Insurance
27	Sri Lanka Insurance Corporation Ltd.	Long Term Insurance and General Insurance
28	Union Assurance PLC	Long Term Insurance

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

APPENDIX II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2019.

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

APPENDIX II

No.	Name of Broker	Class of business
43	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
44	Mercantile Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
45	Mutual Insurance Brokers (Pvt) Ltd	General Insurance
46	L M & A Insurance Brokers & Consultants (Pvt) Ltd	Long Term and General Insurance
47	My Insurance Brokers (Pvt) Ltd.	General Insurance
48	Nations Insurance Brokers Ltd.	Long Term and General Insurance
49	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
50	Procure Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
51	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
52	Priority Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
53	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
54	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
55	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance
56	R M S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
57	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
58	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
59	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
60	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
61	S Y M Insurance Brokers (Pvt) Ltd. ****	General Insurance
62	Trust Insurance Brokers (Pvt) Ltd.	General Insurance business
63	UN Insurance Brokers (Pvt) Ltd.	General Insurance
64	United Insurance Brokers (Pvt) Ltd.	General Insurance
65	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
66	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
67	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
68	Zenith Insurance Brokers (Pvt) Ltd	Long Term and General Insurance

*** Icon Insurance Brokers (Private) Limited - The registration granted to carry on Long Term and General Insurance Brokering Businesses is suspended with effect from 17th December 2019.

**** S Y M Insurance Brokers (Pvt) Ltd.- The registration granted to carry on General Insurance Brokering Business is suspended with effect from 29th August 2019 until further notice.

APPENDIX III

Loss Adjusters Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2019.

No.	Name of loss adjuster	Effective date of License
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 Mudiyansele 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 Mahindratna Weerakoon	26th June 2018
10	Mr. Rajapaksha Pathirage Don Kanchana Surangika	10th September 2018
11	The Shield Adjusters (Pvt) Ltd.	29th March 2019
12	Mr. A.W.M. Bandula Wijekoon	29th March 2019
13	Mr. Lalindra Krishantha Karunaratne	29th March 2019
14	Mr. Rajapakse Mudiyansele Herath Rajapakse	26th September 2019
15	Mr. Jasin Basthian Arachchige Ravinath Niroshana	26th September 2019
16	Mr. Keerthi Delwatta	26th September 2019

GLOSSARY

Accumulation

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

Acquisition Expenses

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

Actuary

An Actuary is a professional trained in evaluating the financial implications of contingency events. Actuaries require an 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 insurer sell insurance and investment product 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 based 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 bills, death or disability of the insured, maturity of an endowment policy, the attainment of pensionable age, the amount payable on the surrender of a policy.

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary 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 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.

GLOSSARY

Endowments

Life insurance contract that only cover the individual's life in case of an unfortunate event, but also offer a 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 Written Premium (GWP)

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.

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.

Life Surplus

The excess of the assets over the liabilities as determined by the actuary

(taking in to account the solvency requirements) and after distribution of bonus to policyholders.

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

The net claims ratio expresses claims net of recoveries from reinsurers as a percentage of premiums net of premiums ceded to reinsurance. The gross claims ratio reflects the position before reinsurance is taken into account. Also referred to as loss ratios.

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

Net Combined Ratio - General Insurance Business

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

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

Net Earned Premium - General Insurance Business

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

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).

Net Written Premiums

Net premiums written is the sum of premiums written by an insurance company over the course of a period of time, minus premiums ceded to reinsurance companies, plus any reinsurance assumed. Net premiums written represents how much of the premiums the company gets to keep for assuming risk.

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.

GLOSSARY

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 issued to the policyholder.

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.

Reinsurance

An insurance contract between one insurer or reinsurer (the reinsurer) and another insurer (the cedent) to indemnify against losses on one or more contracts issued by the cedent 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 Reserves

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 based Capital Required is the aggregate of the capital required to address all relevant and material categories of risk 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:

$$RCR = \sqrt{[(\text{credit risk capital charge} + \text{concentration risk capital charge} + \text{reinsurance risk capital charge} + \text{market risk capital charge})^2 + \text{liability risk capital charge}^2 + \text{operational risk capital charge}^2]}$$
 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.

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 of 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 concerns and a winding up basis.

Tier 2 capital

Capital that lacks some of the absorbency characteristics of the Tier 1 Capital, but nevertheless 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) Rule 2015.

GLOSSARY

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.