INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

POSITIONING
FOR THE FUTURE

Annual Report 2021

CONTENTS

POSITIONING
FOR THE FUTURE

The Insurance Regulatory Commission of Sri Lanka serves to protect policyholders, develop a sustainable insurance industry, and develop a robust supervisory and regulatory regime.

The Insurance Regulatory Commission of Sri Lanka is committed to making our society and economy more resilient against risks. We invest significant resources and work in partnership with the industry to protect the policyholders in our country.


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

27
No. of Insurance Companies

70
No. of Insurance Brokers

43,934
No. of Insurance Agents represented the insurers

560
No. of Insurance Agents registered with the insurance brokers

(Facebook, LinkedIn and YouTube)
Launched social media channels

Celebrated the 20th Anniversary of the IRCSL on 01/03/2021

Performance of Insurance Industry

	2021	2020	Change %
Gross Written Premium (Rs. Millions)	233,512	208,265	12.12
Total Assets (Rs. Millions)	888,377	796,412	11.55
Penetration as a % of GDP	1.39	1.39	-
Insurance Density (Rs.)	10,539	9,502	10.91

Performance of the Commission

Policy Holders' Protection Fund (Rs. Millions)	8,441.42	7,468.72	13%
Cess Income (Rs. Millions)	543.91	506.14	7%
Annual Fees (Rs. Millions)	257.76	244.90	5%

Rs. 888,377 Mn.
Total Assets of Insurance Industry

Rs. 233,512 Mn.
GWP of Insurance Industry

CHAIRMAN'S MESSAGE

Razik Zarook P.C.
Chairman

CHAIRMAN'S MESSAGE

" The total Gross Written Premium (GWP) of the industry increased up to LKR 233,512 million in comparison to LKR 208,265 million reported in 2020 demonstrating a solid growth rate of 12.12%. "

The Sri Lankan economy was recouping in 2021 from the pandemic-induced contraction in 2020; however once again with the emergence of the varieties of the Covid-19 virus, the economic situation of the country continued to change in unexpected ways. As a nation, we are gradually adjusting to the "new normal" life with the challenge of navigating in order to build a strong Sri Lanka. Amidst these challenges and uncertainties, I am pleased to present the Annual Report of the Insurance Regulatory Commission of Sri Lanka (IRCSL) for 2021.

Performance Overview

As Sri Lanka encountered the second and third waves of COVID-19 in 2021, all the businesses including the Insurance industry faced many monumental challenges. "what worked well in the past may not be enough to prepare for the future" by realizing the fact, Sri Lankan insurance industry quickly adapted to face the challenges via innovations and digital transformation for the well-being of the insurance industry.

The total Gross Written Premium (GWP) of the industry increased up to LKR 233,512 million in comparison to LKR 208,265 million reported in 2020 demonstrating a solid growth rate of 12.12%. Premium growth is mainly contributed by the long-term insurance business which has generated a GWP of LKR 124,752 million in 2021 and up by 21.12%. The outbreak of the pandemic heightened the risk awareness of the public and enhanced the need for life protection. Furthermore, public confidence in insurance started to grow as many insurers implemented hassle-free claim settlement processes and provided extended benefits to customers who had been affected by the pandemic. These two key elements were the primary drivers of the long-term insurance industry's significant growth during the year.

The General Insurance Business achieved a moderate growth of 3.32% in 2021. However, the growth momentum is still lagging behind the pre-pandemic context where the general insurance business witnessed premium growth of around 7% in 2018 and 2019. The government's decision to prohibit motor vehicle imports was the prime reason, which hindered the premium recovery of the general insurance business. The motor insurance class, which accounts for more than half of the total GWP of the general insurance business, reported negative premium growth in 2021, owing primarily to the ban on motor vehicle importation. The recovery was worsened by subsequent insurgences during the COVID-19 pandemic. Country lockdowns and mobility restrictions continued particularly during the third quarter of the year as highly in the fictitious Delta variant spread rapidly in the country. Even under these adverse conditions, all other insurance classes of general insurance business have demonstrated positive business growth during the year.

The insurance penetration ratio remains unchanged at 1.39% compared to the previous year due to a similar proportional increase observed in Gross Domestic Product at the current market price. Despite having relatively low insurance penetration in the region, Sri Lanka has a wide protection gap between insured losses and uninsured losses, which leads to economic and social issues as the country is exposed to frequent natural disasters, and loss events arising from accidents and sicknesses.

Key Achievements and Leading to the Right Path

Success is the result of perfection; the Insurance Regulatory Commission of Sri Lanka (IRCSL) has continuously implemented regulatory measures for the development of the Insurance Industry and to safeguard the interests of policyholders since its establishment in the year 2001.

CHAIRMAN'S MESSAGE

While carrying out its mandate in the insurance industry, the IRCSL has continued to empower the public in order to protect consumer rights and interests and to make more informed decisions when purchasing insurance products. During the period under review, the IRCSL has continued to empower the public by undertaking consumer education activities via print, electronic media and social media platforms. The objective of the Commission in conducting such awareness programmes was to safeguard the interest of existing and potential policyholders by enhancing the knowledge on rights relating to insurance cover, the importance of insurance, the insurance industry & its latest developments, selecting suitable insurance products, grievance redress mechanisms available to policyholders, etc.

Challenges for the future

We expect 2022 to be another challenging year. As we move forward with technology and digitalization, the industry needs to pay more attention to cybersecurity in order to ensure data protection and consumers' privacy requirements. In addition, I believe the insurance industry workforce will need to be flexible and creative, continue their education, think broadly about the global business environment and be prepared for rapid change. I am confident that as we continue to adapt and innovate, we will be able to position ourselves well enough for the challenges.

In Appreciation

I would like to express my appreciation to my colleagues at the Commission, for their contribution and efforts towards achieving the Commission's vision and mission. I also wish to thank all industry stakeholders including all insurance companies, brokers and authorized intermediaries, the Insurance Association of Sri Lanka (IASL), the Sri Lanka Insurance Brokers Association, (SLIBA), the Sri Lanka Insurance Institute (SLII), and the Insurance Ombudsman for their continued support, excellent cooperation and cordial relationship that they continue to maintain with us.

Special appreciation goes to the Director General, Senior Management Team and staff members for the professionalism and dedication they have displayed throughout the year in achieving the objectives of the IRCSL.

Razik Zarook P.C.
Chairman

DIRECTOR GENERAL'S REVIEW

Damayanthi Fernando
Director General

DIRECTOR GENERAL'S REVIEW

The total number of insurance policies that contributed to generating GWP from different sub classes of the general insurance industry was 6,620,274 in 2021. The number of total policies has increased by 80,719 compared to 2020.

I am pleased to report the achievements of the Insurance Regulatory Commission of Sri Lanka for the year 2021.

Year 2021 was a historic milestone for the IRCSL, as the Commission marked 20 years in existence since establishment in year 2001. Over the last two decades, IRCSL has championed in balancing the regulatory structure, to meet its utmost responsibility of safeguarding the interests of policyholders, whilst ensuring the insurance business is carried out with integrity and in a professional and prudent manner. Since its establishment, the IRCSL has achieved a number of milestones. Some of these include; Issuing rules, regulations and guidelines for the effective regulation of the insurance industry to meet its object, Amending the Regulation of Insurance Industry Act, No. 43 of 2000 in years 2007, 2011 and 2017 to cater to the growing need, Supporting the establishment of the Insurance Ombudsman Scheme, Introducing the competency test for persons functioning as Insurance Agents conducted through the Sri Lanka Insurance Institute (SLII), Moving from a rules-based capital framework to a risk-based capital framework from year 2015, Designing and adopting a Risk Based Supervision Framework 1 (RBS), Abolishing the composite insurance company system and requiring the segregation of Life and General Insurance Business into separate entities, Introducing the Premium Payment Warranty (PPW) clause to streamline the credit practice of the industry, Requiring the listing of all insurance companies on a Licensed Stock Exchange by the SEC, Developing a curriculum with the National Institute of Education (NIE) to introduce insurance as a subject in the commerce stream of the G.C.E. Ordinary Level and Advanced Level Examinations, Establishing a fully-fledged Investigation Division to inquire into policyholder grievances and facilitate the settlement of insurance claims, making orders under section 98 as required, Changing the name of the Regulator from the Insurance Board of Sri Lanka (IBSL) to the Insurance Regulatory Commission of Sri Lanka (IRCSL), Requesting the declaration of 1st September as the National Insurance Day, Engaging in CSR initiatives to create and disseminate awareness on insurance among public and Conducting consumer education programs/workshops/seminars island-wide on insurance.

In connection with the IRCSL's 20th anniversary, we have relaunched the IRCSL Website to provide more user-friendly and content-driven information, and we have launched the IRCSL YouTube Channel, Facebook, and LinkedIn Pages to disseminate messages on insurance to strengthen awareness creation on the insurance concept and to develop informed customers.

The year 2021 was a challenging year for the insurance sector players and insurance consumers as the COVID-19 pandemic continued to disrupt economic activities. Despite the challenging operating context, the IRCSL has continued to focus on ensuring a robust and resilient insurance industry, amid at enhancing policyholder confidence whilst ensuring that rights of policyholders are protected.

The IRCSL has prudently taken regulatory actions ensuring the stability of the insurance industry and flexible treatment of policyholders against huge uncertainties from potential COVID 19 fallout. The Commission is committed to protecting policyholders, which is one of its top priorities. The IRCSL has taken steps to strengthen the awareness creation on insurance. Furthermore, public confidence in insurance has started to grow as many insurers implemented hassle-free claim settlement processes and provided extended benefits to customers who have been affected by the pandemic.

DIRECTOR GENERAL'S REVIEW

Key Regulatory Initiatives

The Commission issued the following directions during the year under Section 96A of the Act, the details of which are stated in the general review:

- Direction #01 of 2021 - on Dividend Declaration and Distribution
- Direction #02 of 2021 - on Restriction on providing Codes and Restriction on changing Codes
- Direction #03 of 2021 - on Refrain from employing any persons in any capacity of employment, whose services have been terminated on the grounds of financial misappropriation or fraud, having followed due process, specially the principles of Natural Justice prior to taking such decision to terminate.
- Direction #04 of 2021 - on Termination of using Telecommunication Service Providers' Platforms (Mobile Insurance) and matters connected therewith and incidental thereto
- Direction #05 of 2021 - on Revision of Direction #09 (13th May 2016) on Principal Officers of insurers and insurance brokers

Performance of the Insurance Industry

Gross Written Premium (GWP) & Penetration

In 2021, the total Gross Written Premium (GWP) of the industry increased up to LKR 233,512 million in comparison to LKR 208,265 million reported in 2020 demonstrating a solid growth rate of 12.12%. Premium growth is mainly contributed by long-term insurance business, which has shown significant progress during the year as the outbreak of the pandemic heightened the risk awareness of the public and enhanced the need for life protection. The GWP of the industry displayed a growth 41.56% when compared to Rs. 164,960 million recorded in 2017. The general insurance business rebounded in 2021 and achieved a moderate growth of 3.32%. However, the growth momentum is still lagging behind the pre-pandemic context where the general insurance business witnessed premium growth of around 7% in 2018 and 2019. By the end of 2021, insurance brokering companies operated in the market, generated a GWP amounting to LKR 30,286 million representing 12.97% of the total GWP.

Even with a notable expansion in total GWP, the insurance penetration ratio remains unchanged at 1.39% compared to the previous year. Over the last seven years, the insurance penetration has marginally increased from 1.24% in 2017 to 1.39% in 2021. Low disposable income levels and less concentration on insurance remained as prime obstacles affecting the increase in insurance penetration in Sri Lanka. The industry is assiduous in bridging the protection gap by expanding insurance services into different segments and different niches. The insurance density, which represents the amount of insurance premium per person, displayed a favorable increase from LKR 9,502 to LKR 10,539 during the year.

Performance of Long-Term Insurance Business

The long-term insurance business continued its progressive trend and reported a remarkable GWP growth of 21.12% and reached the LKR 125 billion mark in terms of premium income, whilst recording the highest growth rate in the life insurance segment over the last five years. Digitization of business and operating models, innovative product offerings, distribution channel optimization etc. have contributed to this commendable growth of the life insurance segment. Furthermore, the pandemic boosted the life insurance industry by raising public awareness of uncertainties, the importance of insurance, and public trust in the industry. Over the last five years, from 2017 to 2021, the long-term insurance industry has grown at a steady rate of more than 10%. Life insurance market penetration recorded as 0.74% in 2021. Even though it is on an upward trajectory, still remains underpenetrated when compared to other countries.

Total life insurance policies in force as at end 2021 was 4,297,794 displaying a modest growth of 5.76% compared to the surge in growth reported in 2020. The new life policies issued dropped by 3.37% amounting to 873,762. A number of life policies in force as a percentage of the total population and number of life policies in force as a percentage of the labour force, improved to 19.40% and to 50.25% respectively.

DIRECTOR GENERAL'S REVIEW

Claims incurred by long-term insurers further increased during the year under review, reaching LKR 46,113 million posting a considerable growth of 21.64%.

Performance of General Insurance Business

Despite ongoing COVID-19 concerns and challenging economic surroundings, the general insurance industry presented a slender progress of 3.32% compared to the previous year's adverse trend of 2.25%, recording a premium income of LKR 108,760 million and reached the highest GWP for the past five years. New registration of motor vehicles continued to decline in the year 2021 due to the expansion of restraints imposed on motor vehicle importation and new registrations of motor vehicles declined notably by 83.3%, compared to a deterioration of 44.8% in 2020. Nevertheless, the entire general insurance industry made progress in 2021 and reached the highest GWP for the past five years.

The total number of insurance policies that contributed to generating GWP from different sub classes of the general insurance industry was 6,620,274 in 2021. The number of total policies has increased by 80,719 compared to 2020. Further, the total number of policies gently increased over the last five years and recorded an 8.04% growth in 2021. Similar to previous years the majority represented the motor subclass which comprised third-party insurance policies of 3,285,221 and comprehensive policies of 2,671,816.

Compared to the past five years, claims of health insurance business were at its peak for the year 2021 with a growth of 42.71% against the previous year's negative growth of 27.80%. As a consequence of several lockdowns occurred during the year 2020, intimation of large number of claims delayed and clearance of same took place in the year 2021 which resulted a sudden hike in claims of health insurance sector. Besides, circulation of novel COVID-19 variants and acceleration of number of cases rapidly increased individuals' attention to their medical needs, which eventually supported to the increment in claims of health insurance sector. The general insurance industry was displaying a marginal contraction in profits due to increase in claims. Many insurers initiated speedy and smooth transition to digital processes therefore sustaining the customer relationship around the clock. Therefore, insurers managed to provide an uninterrupted service to the customers throughout the year. As a modality to overcome obstacles posed by the pandemic, insurers in Sri Lanka offered several extended benefits to policyholders in respect of premium collection, claim payments etc.

Profitability

The insurance industry unveiled a slight decline in overall profitability (profit before tax) by 2.03%, mainly because of the weakened performance of the general insurance business with a profitability amounting to LKR 42,762 million for the year 2021

The long-term insurance business rebounded strongly during 2021 in terms of performance and achieved a profitability growth of 20.82%. In overall, the strong growth in GWP, favorable net investment income generated during the year and stringent cost optimization and containment measures adopted by many long-term insurers were primary contributors to increase in profitability. However, claims and benefits to policyholders saw a moderate improvement mainly because of death benefits, maturity payouts, and increase in surrender payouts, which had an adverse impact on profitability.

The overall profitability of general insurance business dropped by 18.48% on year-over-year basis. General insurance claims increased by 13.72% during the year, reflecting the normalization of economic activity and mobility. Nevertheless, motor claims remained subdued even though the cost of spare parts sharply increased in 2021.

Future outlook

We expect 2022 to be another challenging year. The insurance market needs to stay vigilant and continue to manage the impacts of the pandemic as well as pay close attention to any possible unexpected volatility due to economic pressures. It is important that the insurance industry seize opportunities that will allow to sustain growth whilst shifting the business models to stay viable in a new environment.

The persistence of floods and droughts in 2021 underlines the gathering danger. Major natural disasters are very likely in the future and as the pandemic continues into its third year, the need for an effective health

DIRECTOR GENERAL'S REVIEW

strategy is imperative. Therefore, insurers must constantly seek ways to improve the insurance business model in order to adapt to any situation while providing work environments that foster innovation and resilience.

Moreover, customer education, claim handling and complaint resolution can help insurers to build and reinforce confidence in the insurance sector, which can serve as a positive reinforcement for greater insurance inclusion both in life and in general insurance sectors. Financial literate consumers can assess risks and make informed decisions about the suitability of insurance products to their specific situations. Therefore, insures need to take steps to increase financial literacy level of the public which will enable the insurance industry in Sri Lanka to operate smoothly and sustainably, facilitating the insurance market's long-term growth.

The Commission continuously carries out reforms on many legal reforms for better protection of policyholders. A new Insurance Regulatory Act with wider powers in line with the Insurance Core Principles of the International Association of Insurance Supervisors, micro insurance regulation & supervision and enhanced rules on product review, advertisement review and standard policy framework for general insurance and long term insurance policy documents are some of the key reforms underway. The Commission also intends to conduct market research to identify various factors that drive the performance of the insurance industry, as well as policyholders' insurance needs and protection gaps etc., in order to facilitate the insurance industry's development.

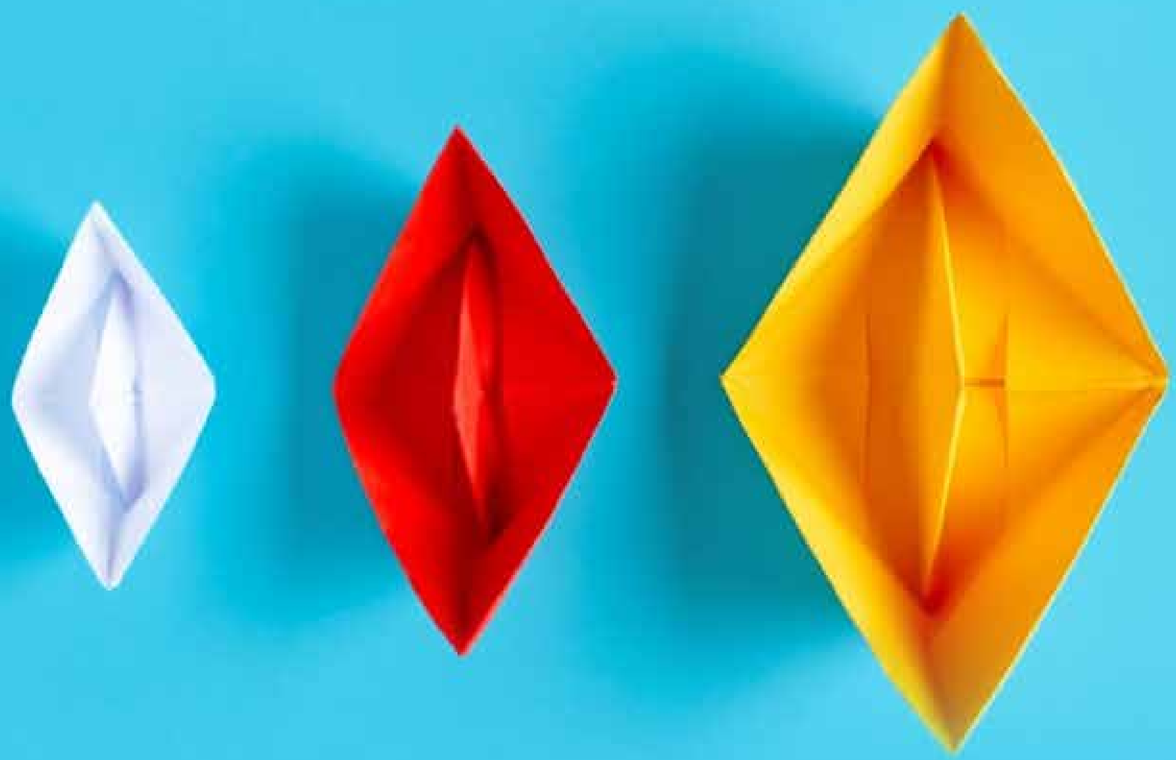
In Appreciation

I would like to express my gratitude to the Chairman and Commission Members for their support and guidance in an extremely volatile year. I also wish to place on record my appreciation to the insurance industry stakeholders for providing productive insights to develop the industry over the years and look forward to their support in the coming years.

I sincerely thank the senior management team and staff members of the Commission for their professionalism and dedication displayed throughout the years. Their hard work and commitment enabled IRCSL to realize its goals, despite the disruption and limitations posed by the COVID-19 pandemic.

Damayanthi Fernando

Damayanthi Fernando
Director General



COMMISSION MEMBERS AND STAFF

MEMBERS OF THE COMMISSION

Mr. R. M. P. Rathnayake

Mr. Sanjeewa Dissanayake

Mr. Razik Zarook P.C.
Chairman


Mr. Haris Salpitikorala
Mr. Raja Goonaratne
Mrs. Yvette Fernando
Ms. Indra Baduge

PROFILES OF MEMBERS OF THE COMMISSION

01 Mr. Razik Zarook
President's Counsel
Chairman

Mr. Razik Zarook President's Counsel, 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 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.

02 Mr. R.M.P. Rathnayake

Mr. R.M.P Rathnayake is a Special Grade officer of the Sri Lanka Planning Service and currently working as the Deputy Secretary to the General Treasury.

He holds a Master's Degree from Agriculture University of Norway and B.Sc. (Special) Degree from University of Peradeniya.

He joined the public service in 1994 and has been working for almost 27 years in various positions in the departments coming under the General Treasury including the Department of National Planning and Department of External Resources(ERD). As the Director General of the ERD, he was responsible for coordinating with development partners, lending agencies and capital market to mobilize foreign financing for development projects and engage with the bilateral negotiations and facilitate timely disbursement of foreign financing.

He currently represents the Treasury as a member of the Board of Directors in several institutions, including Bank of Ceylon, Securities and Exchange Commission of Sri Lanka (SEC) and Insurance Regulatory Commission of Sri Lanka (IRCSL).

Mr. Rathnayake has published many articles relating to various fields/subject areas.

03 Mr. Sanjeewa Dissanayake

Mr. Sanjeewa Dissanayake holds a Master's Degree in Human Rights (LL.M) from the University of Hong Kong. He was admitted and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in December 1997. He is a Deputy Solicitor General attached to the Attorney General's Department of Sri Lanka and presently released by the Public Service Commission (PSC) to take up duties as the Registrar General of Companies.

Mr. Sanjeewa Dissanayake has experience both in the Criminal and Civil Divisions of the Attorney General's Department and has also worked as a prosecutor of the Fiji Independent Commission against Corruption. He is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Securities and Exchange Commission of Sri Lanka.

04 Mrs. Yvette Fernando

Mrs. Yvette Fernando currently serves as a Deputy Governor at the Central Bank of Sri Lanka in charge of the area of financial system stability. She has over 30 years of service in the Central Bank in the areas of supervision and regulation of banks,foreign exchange management and currency management. During

PROFILES OF MEMBERS OF THE COMMISSION

this period, Mrs. Fernando has served as the Director of Bank Supervision and the Controller of Exchange, and has held the position of Assistant Governor in-charge of the departments of Bank Supervision, Currency, Foreign Exchange and Employees' Provident Fund. Mrs. Fernando has participated in several local and international training programmes, seminars and other forums to enhance and update the knowledge on different aspects of bank supervision and regulation, general banking operations, good governance practices, resolution of weak banks, cash operations, currency management and leadership skills. She has been a resource person in several training programmes and panel discussions on work related subjects, both local and overseas. Mrs Fernando, currently functions as the Chairperson of the Financial System Stability Committee and National Payments Council of the Central Bank of Sri Lanka, Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka, and as a member of the Insurance Regulatory Commission of Sri Lanka and the Securities & Exchange Commission of Sri Lanka. She holds a Master of Financial Economics degree from the University of Colombo and a Bachelor of Commerce (Special) degree from the University of Sri Jayewardenepura.

05 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 as a District Manager and Vice President of American International Assurance Co. Ltd and has worked as a Consultant for insurance companies in Brunei, Singapore and Sri Lanka.

06 Mr. Raja Goonaratne

Mr. Raja Goonaratne is an Attorney-at-Law and holds a Master's Degree in Commercial Law from Monash University, Australia.

Mr. Goonaratne is a Senior Lecturer at the Department of Legal Studies of the Open University of Sri Lanka.

He is also contributing to the State service as a Member of 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.

07 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

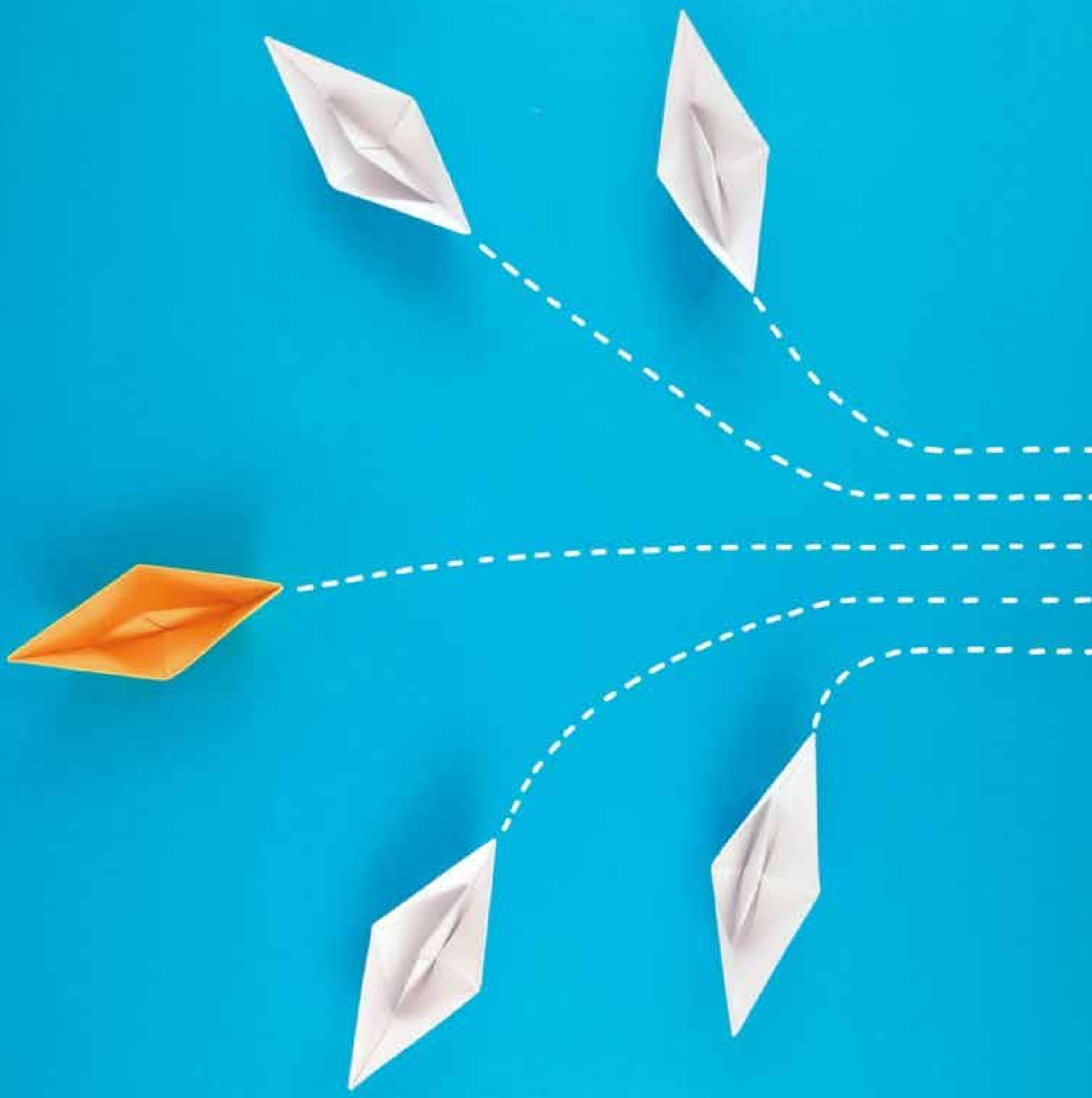
01 Mrs. Damayanthi Fernando (Director General)
02 Mrs. Chamarie Ekanayake (Director Supervision)
03 Mr. Sathiesh Kumar (Director Finance and Administration)
04 Mrs. Prabhashini Samarakoon (Director Investigation)
05 Mrs. Deepika Navaratna (Director Market Development and External Relations)
06 Mr. Rajan Nirubasingham (Director Legal & Enforcement)

07 Mr. Bimsara Wijesinghe (Assistant Director Market Development and External Reltions)
08 Mrs. Sarika Wattuhewa (Assistant Director Supervision)
09 Mrs. Chamari Heenatigala (Assistant Director Investigation)
10 Mr. Priyantha Fernando (Assistant Director Information Technology)
11 Miss. Malithi Ambalangodage (Assistant Director Legal & Enforcement)

STAFF MEMBERS

01. Mrs. Decika Rathnayake
02. Mrs. Harshanie Perera
03. Mrs. Natasha Keerthisinghe
04. Mrs. Lasanthi Thotahewa
05. Miss. Paramie Munasinghe
06. Mrs. Thilini Wakista
07. Mrs. Veena Senevirathne
08. Miss. A. W. Sewwandi
09. Mrs. Sachithra Ranatunga
10. Miss. Chathuni Thalpavila
11. Mrs. Thushari Wijegunawardana
12. Mrs. Shashini Wathsala
13. Mrs. Malhari Wickramasinghe
14. Mr. Kalana Pushpakumara
15. Mr. Bhanuka Gamage
16. Mr. Ravindu Hansaka
17. Mr. Sanath Udayanga
18. Mr. Nayana Ravindra
19. Mr. Anushka Dilan Bandara
20. Mr. Lakmina Pathiraja

21. Mrs. Upendra Seneviratne
22. Mrs. Ruvini Liyanage
23. Mrs. Pavithra Punchihewa
24. Mrs. D W S S Supulee
25. Mrs. Nilanka Walisundara
26. Mrs. Vindyani Thulapitiya
27. Mrs. Priyangi De Silva
28. Mrs Kokila Siriwardana
29. Miss. Upeksha Liyange
30. Mrs. Chandima Kamburugamuwa
31. Mrs. Sujeewa Ranasinghe
32. Mrs. Shyamalie Attanayake
33. Mr. Chaminda Lal Kumara
34. Mr. Hashanka Rathnasiri
35. Miss. Imasha Waduge
36. Mr. Nisal Karunarathne
37. Mr. Nalin Thalagala
38. Mr. Malin Perera
39. Mr. Ethirraj Srikanthan
40. Mr. Charitha Wickramasinghe
41. Mr. Nuwan Sudarshana



REVIEWS

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 during the year under Section 96A of the Act

1. **Direction #01 of 2021 - Dividend Declaration and Distribution**

   The Commission has issued terms and conditions to insurers when declaring and distributing dividends (including interim dividends) to shareholders. This Direction came into effect from 10th March 2021.

2. **Amendment to Direction #01 of 2021 - Dividend Declaration and Distribution (Amendment)**

   Having considered the request of the Insurance Association of Sri Lanka, the Commission has replaced item1(b) of Direction 1 of 2021 issued on 10th March 2021 and substituted the following items:

   i. Decisions on contingent liabilities have been taken by the company following a proper scrutiny based on broader framework and assess the risk associated with same against the sustainability of the financials and solvency position of the company.

   ii. Impact on financials and solvency position considering proposed payout to the shareholders. Subject to insurers complying with the relevant accounting standards.

   This Amendment to Direction 1 of 2021 came into effect from 30th August 2021.

3. **Direction #02 of 2021 - Restriction on providing Codes and Restriction on changing Codes**

   The Commission has issued Directions to insurance companies and insurance brokering companies in respect of restrictions on providing and changing codes. This Direction came into effect from 24th March 2021.

4. **Direction #03 of 2021 - Direction # 14 (Revised)**

   The Commission has directed persons registered under the Regulation of Insurance Industry Act (insurers, brokers and loss adjusters) to refrain from employing persons,

   in any capacity of employment, whose services have been terminated on the grounds of financial misappropriation or fraud. This Direction came into effect from 29th July 2021.

5. **Direction #04 of 2021 - Termination of using Telecommunication Service Providers' Platforms (Mobile Insurance) and matters connected therewith and incidental thereto**

   The Commission has issued Directions to insurance companies stopping the existing method of using the platform of telecommunication service providers' services such as mobile and fixed lines to sell insurance products. This Direction came into effect from 6th September 2021.

6. **Direction #05 of 2021 - Revision of Direction #09 (13th May 2016) on Principal Officers of insurers and insurance brokers**

   The Commission has revised the Direction #09 of 13th May 2016 in respect of Principal Officers of insurers and insurance brokers so that the Principal Officer of an insurer or an insurance broker shall be the Chief Executive Officer/ the MD and he/she shall be responsible for the general control, direction and supervision of the business activities of the company. The paragraph No. 1 of this Direction came into effect from 1st November 2022.

GENERAL REVIEW

Circulars issued during the year

1. **Circular # 01 of 2021 - Clearance of insurance products prior to launch**

   Having considered the requirements stipulated in Section 37(1) & (2) of the Regulation of Insurance Industry Act, the Commission informed all insurance companies that they could launch products/ policy forms as referred to in Section 37(1) only after the Commission confirms that products/policy forms are in the opinion of the Commission fair and equitable. All General Insurance Companies are required to submit policy documents at least 30 days prior to the proposed date of launch and Long-term insurance companies are required to submit the policy documents 45 days prior to the proposed date of launch. This circular came into effect from 23rd March 2021.

2. **Circular #02 of 2021 - Prohibition of promotion/ advertisement of third party Motor Insurance**

   Having considered Section 3 of the Regulation of Insurance Industry Act, the Commission prohibited the promotion/ advertisement of third-party motor insurance. This circular came into effect from 8th April 2021.

Determinations made during the year

Determination made under Section 88 of the RII Act, No. 43 of 2000 (Amended)

The existing Determination # 10 has been replaced with the new Determination # 10 on 'Maximum commission payable for Long Term Insurance business and General Insurance business' issued to the insurance companies and insurance brokers. This Determination came into effect from 6th December 2021.

Market Structure

Insurers

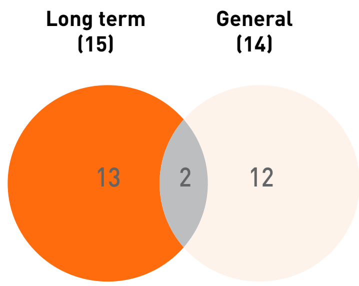
Subject to the provisions of Section 12 of the Act, no person shall carry on insurance business in Sri Lanka unless such person is for the time being registered or deemed to be registered under the Act to carry on insurance business.

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 in terms of provisions of the Companies Act, No. 07 of 2007. MBSL Insurance Company Ltd. has ceased to underwrite new life insurance business with effect from 1st June 2020.

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 70 companies registered as insurance brokers. Out of the said companies, 51 companies were registered in both long term and general insurance brokering business while 19 companies were registered only in general insurance brokering business.

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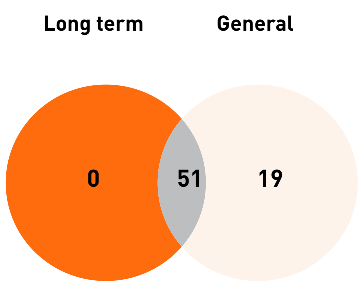
Chart 2 depicts the classes of insurance brokering business, Insurance Brokers had carried on during the year.

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 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.

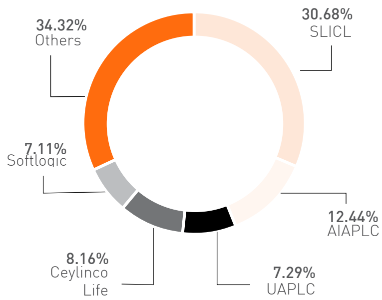
As per information given by Insurers, the total number of individuals recruited as Insurance Agents during the year was approximately 16,387 which is a 2.98 % increase from the previous year (15,913).

The total number of individual insurance agents representing insurers as at the end of year was approximately, 43,934, a 1.37 % increase from the previous year (43,342).

Chart 3 depicts individual Insurance Agents registered with Insurance Companies.

Chart 3

Total Agents as at 31.12.2021



The total number of insurance agents representing insurance brokering companies as at the end of year was approximately 560.

Loss adjusters

30 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.

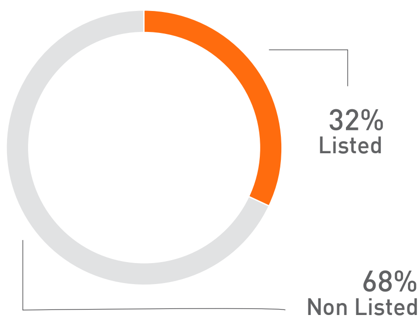
Accordingly, the Commission has specified in the aforesaid Rules the qualifications and/or experience required for a person to be registered as a Loss Adjuster.

Company Status and Changes in Capital

Of the insurers registered with the Commission, 09 companies were listed on the Colombo Stock Exchange as at 31st December 2021, namely: Union Assurance PLC, Softlogic Life Insurance PLC, HNB Assurance PLC, Amana Takaful PLC, Amana Takaful Life PLC, Janashakthi Insurance PLC, Arpico Insurance PLC, People's Insurance PLC and Sanasa Life Insurance Company PLC.

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

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



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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 2021 was LKR Rs 546 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 -

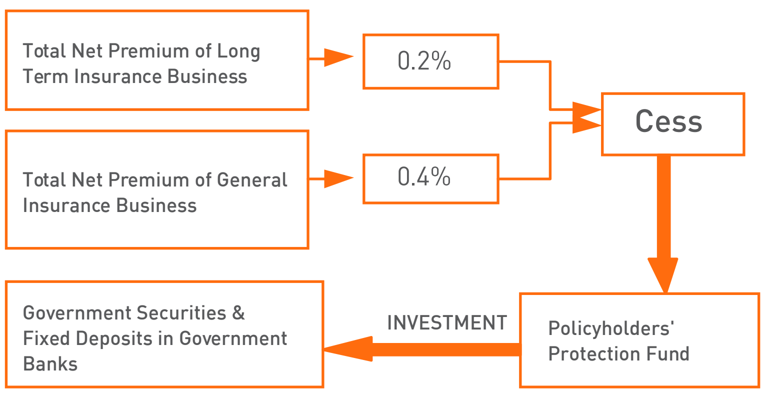
a) defraying the expenditure incurred in creating awareness of the insurance industry amongst the public and other expenditure incurred in the development of the insurance industry; and

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 2021, is LKR 8,444 million; a 19.45 % increase from the previous year (LKR 7,469 million).

Chart 5 - Cess and the Policyholders' Protection Fund



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Insurance Tariff

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

Exemptions to the application of the Act

In terms of Section 12(3) of the Act, provisions of the Act do not apply to the Agriculture and Agrarian Insurance Board established under the Agriculture and Agrarian Insurance Act, No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978 and the Social Security Board established under the Social Security Board Act, No. 17 of 1996.

National Insurance Trust Fund (NITF)

The National Insurance Trust Fund Board, established by the National Insurance Trust Fund Act, No. 28 of 2006 (NITF Act) was brought under the purview of the Commission by the Amendment Act, No. 3 of 2011.

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

The Act, as amended by Act No. 27 of 2007, requires every insurer, who reinsures, to reinsure with the NITF a percentage, not exceeding 50%, as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured. In terms of Gazette Notification No. 1791/4, dated 31st December 2012, every insurer is required, with effect from 1st January 2013, to reinsure 30%, on the total liability arising out of every general re-insurance policy, with the NITF, excluding long-term re-insurance contracts entered into by the insurer. Prior to this the percentage was 20%.

Other Related Matters

National Council for Road Safety (NCRS)

The National Council for Road Safety established under the Motor Traffic Act is under the purview of the Ministry of Transport and Civil Aviation. Every insurer providing motor insurance cover is required to contribute 2% of third-party insurance premium to the Road Safety Fund created under the NCRS (contribution of 1% was increased to 2% with effect from 1st October 2021).

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

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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. In addition, it holds CPD seminars, Insurance related conferences, Inter-Insurance company Quiz programme and the Inter-Insurance Company Cricket & Netball tournament, to name a few other activities.

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, in written form as well as computer-based examinations.

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.

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Abbreviations for Insurance Companies

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

Following General Notes supplement when interpreting the data of Tables and Charts of the Statistical Review:

1. Information in this report is based on the statistics provided by Insurance Companies and Insurance Brokering Companies.
2. Data submitted by NITF regarding Risk Based Capital were not taken into account in order to maintain comparability because NITF handles both reinsurance and insurance business.
3. 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'.
4. 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.
5. Differences as compared with previously published figures are due to subsequent revisions.
6. Values indicated within parenthesis are negative values.
7. The following symbols have been used throughout: -

   (a) = Reinstated and Audited figures

   (b) = Provisional figures

   = nil

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Overview of Sri Lankan Insurance Industry

Global Insurance Market at a Glance

The outbreak of the COVID-19 pandemic and its continued revival created long-lasting influences on the global economy. Despite the enormous challenges, the global economy is making a strong recovery with an estimated 6.1% growth in 2021, according to the publications of the International Monetary Fund (IMF). Similarly, the insurance sector has also reported a rebound during the year 2021, mainly benefiting from the increasing risk awareness in both long-term and general insurance segments, as individuals and businesses seek more insurance protection following the circumstances created by the COVID-19 pandemic. Heightened natural catastrophic risks and the further rise of emerging markets have also influenced better growth prospects.

According to the estimations of Swiss Re, the global insurance premiums grew by 3.4% in real terms during 2021 displaying a solid recovery after the premium contraction witnessed in 2020. The pandemic led to shocks that highlighted the importance of the insurance industry as a risk absorber that provides financial relief for both individuals and businesses in a crisis. Many individuals felt under-insured and aimed to buy more protection. Companies have also increased their awareness of supply chain issues, business disruptions, and cyber risks. These factors have become strong demand drivers for insurance, which has resulted in premium growth. Premium rates in the general insurance business, especially in commercial lines, continue to rise in accordance with the impacts of growing demand and inflationary pressure. However, worldwide motor premium growth was affected by de-tarrification rate cuts in China and accordingly the growth momentum continued to delay the recovery after being severely dropped in 2020. Global health and medical insurance posted an upward trend in 2021, driven by higher risk awareness and strong demand. Similarly, premiums of long-term insurance businesses demonstrated a moderate growth influenced by mounting demand supported by risk awareness, and increased digital interaction. Some advanced markets in Europe experienced a strong rebound in unit-linked businesses as the consumer's investment appetite continued to grow. Premium growth in emerging markets in Asia occurred due to economic revival, enhanced risk awareness and the use of digital distribution channels. Apart from the worldwide increased risk awareness induced by the pandemic, the rudimentary nature of social security systems in most emerging markets and accelerating demographic change continued to create opportunities for long-term insurance businesses for strong development and growth.

A persistent low-interest rate environment coupled with elevated inflation constricted the real investment returns of insurers worldwide. Many long-term insurance companies are adjusting their product portfolio to match with low-interest rate trajectory as re-designed products, repricing and capital optimization are crucial to boosting insurer profitability.

Claim cost of general insurance business is highly affected by significant catastrophe losses and elevated inflationary pressures. The motor class was gradually returning to pre-pandemic claim levels after lifting mobility restrictions in many jurisdictions. Furthermore, rising motor vehicle parts had put additional upward pressure on motor claims. Increases in healthcare and medical costs had a severe impact on liability and workmen compensation claims. Property losses became substantially higher due to catastrophic events steered by extreme weather conditions. According to the Swiss Re's Sigma Report, the insured losses from natural catastrophes totaled around USD 111 billion in 2021 making it one of the costliest years for the insurance industry in terms of catastrophic losses. Several large natural catastrophic events such as Hurricane Ida in USA, European Floods and Floods in China largely contributed to global insurance losses. Pandemic-related claims of long-term insurance business displayed notable improvements in several jurisdictions such as USA, Brazil and Mexico in 2021. Death benefits paid increased in the first half of the year and eventually, the mortality rates declined with the enhanced vaccination programs.

Digitalization is one of the key factors that contributed to the resilience in the insurance industry during the pandemic. Many insurers have smoothly shifted to digital processes in sales and operational activities, which largely aided to continue business functions during the periods where mobility restrictions were implemented. The industry

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is now moving forward with these new technological developments by going beyond the sales and operational processes to areas like assessment and prediction of risks. Another key transformative change is Asia becoming the leader of global insurance development. It is forecast that over the next decade, the region will contribute more than 50% of global premium growth.

Over the years it has been a major concern for insurers all over the world to accurately assess climate change and natural catastrophic risks and thereby minimize insured losses. Most climate forecasting models anticipate more extreme weather events from climate change in the future and highlight the importance of significant investments in hardening critical infrastructure to mitigate the impact of volatile weather conditions.

Sri Lankan Economy at a Glance

The Sri Lankan economy recovered in 2021 by recording a growth of 3.7% after witnessing a 3.6% contraction in 2020 primarily due to the impact of the COVID-19 pandemic. All three major sectors of the economy displayed progress during 2021 as the economic activities resumed normal functioning with the gradual easing of pandemic-related disturbances. The agriculture sector grew by 2.0% mainly because of the expansion in coconut and animal production activities. However, the contraction in the growing of rice, fruits, vegetables and other beverage crops affected negatively the performance of the sector. The short supply of required fertilizer and agrochemicals for farming led to a lower yield, particularly during the second half of the year. In contrast to the previous year's sharp decline, Industry sector recorded 5.3% growth in 2021. The recovery in manufacturing activities steered the growth of the industry sector while construction and mining activities recorded moderate expansions. Service sector activities enhanced by 3.0% in 2021, largely due to the expansion in financial services and wholesale and retail trade activities. IT programming, telecommunication and health activities also expanded during the period, primarily driven by the pandemic-induced demand.

Although the key sectors of the economy demonstrated growth momentum, the country is still facing several structural issues and vulnerabilities induced by pre-existing macroeconomic weaknesses that have elevated social and political pressure since the beginning of the year 2022. (Source - Central Bank Annual Report 2021)

In 2021, the Government and the Central Bank of Sri Lanka took numerous countermeasures to safeguard the economy. Monetary policy easing and providing sufficient liquidity to the markets facilitated both public and private sectors the required funds for working capital and investment needs and thereby ensured the uninterrupted deployment of public services, utilities and goods and services to the general public. However, amidst the heightening balance of payments deficit, substantial debt servicing obligations and decreased remittances from foreign employees, the foreign exchange reserves began to shrink severely, and as a result, the domestic foreign exchange market remained largely illiquid. Despite the subsequent increase in interest rates and price controls imposed by the Government, inflationary pressure is expected to remain strong amid currency depreciation and rising global commodity pricing. Food prices further elevated and shortages of essential items continued in the latter part of 2021 and the beginning of 2022, which could worsen the food insecurity and poverty lines.

These negative economic outlooks pose challenges to the insurance industry in multiple means. Decreasing disposable income would limit both existing and potential policyholder's premium payment viability and eventually could lead to higher surrenders and lapses. Insurers' operational and claim expenses would increase in a higher inflationary environment and compel insurers to adjust their reserves and liability provisions accordingly, and further reprice their products by increasing the premium rates.

Sri Lankan Insurance Market

As the prolonged effects of the pandemic threatened economic activities and the normality of society, the insurance industry quickly responded and sustained its business progress with innovations and digital capabilities that has gained positive returns and better openings for growth. Similar to the global context, the Sri Lankan insurance industry remained strong in 2021 and managed to outperform the pandemic-induced challenges,

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which subdued the industry growth in 2020.

By the end of 2021, the insurance industry comprised 27 insurance companies, i.e., 13 long-term insurers, 12 general insurers and 2 composite insurers providing both long-term and general insurance services. In 2021, the total Gross Written Premium (GWP) of the industry increased up to LKR 233,512 million in comparison to LKR 208,265 million reported in 2020 demonstrating a solid growth rate of 12.12%. Premium growth is mainly contributed by long-term insurance business that show significant progress during the year as the outbreak of the pandemic heightened the risk awareness of the public and enhanced the need for life protection. Furthermore, public confidence in insurance started to grow as many insurers implemented hassle-free claim settlement processes and provided extended benefits to customers who have affected by the pandemic.

In contrast to the negative premium growth of 2.25% reported in last year, the general insurance business rebounded in 2021 and achieved a moderate growth of 3.32%. However, the growth momentum is still lagging behind the pre-pandemic context where the general insurance business witnessed premium growth of around 7% in 2018 and 2019. The government's decision to prohibit motor vehicle imports was the prime reason, which hindered the premium recovery of the general insurance business. The motor insurance class, which accounts for more than half of the total GWP of general insurance business, reported negative premium growth in 2021, owing primarily to the ban on motor vehicle importation. The recovery was worsened by subsequent insurgences the in COVID-19 pandemic. Country lockdowns and mobility restrictions continued particularly during the third quarter of the year as highly infectious Delta variant spread rapidly in the country. Even under these adverse conditions, all other insurance classes of general insurance business have demonstrated positive business growth during the year.

As displayed in Chart 1 and Table 1 below, the long-term insurance business continued its progressive trend and reported a remarkable GWP growth of 21.12% and reached the LKR 125 billion mark in terms of premium income. As people experienced the consequences of a pandemic situation and were alerted to the importance of having themselves covered from potential risks posed by such a crisis, demand for life insurance increased. These emerging market needs are addressed by long-term insurers through implementing various strategies such as the rollout of innovative new products, digitalization of processes, diversified distribution channels and further strengthened agency force etc.

Reinsurance premium income that represents the reinsurance premium ceded by general insurers to NITF has increased from LKR 3,235 million to LKR 3,549 million in 2021 since NITF resumed the acceptance of facultative reinsurance, which was halted in 2020 due to the absence of Retrocession cover.

Even with a notable expansion in total GWP, the insurance penetration ratio remains unchanged at 1.39% compared to the previous year due to similar proportional increase observed in Gross Domestic Product at the current market price. Despite having relatively low insurance penetration in the region, Sri Lanka has a wide protection gap between insured losses and uninsured losses, which lead to economic and social issues as the country is exposed to frequent natural disasters, and loss events arising from accidents and sicknesses. The industry is assiduous in bridging the protection gap by expanding insurance services into different segments and different niches, although the low disposable income levels and less concentration on insurance remained as prime obstacles affecting the insurance penetration in Sri Lanka. Nevertheless, the insurance density, which represents the amount of insurance premium per person, displayed a favorable increase from LKR 9,502 to LKR 10,539 during the year.

The future will be challenging for insurers considering the complex economic vulnerabilities in the country and rapidly changing insurance landscape. Inflationary pressure, narrowed consumer spending and changed consumer lifestyles are expected to affect the insurance demand in the short term. However, tightening monetary policy and a resulting interest rate hike would benefit the investment portfolio of insurers.

While the industry navigated the pandemic era, many insurers were conscious of enhancing customer interactions and building strong customer relationships through digitalized platforms, which would increase the accuracy of

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data, exchanged and facilitate more prudent risk assessment. Simultaneously, higher customer satisfaction may be achieved because insurers will be able to provide personalized insurance covers that meet individual needs, and pricing will be more accurate based on the various risk exposures. Alongside the rising focus on technological improvements and data exchange through digital modes, the industry needs to pay more attention to cybersecurity in order to ensure data protection and consumers' privacy requirements.

Chart 1
Premium Income & Growth Rate of the Insurance Industry

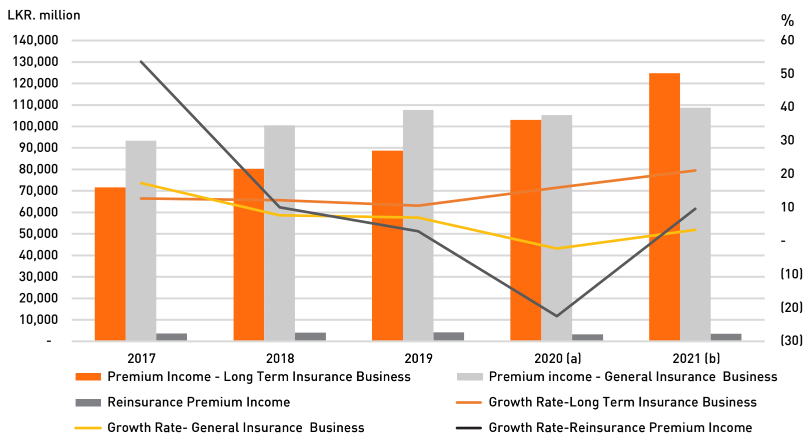

Table 1
Premium Income & Penetration

	2017	2018	2019	2020 (a)	2021 (b)
Premium Income - Long Term Insurance Business (LKR. millions)	71,571	80,294	88,787	103,000	124,752
Growth Rate in Premium Income - Long Term Insurance Business (%)	12.75	12.19	10.58	16.01	21.12
Premium Income - General Insurance Business (LKR. millions)	93,389	100,586	107,685	105,265	108,760
Growth Rate in Premium Income - General Insurance Business (%)	17.34	7.71	7.06	(2.25)	3.32
Total Premium Income - Insurance Business (LKR. millions)	164,960	180,880	196,472	208,265	233,512
Growth Rate in Total Premium Income - Insurance Business (%)	15.30	9.65	8.62	6.00	12.12
Reinsurance Premium Income (LKR. millions)**	3,683	4,056	4,174	3,235	3,549
Gross Domestic Product at current market price (LKR. billions)*	13,328	14,291	14,997	15,027	16,809
GDP Growth Rate % *	3.6	3.3	2.3	-3.60	3.7
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.24	1.27	1.31	1.39	1.39
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.54	0.56	0.59	0.69	0.74
Penetration % (Premium of General Insurance Business as a % of GDP)	0.70	0.70	0.72	0.70	0.65
Insurance Density - (Total Premium Income - Insurance Business / Population) LKR.	7,693	8,347	9,011	9,502	10,539
Population '000 (Mid Year) *	21,444	21,670	21,803	21,919	22,156

* Source: Central Bank of Sri Lanka and Department of Census and Statistics. Gross Domestic Product at current market price has been updated from 2017 onwards based on the Annual Report of Central Bank of Sri Lanka 2021.

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

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Total Assets of Insurance Companies

The total asset portfolio of the insurance industry reached LKR 888,377 million by the end of 2021 displaying a reasonable growth of 11.55% in comparison to LKR 796,411 million assets reported in 2020. An increase in the overall asset base was mainly attributable to expansion in the business volumes and resultant elevation in liability reserves, as insurers are required to maintain adequate assets to meet future liabilities according to the regulatory requirements. However, as shown in Chart 2, the rate of growth has slowed in 2021. Increased dividend distributions by insurers during the year after lifting dividend restrictions imposed in 2020 and the resultant usage of assets to fund such distributions made a notable impact on the asset growth of the industry.

Long-term insurance businesses represented the majority of total industry assets which amounted to LKR 632,627 million as of 31st December 2021 (2020: LKR 562,706 million) and grew by 12.43% compared to the previous year. Assets of the general insurance business managed to maintain an increasing trend by recording a growth of 9.92% in 2021 against a 10.97% growth reported in 2020. Similar to previous years, financial investments accounted for nearly 80% of the overall asset base of the industry. Government Securities, Corporate Debts and Equity investments became the key drivers of asset growth, as each category reported over 14% increase in assets during 2021. Low-interest rate environment subdued the attractiveness of deposit investments, albeit achieving growth after interest rates began to rise in the latter part of the year.

SLIC dominated the overall asset portfolio of the industry in terms of highest contribution, followed by Ceylinco Life, AIA Life, Union Life, Ceylinco Gen and Allianz Gen. Assets held by the reinsurance business of NITF decreased in 2021 by 8.79% primarily due to settlement of one large claim in 3rd quarter of the year.

Table 2
Total Assets of Insurance Companies

	2017	2018	2019	2020 (a)	2021 (b)
Long Term Insurance (LKR millions)	391,890	430,759	485,121	562,706	632,627
Growth Rate - Long Term Insurance (%)	13.40	9.92	12.62	15.99	12.43
General Insurance (LKR millions)	185,583	196,005	205,130	227,640	250,217
Growth Rate - General Insurance (%)	6.67	5.62	4.66	10.97	9.92
Reinsurance (LKR millions)	4,212	3,683	6,690	6,066	5,533
Growth Rate - Reinsurance (%)	(26.82)	(12.54)	81.63	(9.33)	(8.79)
Total (LKR millions)	**581,685**	**630,447**	**696,941**	**796,412**	**888,377**
Growth Rate - Total (%)	**10.73**	**8.38**	**10.55**	**14.27**	**11.55**

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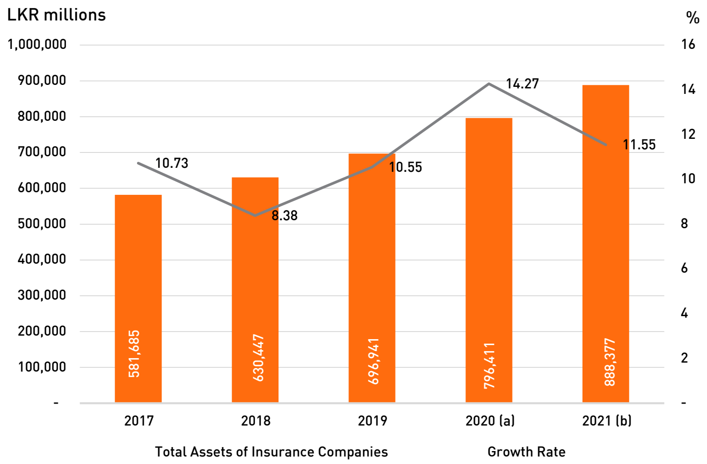
Chart 2
Total Assets and Assets Growth Rate of the Insurance Industry



Distribution of Total Assets of Major Financial Sectors

The Sri Lankan financial sector remained stable during 2021 and achieved a moderate performance amidst numerous challenges stemming from the COVID-19 pandemic and resultant economic headwinds. As illustrated in Table 3, overall assets of the financial sector expanded by 14.14% in 2021 which was primarily driven by Banking Sector and followed by contractual savings institutions. The performance of the overall financial sector experienced a considerable improvement in terms of profitability and credit growth. Both interest and non-interest income of banking and other financial institutions increased, eventually enhancing the profitability of the sector. The foreign currency liquidity shortage amplified during the latter part of the year mainly due to subdued foreign remittances, slower recovery of tourism sector earnings and increased import expenditure, creating negative influences to the banking sector.

Similar to previous years, the Banking Sector dominated the financial sector exhibiting 74.7% of total assets as at end 2021 (2020: 72.9%). 24 Licensed Commercial Banks and 6 Licensed Specialized Banks represented the Banking Sector in 2021 and managed to maintain reasonable growth in loans and advances and investments, achieving an overall asset increase of 16.87%. The continued low-interest rate trajectory facilitated the increase in the loan portfolio as some of the loan products such as overdrafts, pawning advances and credit cards reported high growth during the year. Investments of the sector grew by 16.4% as at the end 2021 mainly because of increased investments in Treasury Bonds.

Total assets of the Other Deposit Taking Financial Institutions amounted to LKR 1,636.7 billion as at 31st December 2021 which represented licensed finance companies, rural banks and credit co-operative societies. The sector has achieved 6.1% asset growth during the year largely induced by the favorable expansion in assets of licensed finance companies. Although the growth of the leasing portfolio declined mainly due to restrictions imposed on motor vehicle imports, other loans and advances granted by licensed finance companies recorded notable improvements during the year. The Specialized Financial Institutions managed to report only marginal growth in asset portfolio as the assets of Unit Trust Management Companies experienced a contraction during the year.

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Table 3
Distribution of Total Assets of Major Financial Sectors

Financial Sectors	2017		2018		2019		2020		2021	
	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%
Banking Sector	11,897.4	69.7	13,711.4	72.2	14,442.1	71.9	17,087.9	72.9	19,969.9	74.7
Other Deposit Taking Financial Institutions	1,370.4	8.0	1,603.2	8.4	1,553.2	7.7	1,536.5	6.6	1,636.7	6.1
Specialized Financial Institutions	388.9	2.3	241.1	1.3	286.7	1.4	386.5	1.6	387.7	1.4
Contractual Savings Institutions	2,838.0	16.6	2,807.4	14.8	3,097.9	15.4	3,635.9	15.5	3,876.3	14.5
Insurance Companies*	581.7	3.4	630.4	3.3	696.9	3.5	796.4 (a)	3.4	888.4 (b)	3.3
Total	**17,076.4**	**100.0**	**18,993.5**	**100.0**	**20,076.8**	**100.0**	**23,443.2**	**100.0**	**26,759.0**	**100.0**

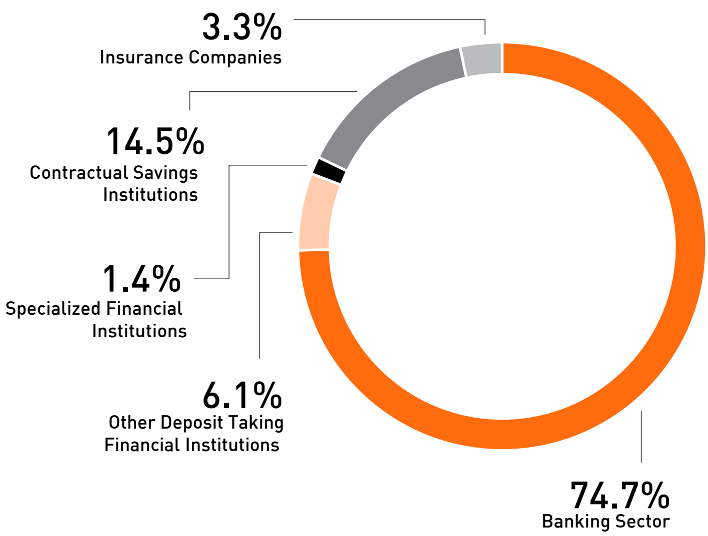
Source: Central Bank of Sri Lanka Annual Report – 2021

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

The Contractual Savings Institutions accounted for the second highest contribution to the overall asset base of the financial sector in Sri Lanka by recording LKR 3,876.3 billion assets as at 31st December 2021, and displayed 6.61% growth in comparison to LKR 3,635.9 billion assets reported by the end of 2020. Employees' Provident Fund (EPF), Employees' Trust Fund (ETF) and Other Approved Pension and Provident Funds are the main components of Contractual Savings Institutions, whose assets grew as an outcome of the combined effect of the net contributions of EPF and ETF members, and the income generated through investments of the funds. EPF and ETF investment portfolios were primarily made up of government securities, with small amounts of money invested in equities, fixed deposits, and corporate debentures. (Source – Central Bank Annual Report 2021)

Insurance Companies continued its positive contribution to the overall asset portfolio of the financial sector by reporting LKR 888.4 billion assets by end 2021, showing a moderate growth of 11.55%.

Chart 3
Distribution of Total Assets of Major Financial Sectors as at 31st December 2021



STATISTICAL REVIEW

Profitability

After witnessing a commendable financial performance last year, the insurance industry unveiled a slight decline in overall profitability (profit before tax) by 2.03%, mainly because of the weakened performance of the general insurance business. As shown in Table 4 below, the industry's profitability amounted to LKR 42,762 million for the year 2021 as against LKR 43,649 million reported for the year 2020.

The long-term insurance business rebounded strongly during 2021 in terms of performance and achieved a profitability growth of 20.82% (2020: -9.36%). The majority of long-term insurance companies reported increased profitability during the year, with AIA Life, Softlogic Life, and Union Life emerging as key profit growth drivers. Increased performance during the last two quarters of 2021 aided LIC to display reasonable profits for the year 2021, contrasting to the losses experienced in previous years. In overall, the strong growth in GWP, favorable net investment income generated during the year and stringent cost optimization and containment measures adopted by many long-term insurers were primary contributors to the uplift in profitability. However, claims and benefits to policyholders saw a moderate improvement mainly because of death benefits, maturity payouts, and increase in surrender payouts, which had an adverse impact on profitability. Despite witnessing a contraction in profits compared to last year, Ceylinco Life managed to record the highest profitability among long-term insurers in 2021 reporting a profit of LKR 8,545 million. Softlogic Life, SLIC, Union Life and AIA Life exhibited subsequent highest profits respectively.

The year 2020 highlighted as a promising year for the general insurance business in terms of profitability as the outcome of declined claim exposure had improved the performance of almost all general insurers. However, in 2021, all general insurance companies except Fairfirst have exhibited reduced profits, resulting in the overall profitability of general insurance business dropping by 18.48% on year-over-year basis. General insurance claims increased by 13.72% during the year, reflecting the normalization of economic activity and mobility. Nevertheless, motor claims remained subdued even though the cost of spare parts sharply increased in 2021. NITF accounted for a large proportion of overall profit decrease mainly because of substantially increased claim volume of health policies pertaining to Agrahara Insurance Scheme, which was induced by high intimation of COVID-19-related claims. Allianz Gen also reported a notable decrease in profits due to the impact of reduction in business volumes from motor and property lines, and elevated claim experience during the year.

Table 4
Profitability of Insurance Companies

Insurer	2020(a)			2021(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	724,428		724,428	2,567,127		2,567,127
Allianz Gen.		2,135,071	2,135,071		1,542,889	1,542,889
Allianz Life	80,751		80,751	77,487		77,487
Amana Gen.		38,763	38,763		23,762	23,762
Amana Life	(34,712)		(34,712)	8,443		8,443
Arpico	278,595		278,595	337,563		337,563
Ceylinco Gen.		1,862,479	1,862,479		1,747,523	1,747,523

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Insurer	2020(a)			2021(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)
Ceylinco Life	8,766,512		8,766,512	8,545,374		8,545,374
Continental		1,086,086	1,086,086		1,000,329	1,000,329
Cooperative Gen.		870,078	870,078		748,541	748,541
Cooplife	69,805		69,805	71,516		71,516
Fairfirst		765,687	765,687		882,991	882,991
HNB Life	999,363		999,363	1,452,211		1,452,211
HNB Gen.		631,131	631,131		411,168	411,168
Janashakthi Life	1,020,903		1,020,903	661,673		661,673
LIC	(371,145)		(371,145)	130,073		130,073
LOLC Gen.		1,537,397	1,537,397		1,271,403	1,271,403
LOLC Life	453,650		453,650	585,138		585,138
MBSL	36,696	(99,118)	(62,422)	33,595	(87,360)	(53,765)
NITF *		7,721,134	*8,865,905		5,342,569	*5,932,368
Orient		185,814	185,814		183,938	183,938
People's		1,667,520	1,667,520		1,125,882	1,125,882
Sanasa Life	44,874		44,874	128,673		128,673
Sanasa Gen.		136,105	136,105		75,251	75,251
Softlogic Life	2,130,347		2,130,347	2,965,674		2,965,674
SLIC	3,149,448	4,822,335	7,971,783	2,937,771	4,733,490	7,711,261
Union Life	1,793,841		1,793,841	2,627,307		2,627,307
Total	**19,143,355**	**23,360,482**	**43,648,608**	**23,129,625**	**19,042,376**	**42,761,800**

*Includes profit before tax of crop amounting to LKR 1,115 million (2020: LKR 86 million loss) and loss before tax of reinsurance business amounting to LKR 545 million (2020: 1,230 million profit) respectively.

STATISTICAL REVIEW

Shareholders' Funds of Insurance Companies

Shareholders' funds of insurance companies reported a reasonable growth of 9.45% during the year and reached LKR 259,360 million (2020: LKR 236,971 million) by end of 2021. Enhancement of shareholders' funds is predominantly supported by profits earned during the year, while marginally increased stated capital also provided a minor contribution to the above growth. Cooperative Gen, Continental, LIC, Sanasa Life, LOLC Gen and LOLC Life increased their share capital during 2021 and accordingly total stated capital was raised by 3.60% and reported as LKR 45,248 million (2020: LKR 43,696 million).

Total other reserves recorded in Table 5 below mainly comprised of retained earnings, revaluation reserves and other general reserves, and exhibited an 11.76% improvement compared to the previous year, although the upswing in dividend distributions had shrunken overall retained earnings. One-off surplus of insurance companies is maintained as 'Restricted Regulatory Reserve' totaling to LKR 16,248 million.

Similar to previous year, the composite insurer SLIC accounted for the highest shareholders' funds in the industry while Ceylinco Life and AIA Life reported second and third positions. NITF remained the top contributor to total shareholders' funds among general insurers, due to profits generated by SRCC&T fund and Crop insurance scheme during the year. LIC managed to show a positive movement in terms of shareholders' funds, which grew from LKR 61 million to LKR 325 million by end of 2021 after the company had infused its share capital by LKR 189 million. Despite achieving a slight improvement, LIC and Amana Life continue to report the lowest shareholders' funds in the insurance industry because of aggregate losses generated in previous financial years.

Table 5
Total Shareholders' Funds of Insurance Companies

Insurer	2020(a)		2021(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	20,579,684	8.68	511,922	6,080,848	13,156,326	19,749,096	7.93
Allianz Gen.	11,559,232	4.88	8,619,972		3,714,848	12,334,820	4.76
Allianz Life	2,079,140	0.88	739,624		584,901	1,324,525	0.51
Amana Gen.	1,505,015	0.64	1,860,001		(308,625)	1,551,376	0.60
Amana Life	459,612	0.19	500,000		(26,546)	473,454	0.18
Arpico	1,860,809	0.79	675,565		1,395,580	2,071,145	0.80
Ceylinco Gen.	12,972,646	5.47	500,200		13,967,904	14,468,104	5.58
Ceylinco Life	38,145,036	16.10	500,001	3,456,184	40,237,848	44,194,033	17.04
Continental	2,843,804	1.20	1,250,000		2,214,469	3,464,469	1.34
Cooperative Gen.	3,399,461	1.43	2,198,316		2,429,162	4,627,478	1.78

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Insurer	2020(a)		2021(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)	%
Cooplife	1,077,740	0.45	544,260		420,438	964,698	0.37
Fairfirst	6,304,508	2.66	3,131,949		3,745,463	6,877,412	2.65
HNB Life	7,260,988	3.06	1,171,875	381,156	5,479,354	7,032,385	2.71
HNB Gen.	2,083,242	0.88	1,150,000		1,090,623	2,240,623	0.86
Janashakthi Life	10,067,149	4.25	4,853,752	1,795,829	3,556,867	10,206,448	3.94
LIC	60,840	0.03	839,016		(513,860)	325,156	0.13
LOLC Gen.	3,063,539	1.29	800,000		3,204,018	4,004,018	1.54
LOLC Life	1,797,256	0.76	1,350,000	256,134	795,682	2,401,816	0.93
MBSL	1,029,668	0.43	2,280,022		(1,313,041)	966,981	0.37
NITF	13,087,460	5.52			14,751,327	14,751,327	5.69
Orient	1,016,320	0.43	825,000		329,136	1,154,136	0.44
People's	4,619,185	1.95	1,350,000		3,591,619	4,941,619	1.91
Sanasa Life	1,092,456	0.46	1,045,346		176,549	1,221,895	0.47
Sanasa Gen.	732,349	0.31	508,996		231,819	740,815	0.29
Softlogic Life	9,936,247	4.19	1,062,500	798,004	8,727,926	10,588,430	4.08
SLIC	63,229,026	26.68	6,000,000	98,237	65,130,454	71,228,691	27.46
Union Life	15,108,489	6.38	1,000,000	3,381,934	11,073,159	15,455,093	5.96
Total	**236,970,901**	**100.00**	**45,268,317**	**16,248,326**	**197,843,400**	**259,360,043**	**100**

Note: 2020 published figures have been revised in line with the audit adjustments.

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Analysis of Branches, Employees and Agents of Insurers

The total branch network of the insurance industry contracted from 1,953 to 1,896 during the year primarily because of two insurers who restructured their branch network by moving to their own premises from earlier occupied spaces belonging to their related financial institutions. However, amidst the challenging operating environment, most other insurance companies opened new branches in 2021 by expanding the footprint across the island since an extensive coverage of branches is essential to facilitate the development of business operations. Accordingly, by end of the year, there were 964 long-term insurance branches, 775 general insurance branches and 157 composite insurance branches in the country. Majority of them are located in the Western Province, followed by Southern Province and Central Province.

The number of staff employed at insurance companies totalled 20,032 by the end of 2021, displaying a slight increase of 2.36% compared to the 19,571 reported in the year 2020. Similar to previous years, more than 60% of employees based in Western Province. The general insurance business accounted for 10,999 employees while long-term insurance companies and composite insurers accounted for 6,212 employees and 2,821 employees respectively.

A minor improvement was observable in overall agency force during the year owing to several insurers such as LIC, HNB Life, Softlogic Life, Janashakthi Life, LOLC Life and Sanasa Life who have reported notable increases in their agent network. However, the majority of general insurance companies and composite insurers constricted the number of agents primarily on the grounds of non-qualification and poor performance. Many companies concentrated on strengthening the productive agent force and accordingly non-performing agents have been terminated, while a certain number of resignations are also observed during the year. Long-term insurers claimed 61.42% of total agency force by the end 2021 whereas composite insurance companies and general insurers represented 30.77% and 7.81% of total agents respectively.

Table 6
Number of Branches, Employees and Agents as at 31st December 2020 and 2021

Province	No. of Branches		No. of Employees		No. of Agents	
	2020	2021	2020	2021	2020	2021
Central Province	207	197	1,214	1,327	3,741	3,705
Eastern Province	126	130	605	665	2,112	2,401
North Central Province	137	134	663	736	2,520	2,472
North Western Province	221	207	1,244	1,221	4,676	4,414
Northern Province	133	130	615	689	2,683	3,513
Sabaragamuwa Province	148	145	835	907	3,088	3,527
Southern Province	242	238	1,527	1,599	5,124	5,162
Uva Province	107	117	580	742	2,153	2,087
Western Province	632	598	12,288	12,146	16,622	16,539
Total	**1,953**	**1,896**	**19,571**	**20,032**	**42,719**	**43,820**

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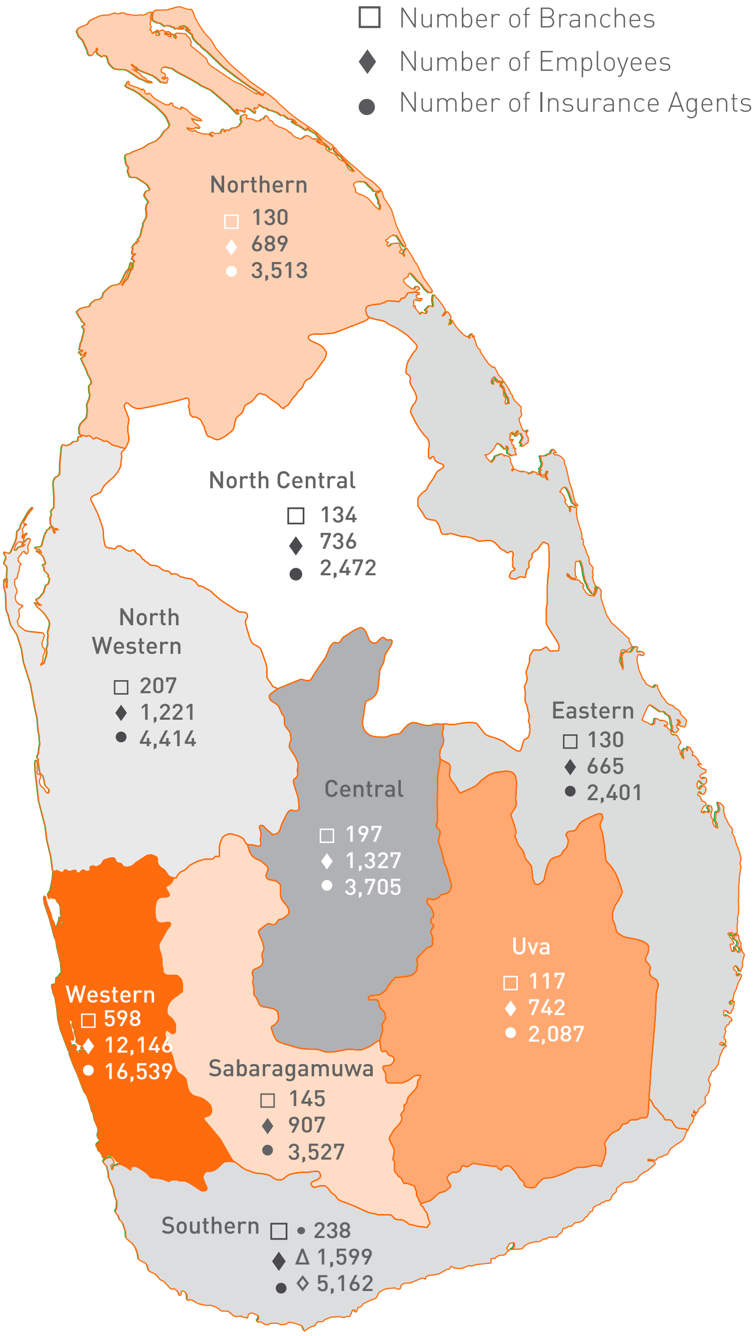
Distribution Channels of Insurance Companies

Channel diversification has become a key concern for insurers as the persisting pandemic environment strongly influenced the way insurers to sell their products to customers. The tendency to adopt digital channels in lieu of face-to-face sales increased as it facilitates better alignment with the demands of the younger generation whose awareness on insurance outstretched with the outbreak of the pandemic. This is evidenced by the gradual increase observed in premiums generated through the internet, social media and mobile applications, which are represented by 'Direct' category in Chart 5 below.

During 2021, agents channel continued its dominance in the overall premium distribution in Sri Lankan insurance market with 80.55% contribution to GWP of long-term insurance business and 23.89% contribution to GWP of general insurance business. While long-term insurance products are still being primarily sold through agency network, general insurance companies utilized direct channel, exclusive sales force, agents and brokers as their prime distribution modes, which altogether accounted for 89.68% of total premium income of general insurance business in 2021. Bancassurance channel remained crucial particularly for long-term insurers as many companies have strengthened existing bancassurance partnerships and optimized technology to widen its reach. Premium income produced from walking customers, mobile applications, internet and government insurance schemes implemented through NITF,

Chart 4
Number of Branches, Employees and Agents as at 31st December 2020 and 2021



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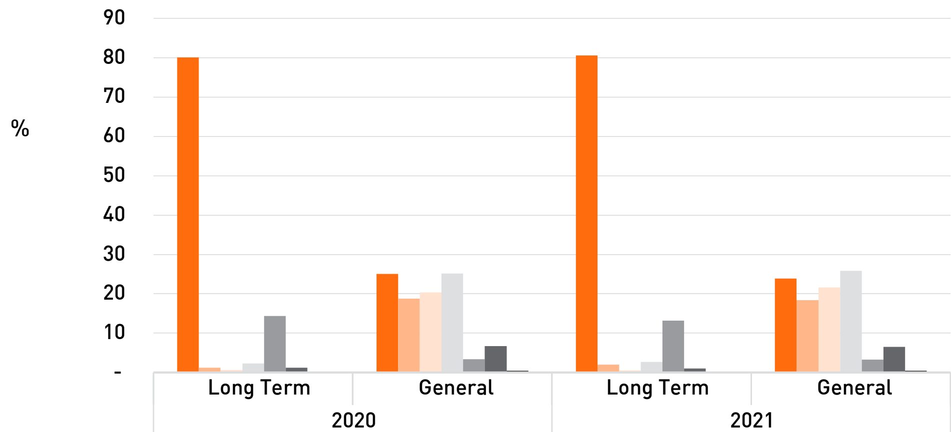
were the key components of direct channel, which reported the highest contribution to total GWP of general insurance business. GWP generated from entities within the same group that the respective insurer belongs to, was reported under the related/group companies' channel, which exhibited the same level of contribution to total GWP in comparison to previous year.

Chart 5
Distribution Channels of Insurance Companies



	2020 Long Term	2020 General	2021 Long Term	2021 General
Agents	80.12	25.07	80.55	23.89
Brokers	1.27	18.82	1.98	18.40
Exclusive Sales Force except agents	0.67	20.37	0.57	21.59
Direct	2.32	25.17	2.66	25.80
Bancassurance	14.37	3.40	13.23	3.32
Related/Group Companies	1.26	6.72	1.00	6.53
Others	0.00	0.45	0.01	0.46

Long-Term Insurance Business

Gross Written Premium

The COVID-19 pandemic continued to disrupt economic activities in 2021. However, despite the increasingly challenging business landscape that prevailed throughout the year, the successful roll-out of the vaccination drive supported by continuing economic activity has further strengthened the growth momentum of long term insurers by recording a 21.12% (2020: 16.01%) growth in 2021 with an overall GWP of LKR 124,752 million (2020: LKR 103,000 million).Digitization of business and operating models, innovative product offerings, distribution channel optimization etc. have contributed to this commendable growth in the topline of the life insurance segment. Furthermore, the pandemic boosted the life insurance industry by raising public awareness of uncertainties, the importance of insurance, and public trust in the industry. The low-interest rate regime prevailed in the market during the early part of the year resulted in growth of short-term life covers due to the attractive guaranteed returns provided.

Maintaining the upward trajectory of GWP growth rate demonstrated in 2020, the overall GWP growth rate further accelerated to 21.12% in 2021, whilst recording the highest growth rate in the life insurance segment over the last five years, indicating the resilient performance of life insurers amidst the challenges. In terms of value, GWP has improved by 74.30% from 2017 to 2021.

Life insurance market penetration, even though it is on an upward trajectory, still remains underpenetrated when compared to other countries. Reaching the

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underserved customer segments whilst addressing emerging trends in the market will help insurers to seize growth in coming years. However, life insurers will have to navigate through turbulence in the backdrop of a challenging macroeconomic environment in the next few years.

The Sri Lankan long-term insurance industry is highly competitive with 13 long-term insurance companies and 02 composite insurers. Four companies have collaborations with foreign insurance companies, namely AIA Life, Allianz Life, LIC and Softlogic Life.

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	2017		2018		2019		2020 (a)		2021 (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	11,510,581	16.08	12,739,351	15.87	13,848,283	15.60	14,049,559	13.64	16,517,328	13.24
Allianz Life	1,178,817	1.65	1,301,254	1.62	1,403,858	1.58	1,476,069	1.43	1,886,703	1.51
Amana Life	792,174	1.11	827,948	1.03	851,293	0.96	767,232	0.74	929,830	0.75
Arpico	1,038,085	1.45	1,387,432	1.73	1,633,156	1.84	1,836,100	1.78	2,311,633	1.85
Ceylinco Life	15,765,484	22.03	17,812,774	22.18	18,718,553	21.08	22,076,250	21.43	25,565,050	20.49
Cooplife	626,972	0.88	619,881	0.77	772,782	0.87	775,410	0.75	840,604	0.67
HNB Life	3,963,642	5.54	4,420,513	5.51	5,175,044	5.83	5,487,039	5.33	7,091,470	5.68
Janashakthi Life	2,902,873	4.06	3,008,842	3.75	3,511,660	3.96	3,819,817	3.71	5,460,929	4.38
LIC	582,114	0.81	522,698	0.65	598,896	0.67	714,127	0.69	1,004,700	0.81
LOLC Life	2,467,166	3.45	2,610,785	3.25	2,682,522	3.02	3,236,480	3.14	4,420,081	3.54
MBSL	123,732	0.17	65,839	0.08	54,757	0.06	40,996	0.04	40,370	0.03
Sanasa Life	454,056	0.62	521,193	0.65	537,171	0.61	694,430	0.67	1,247,855	1.00
SLIC	12,517,119	17.49	13,205,802	16.45	14,820,025	16.69	19,257,997	18.70	21,975,988	17.62
Softlogic Life	7,530,935	10.52	10,005,733	12.46	12,531,283	14.11	15,660,116	15.20	20,053,302	16.07
Union Life	10,117,630	14.14	11,243,915	14.00	11,647,757	13.12	13,108,605	12.73	15,406,161	12.35
Total	**71,571,380**	**100**	**80,293,960**	**100**	**88,787,041**	**100**	**103,000,228**	**100**	**124,752,003**	**100**
Growth Rate (%)	**12.75**		**12.19**		**10.58**		**16.01**		**21.12**	

Similar to previous years, Ceylinco Life continued to dominate the long-term insurance market by crossing the LKR 25 billion mark by generating a GWP of LKR 25,565 million (2020: LKR 22,076 million) with a growth rate of 15.80% (2020: 17.94%) mainly driven by the growth in premium generated from endowment policies in 2021. The GWP generated by Ceylinco Life accounted for 20.49% of the market share (2020: 21.43%), which has slightly reduced compared to 2020.

SLIC Life and Softlogic Life secured second and third positions in the market by recording GWP of LKR 21,976 million (2020: LKR 19,258 million) and LKR 20,053 million (2020: LKR 15,660 million) respectively, with market shares of 17.62% (2020: 18.70%) and 16.07% (2020: 15.20%). Even though the market share has contracted compared to the previous year, SLIC Life has managed to grow its GWP by 14.11%, largely boosted by

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new policies issued for one existing non-participating product with an investment plan.

Softlogic Life further strengthened its strong growth momentum by capturing its highest market share over the last five years, amounting to 16.07%. Further, the company maintained its double-digit growth by recording a growth rate of 28.05% (2020: 24.97%) because of the execution and exceptional performance of the multi-channel strategy and expansion of the digital distribution channel, digitization of internal processes, etc.

These three companies together have captured 54.18% (2020: 55.33%) of the total long-term industry share, which has slightly reduced compared to 2020.

AIA maintained its position at fourth in the market, similar to the previous year, by significantly expanding its GWP by 17.56% (2020: 1.45%) reaching LKR 16,517 million (2020: LKR 14,050 million) which can be mainly attributed to the growth in both new business and renewal premiums through strong performance of agency and bancassurance distribution channels, digital adoption, etc. The company's market share stood at 13.24% (2020: 13.64%) during the year under review, which continued to further contract but at a lesser magnitude compared to the previous year.

Similar to previous years, Union Life proclaimed the fifth position in the market by recording a GWP of LKR 15,406 million (2020: LKR 13,109 million) whilst significantly growing its GWP by 17.53% (2020: 12.54%) driven by growth in both first year and renewal premiums, the strong performance of agency channel and bancassurance channel etc. The company secured a market share of 12.35% (2020: 12.73%).

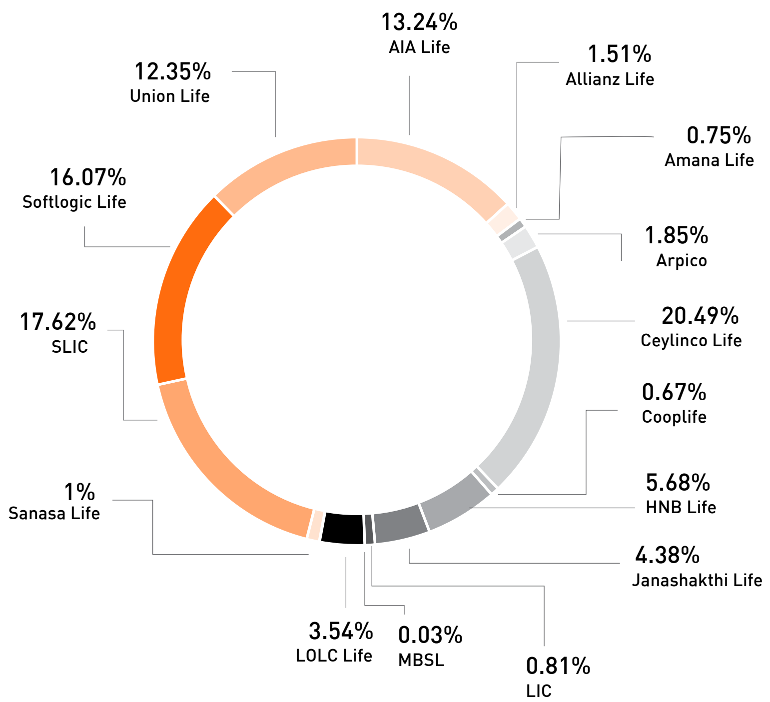
HNB Assurance, Janashakthi Life and LOLC Life ranked in the sixth, seventh and eighth positions in the market by recording GWP of LKR 7,091 million (2020: LKR 5,487 million), LKR 5,461 million (2020: LKR 3,820 million) and LKR 4,420 million (2020: LKR 3,236 million) along with growth rates of 29.24% (2020: 6.03%), 42.96% (2020: 8.78%) and 36.57% (2020: 20.65%) respectively.

Further, significant GWP growth rates were noted from Sanasa Life, Allianz Life, Arpico and Amana Life which respectively amounted to 79.69% (2020: 29.28%), 27.28% (2020: 5.14%), 25.90% (2020: 12.43%) and 21.19% (2020: negative 9.87%) year on year.

It is noteworthy to mention that all life insurers managed to grow their topline compared to 2020 except for MBSL, which is an attestation to their resilience despite adversity. MBSL has planned to have a portfolio run-off only by servicing existing clients without underwriting new business.

Chart 6 illustrates the market share in terms of GWP of each long-term insurer.

Chart 6
Company - wise Market Share of Gross Written Premium - Long Term Insurance Business for the Year ended 31st December 2021



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

Chart 7 depicts the market share of the top five contributors to GWP and other insurers from 2017 to 2021.

In terms of GWP, the top five players in the market collectively captured a market share of 79.77% (2020: 81.70%) while generating a GWP of LKR 99,518 million (2020: LKR 84,153 million), and the remaining ten players collectively possessed a market share of 20.23% (2020: 18.30%) with a GWP of LKR 25,234 million (2020: LKR 18,848 million). Ceylinco Life, SLIC Life, Softlogic Life, AIA Life and Union Life achieved the top five positions in the market.

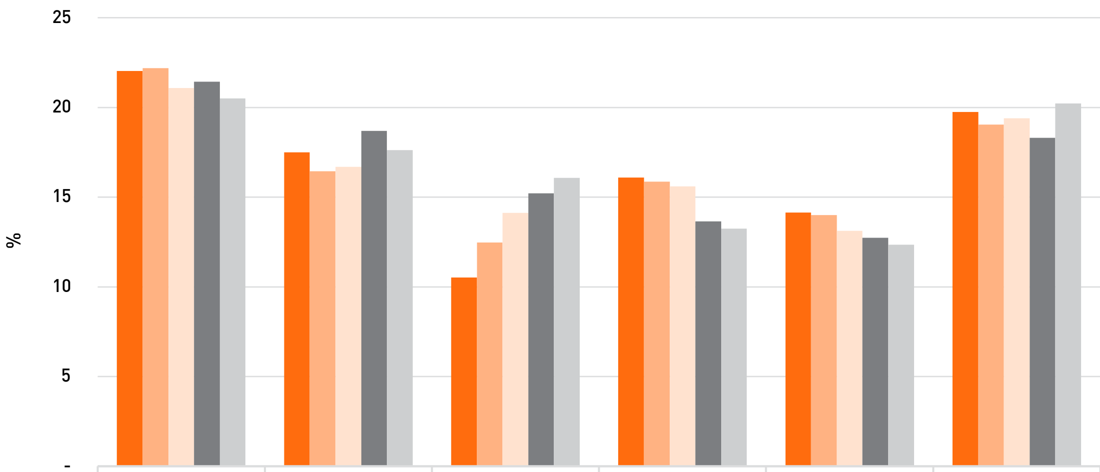
Ceylinco Life, ensuring its exceptional performance, secured the top position in the market similar to the last five years considered, but experienced a slight drop in market share. SLIC Life with revenue growth of 14.11% affirmed the second position in the market, however, the market share which had been on an increasing trend for the last couple of years slightly contracted.

Softlogic Life, continually demonstrating its drive towards success, became the third in the market whilst increasing its market share to 16.07% becoming the only player among top five to increase its GWP market share in 2021. Similar to last year, AIA and Union Life achieved fourth and fifth places in the long-term insurance market.

The GWP of top five players increased by 18.26% (2020: 17.59%) in 2021 but the collective market share they held diluted to 79.77% as the GWP growth rate of the rest of the ten players posted an enriched growth of 33.88% (2020: 9.45%) which resulted in an expansion of the market share they possessed by reaching to 20.23%.

Market share of top five insurers, which concentrated over 80% during last four years, dropped below 80% in the year under review whilst the combined market shares of the remaining ten players exceeded 20% for the first time in 2021 indicating the competitiveness of emerging players in the market.

Chart 7
Top Five Contributors and Other Insurers for the years 2017 to 2021 - Long Term Insurance Business



	Ceylinco Life	SLIC	Softlogic Life	AIA Life	Union Life	Others
2017	22.03	17.49	10.52	16.08	14.14	19.74
2018	22.18	16.45	12.46	15.87	14.00	19.04
2019	21.08	16.69	14.11	15.60	13.12	19.40
2020 (a)	21.43	18.70	15.20	13.64	12.73	18.30
2021 (b)	20.49	17.62	16.07	13.24	12.35	20.23

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

The GWP of long-term insurance business was comprised of 19.52% (2020: 20.88%) participating business, 41.98% (2020: 41.57%) non-participating business, 37.06% (2020: 35.93%) universal life business and 1.43% (2020: 1.63%) linked long-term business in 2021. SLIC life, Ceylinco life, and Softlogic life accounted for 50.56%, 24.23% and 18.11% of the total participating business, which collectively accounted for 92.91% of the portfolio. Softlogic life, Ceylinco life and SLIC Life owned 27.74%, 25.55%, and 18.45% of the non-participating business by jointly possessing 71.74% of the business portfolio AIA life, Union life, and Ceylinco life led the universal life product portfolio by holding 33.87%, 24.78%, and 13.56% of the business and reported a combined portfolio share of 72.21%.

Premium ceded to reinsurers improved by 6.79% reaching LKR 5,025 million (2020: LKR 4,705 million) mainly driven by universal life and non-participating categories. The overall retention ratio of the long-term business amounted to 95.97% (2020: 95.43%).

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

Class	2019			2020(a)			2021(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	21,394,970	156,759	99.27	21,501,412	168,082	99.22	24,355,960	151,310	99.38
Non Participating	32,370,493	2,977,659	90.80	42,817,109	3,994,124	90.67	52,374,038	4,107,457	92.16
Universal Life	33,129,499	473,575	98.57	37,007,344	471,295	98.73	46,234,646	673,178	98.54
Linked Long Term	1,892,079	84,245	95.55	1,674,363	71,743	95.72	1,787,359	92,843	94.81
Total	**88,787,041**	**3,692,237**	**95.84**	**103,000,228**	**4,705,243**	**95.43**	**124,752,003**	**5,024,788**	**95.97**

Assets of Long-Term Insurance Business

Long-term insurers have managed to improve their total asset base by demonstrating a growth rate of 12.43% (2020: 15.99%) and reaching LKR 632,627 million (2020: LKR 562,706 million) in value whilst maintaining efficient asset management as depicted in table 9.

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

Insurer	2020 (a)		2021 (b)	
	(LKR '000)	%	(LKR '000)	%
AIA Life	72,388,787	12.86	72,263,841	11.42
Allianz Life	7,758,471	1.38	8,191,271	1.29
Amana Life	3,099,222	0.55	3,337,501	0.53
Arpico	4,175,491	0.74	4,416,237	0.70
Ceylinco Life	150,801,386	26.80	173,762,954	27.47
Cooplife	3,510,426	0.62	3,719,827	0.59
HNB Life	26,042,871	4.63	29,463,951	4.66
Janashakthi Life	24,613,500	4.37	26,045,536	4.12
LIC	3,333,687	0.59	3,491,539	0.55
LOLC Life	7,752,075	1.38	9,622,145	1.52
MBSL	1,064,582	0.19	1,004,264	0.16
Sanasa Life	2,307,345	0.41	2,682,497	0.42
SLIC	160,051,510	28.44	184,519,748	29.17
Softlogic Life	33,206,203	5.90	39,343,732	6.22
Union Life	62,600,408	11.12	70,761,636	11.19
Total	**562,705,964**	**100**	**632,626,679**	**100**

Similar to the previous year, SLIC Life owned the highest share of assets in the long-term insurance industry, followed by Ceylinco Life, where the combined share of the two companies stood at 56.63% (2020: 55.24%) which slightly improved compared to 2020.

SLIC Life's asset base amounted to LKR 184,520 million (2020: LKR 160,052 million) by further growing it by 15.29% (2020 13.61%) predominantly due to the increase in government securities, whilst claiming a share of 29.17% (2020: 28.44%). Total assets of Ceylinco Life steadily grew by 15.23% (2020: 13.20%) amounting to LKR 173,763 million (2020: LKR 150,801 million) largely because of growth in both deposits and government securities, and owned a share of 27.47% (2020: 26.80%). Both companies have managed to increase their share of assets out of total assets in the long-term insurance industry in 2021.

AIA Life and Union Life affirmed third and fourth places in the market by possessing significant portions of total assets in the industry. However, AIA Life experienced a drop of 0.17% in the asset growth rate, which had been continually growing over the last few years, and the asset share amounted to 11.42% (2020: 12.86%). Total assets of AIA Life accounted for LKR 72,264 million (2020: LKR 72,389 million). Union Life consistently expanded its asset portfolio by recording a growth rate of 13.04% (2020: 13.31%) which amounted to LKR 70,762 million (2020: LKR 62,600 million) in 2021.

Accordingly, the four players collectively owned 79.24% (2020: 79.23%) of the total assets of the long-term insurance industry, which remained almost the same compared to 2020.

In terms of the long-term insurance sector assets, Softlogic Life, HNB Life and Janashakthi Life managed to secure fifth, sixth and seventh positions in the market by

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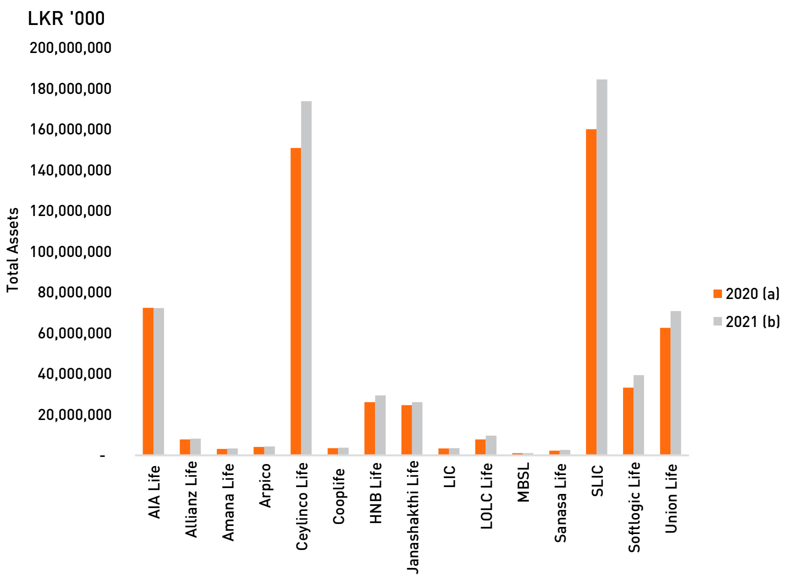
recording total assets amounting to LKR 39,344 million (2020: LKR 33,206 million), LKR 29,464 million (2020: LKR 26,043 million) and LKR 26,046 million (2020: LKR 24,614 million) respectively. These companies also recorded increasing asset portfolios with considerable growth rates. These seven companies together have proclaimed 94.24% (2020: 94.14%) of the total market.

It is noteworthy to mention that despite challenges, all life insurers have managed to add further value to their asset base during the year under review, except for AIA Life and MBSL. Similar to last year, LOLC Life posted an asset growth rate over of 20%. Chart 8 demonstrates a company-wise analysis of total assets.

Chart 8
Company-wise Analysis of Total Assets as at 31st December 2020 & 2021 - Long Term Insurance Business



Concentration of Assets as at 31st December 2020 & 2021 - Long Term Insurance Business

Table 10 and Chart 9 detail out concentration of assets of long-term insurers among different asset categories as at 31st December 2020 and 2021.

Table 10
Concentration of Assets as at 31st December 2020 and 2021 - Long Term Insurance Business

Type of Asset	2020 (a)		2021 (b)	
	(LKR '000)	%	(LKR '000)	%
Government Debt Securities	230,273,823	40.92	262,410,756	41.48
Equities	38,681,100	6.87	49,049,129	7.75
Corporate Debt	121,703,471	21.63	139,619,921	22.07
Land & Buildings	8,735,425	1.55	9,273,787	1.47
Deposits	80,765,691	14.35	88,265,112	13.95
Unit Trusts	9,991,047	1.78	13,426,656	2.12
Policy Loans	6,940,431	1.23	7,022,135	1.11
Other Assets	46,944,802	8.34	48,448,721	7.66
Cash and cash equivalents	18,670,177	3.32	15,110,463	2.39
Total	**562,705,967**	**100**	**632,626,679**	**100**

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As depicted in table 10, showcasing the prominence insurers have given to investing in government securities predominantly to maintain liquidity and to ensure compliance with regulatory requirements, investment in government securities, being the largest asset category, has increased by 13.96% (2020: 19.83%), reaching LKR 262,411 million (2020: LKR 230,274 million), occupying a 41.48% (2020: 40.92%) share of the total industry assets. Almost all the life insurers, except for a few have increased their investments in Government Securities, and where four life insurers have significantly improved the same, indicating the measures taken to maintain a low-risk asset portfolio.

Corporate debt investments totaled to LKR 139,620 million (2020: LKR 121,703 million), with a growth rate of 14.72% (2020: 14.19%) driven primarily by four life insurers. Corporate Debt occupied 22.07% (2020: 21.63%) of the total asset base.

Deposits, represented the third largest category, amounting to LKR 88,265 million (2020: LKR 80,766 million) with a 13.95% (2020: 14.35%) asset allocation, largely boosted by one life insurer. Only five life insurers increased their deposits during the year under review, indicating the impact of low interest rates prevailed, especially during the early part of the year.

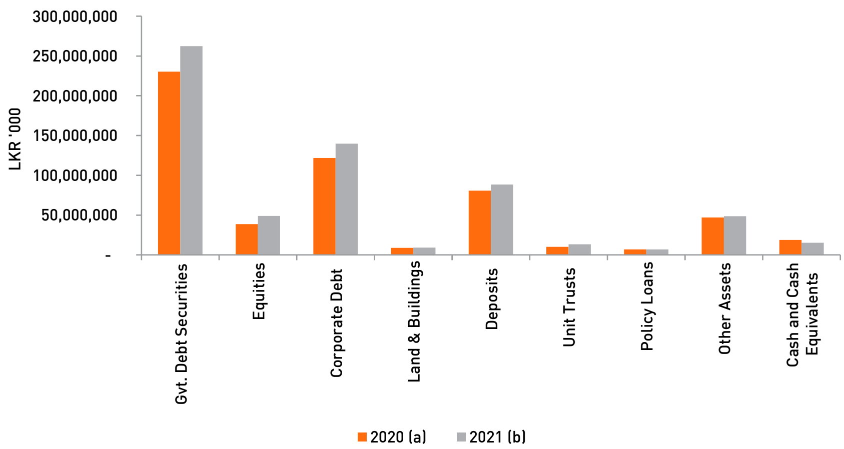
Investments in Equity increased to LKR 49,049 million (2020: LKR 38,681 million) demonstrating a growth rate of 26.80% (2020: 7.87%) largely driven by one life insurer. All the life insurers who have invested in Equity expanded their investments in 2021, indicating the attractiveness of the Equity market during the year under review. Equity investments amounted to 7.75% (2020: 6.87%) of the total asset base of the industry.

These four main investment categories, government securities, corporate debt, deposits, and equity, amounted to 85.25% (2020: 83.78%) of the total asset portfolio of the long-term insurance market.

Other Assets which are mainly comprised of Deferred Tax Assets, Property Plant and Equipment, Intangible Assets, Premium Receivable from Policyholders, Reinsurance Receivables, etc., slightly increased in 2021 by 3.20% (2020: 15.60%), reaching LKR 48,449 million (2020: LKR 46,945 million).

The trend towards investment in unit trusts continued to improve in 2021, which is evident from the substantial growth of the same, amounting to LKR 13,427 million (2020: LKR 9,991 million).

Chart 9
Concentration of Assets as at 31st December 2020 & 2021 - Long Term Insurance Business



Investment Income - Long Term Insurance Business

Despite the low interest rates that prevailed, especially during the first half of the year, long-term insurers have managed to display a significant growth rate of 19.29% in investment income which amounted to LKR 55,871 million (2020: LKR 46,838 million) in 2021. The average investments reached LKR 533,462 million (2020: LKR 469,097 million) indicating a growth rate of 13.72%.

Government Securities possessed, 40.13% (2020: 46.09%), the highest share of overall investment income by recording LKR 22,419 million (2020: LKR 21,590 million) with a modest growth rate of 3.84% mainly due to an increase in investment income derived from

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REPO investments predominantly due to two life insurers. The average investment in Government Securities improved to LKR 246,342 million (2020: LKR 211,219 million) in 2021. Long term insurers invested in Corporate Debt, occupying a 27.79% (2020: 27.89%) share of the overall investment income, recording an investment income of LKR 15,524 million (2020: LKR 13,064 million) with a growth rate of 18.83% mainly due to investment income recorded in Debentures by one life insurer. The average assets in Corporate Debt improved to LKR 130,662 million (2020: LKR 114,141 million) in 2021.

These two categories collectively held 67.91% (2020: 73.99%) of the total investment income and the average investment yield of Government Securities and Corporate Debt hovered around 9% (2020: 10%) and 12% (2020: 11%) respectively in 2021.

Equity investments averaged LKR 43,865 million (2020: LKR 37,271 million), with investment income reaching LKR 8,937 million (2020: LKR 2,824 million), owing primarily to an unrealized gain recorded by one life insurer. The above three investment categories together possessed 83.91% (2020: 80.02%) of the total investment income of long-term insurers, which increased, compared to 2020.

Investment income received from Deposits, which was the third largest component in 2020, reduced to LKR 7,619 million (2020: LKR 8,268 million) whilst being the fourth largest category in terms of investment income in 2021, against the average investment of LKR 84,515 million (2020: LKR 78,419 million) indicating the low interest rates prevailed in the market.

The overall investment yield for 2021 was 10.47% (2020: 9.98%) which has increased compared to 2020.

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

Category	2020 (a)		2021 (b)	
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Income (LKR '000)	Average Investments (LKR '000)
Government Debt Securities	21,589,841	211,218,577	22,419,264	246,342,290
- Treasury Bonds	20,101,585		20,097,959	
- Treasury Bills	68,130		271,457	
- Others (REPO)	1,420,126		2,049,848	
Equity	2,824,001	37,270,729	8,937,003	43,865,114
- Capital Gain/Losses	1,828,612		7,183,929	
- Dividend	995,389		1,753,074	
Corporate Debts	13,063,583	114,140,670	15,523,868	130,661,696
- Bonds and Debentures	12,855,495		14,557,825	
- Commercial Papers	208,088		833,834	
- Asset Backed Securities			115,957	
- Other Similar Financial Instruments			16,252	
Land and Buildings	85,459	12,202,916	147,746	9,004,606
Deposits	8,267,920	78,419,337	7,619,109	84,515,401
- Bank	6,568,859		6,143,646	
- Finance Companies	1,699,061		1,475,465	
Unit Trust	546,577	7,787,929	750,870	11,708,851
Policy Loans	383,897	6,881,616	400,419	6,981,283
Others	76,541	1,174,855	73,096	382,565
Total	**46,837,820**	**469,096,629**	**55,871,375**	**533,461,806**
Average Investment Yield	9.98%		10.47%	

Note: Considered Investment in Subsidiaries and the Associates. Considered all the above categories to compute yield.

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Solvency Position of Insurance Companies -Long Term Insurance Business

Similar to previous years, in order to protect policyholder interests through a properly managed insurance industry, which performs on a sustainable basis, the IRCSL continued to monitor the risk-based capital levels of the insurers in the industry. Under Solvency Margin (Risk Based Capital) Rules, insurers are required to maintain a minimum Total Available Capital (TAC) of LKR 500 million and a Capital Adequacy Ratio (CAR) of 120% in order to satisfy its conformity with the rules. However, taking into consideration the nature, size and complexity of the insurance business and the risks exposed to insurers must maintain prudent CAR and adequate TAC. TAC, Risk-based Capital Required (RCR), and CAR of long-term insurance business as of December 31st 2020 and 2021 are detailed in Tables 12, 13, and 14.

The CAR, which measures the adequacy of total available capital to support the Risk-Based Capital required, is reported to be 384% (2020: 366%) on average as at end of December 2021. All life insurers have reported CAR above the enforcement level of 160% and minimum level of 120%. The TAC of the industry, in total amounted to LKR 286,309 million (2021: LKR 250,025 million) as at 31st December 2021 posting a growth rate of 14.51%.

Surrender Value Capital Charge (SVCC) which addresses the risk of extreme adverse scenarios if all life

Insurance contracts are surrendered simultaneously, amounting to LKR 7,905 million (2020: LKR 2,612 million) by the end of 2021 indicating a considerable growth.

Table 12
Company-wise Analysis of Solvency Position – Long Term Insurance Business as at 31st December 2021 & 2020

Insurer	As at 31st December 2020 (a)				As at 31st December 2021 (b)			
	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)	TAC (LKR '000)	RCR (LKR '000)	SVCC (LKR '000)	CAR (%)
AIA Life	27,361,515	5,601,570		488%	24,565,113	4,490,070		547%
Allianz Life	2,028,498	216,924	286,007	709%	1,490,704	378,981	23,701	393%
Amana Life	535,106	261,775		204%	535,349	275,187		195%
Arpico	1,908,450	459,409	97,174	415%	2,221,252	476,828	511,232	434%
Ceylinco Life	72,111,874	17,133,081	3,930	421%	71,664,622	18,048,010	3,238	397%
Cooplife	1,473,028	589,124		250%	1,497,623	509,721		294%
HNB Life	8,966,667	2,653,681		338%	11,139,698	4,023,288	694,632	277%
Janashakthi Life	10,132,233	3,331,694		304%	12,857,786	3,310,343	804,347	388%
LIC	485,940	338,702		143%	563,897	309,953		182%
LOLC Life	2,326,985	1,258,533		185%	3,464,728	721,459		480%
MBSL	556,357	76,062		731%	515,391	58,536		880%
Sanasa Life	747,344	377,961		198%	820,062	468,187		175%
SLIC	79,654,571	17,370,300		459%	106,308,579	21,684,273		490%
Softlogic Life	19,940,660	6,610,593	2,203,854	302%	27,081,811	6,851,316	4,935,500	395%
Union Life	21,795,969	6,396,436	20,587	341%	21,582,364	9,468,422	932,135	228%
Total/Overall	**250,025,198**	**62,675,846**	**2,611,551**	**366%**	**286,308,978**	**71,074,573**	**7,904,786**	**384%**

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

As per the Solvency Margin (Risk Based Capital) Rule 2015, TAC is the total of "Tier 1" and "Tier 2" capital of an insurer after deducting the items specified as "Deductions". Table 13 demonstrates the composition of TAC of long-term insurers as at 31st December 2021. According to Table 13, total TAC of the long-term industry improved to LKR 286,309 million (2020: LKR 250,025 million) posting an enriched growth of 14.51% mainly driven by the increase of Tier 1 capital which aggregated to LKR 299,251 million (2020: LKR 258,922 million) mainly driven by SLIC Life and Softlogic Life. Further, Janashakthi Life, HNB Assurance and LOLC Life showcased impressive improvement in TAC as at end December 2021 compared to 2020, predominantly due to increase in "Tier 1" capital. However, a considerable drop in Tier 1 capital was reported by AIA Life and Allianz Life, which resulted in drop in their TAC.

Tier 1 capital which comprises of issued and fully paid-up ordinary shares and share premiums, capital reserves, paid up non-cumulative irredeemable preference shares, adjusted retained earnings, unallocated valuation surplus in the long-term insurance fund and 50% of potential future bonuses projected for participating policies are considered as permanent capital fully available to cover the losses of insurers. The Tier 1 capital aggregated to LKR 299,251 million (2020: LKR 258,922 million) in 2021 indicating a growth of 15.58%.

Tier 2 capital which comprises of cumulative irredeemable preference shares, redeemable preference shares, mandatory capital loan stock and other similar capital instruments, revaluation reserves for self-occupied properties and other property investments, revenue reserves excluding retained earnings, irredeemable subordinated debt etc. lacks some characteristics of high-quality capital compared to Tier 1 capital. Tier 2 capital in total amounted to LKR 22,761 million (2020: LKR 22,382 million) in 2021 in long-term insurance industry with a marginal growth rate of 1.69%.

Deductions, which mainly include intangible or illiquid assets, displayed a growth rate of 14.14% whilst reaching LKR 35,702 million (2020: LKR 31,279 million) in 2021 predominantly due to two life insurers.

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

Insurer	As at 31st December 2020(a) - (LKR '000)	As at 31st December 2021 (b) - (LKR '000)			
	TAC	Tier 1	Tier II	Deductions	TAC
AIA Life	27,361,515	22,025,225	6,309,264	3,769,377	24,565,113
Allianz Life	2,028,498	2,112,045		621,341	1,490,704
Amana Life	535,106	475,497	104,949	45,098	535,349
Arpico	1,908,450	2,480,289		259,038	2,221,252
Ceylinco Life	72,111,874	79,829,489	3,890,031	12,054,899	71,664,622
Cooplife	1,473,028	1,550,295	148,393	201,065	1,497,623
HNB Life	8,966,667	13,314,033	381,156	2,555,492	11,139,698
Janashakthi Life	10,132,233	12,404,959	1,795,829	1,343,002	12,857,786
LIC	485,940	507,282	111,899	55,283	563,897
LOLC Life	2,326,985	3,460,221	256,134	251,627	3,464,728
MBSL	556,357	523,814		8,423	515,391
Sanasa Life	747,344	1,388,894		568,832	820,062
SLIC	79,654,571	112,671,772	169,909	6,533,102	106,308,579
Softlogic Life	19,940,660	24,830,945	3,938,987	1,688,121	27,081,811
Union Life	21,795,969	21,675,981	5,654,162	5,747,779	21,582,364
Total	**250,025,198**	**299,250,742**	**22,760,714**	**35,702,477**	**286,308,979**

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

The RCR is the aggregate of capital charges determined for material risk categories under RBC rule, which includes credit risk, concentration risk, market risk, reinsurance risk, liability risk and operational risk. Table 14 depicts the company-wise analysis of RCR with main risk categories computed under the RBC rule.

The RCR before diversification, accumulated to LKR 94,464 million posting a growth rate of 10.47% in 2021 compared to LKR 85,511 million reported in the previous year mainly driven by two life insurers. RCR after diversification amounted to LKR 71,075 million (2020: LKR 62,676 million) marking a growth rate of 13.40%. Similar to previous years, market risk continued to be the major risk type encountered by the long-term insurers with a 54.66% share of the total RCR before diversification, followed by liability risk and credit risk, which accounted for 24.98% and 7.01%. These three categories jointly held 86.65% (2020:84.79%) of the total RCR before diversification.

Table 14
Company-wise Analysis of Risk Capital Required (RCR) as at 31st December 2021 and 2020 – Long Term Insurance Business

Insurer	As at 31st December 2020 (a) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	405,929	837,779	3,083,121		3,484,467	717,372	8,528,668	5,601,570
Allianz Life	3,780	4,965	38,894	1,357	201,431	63,885	314,311	216,924
Amana Life	20,623	145,518	93,121	692		30,819	290,774	261,775
Arpico	43,003	24,935	268,971	48	309,600	40,799	687,356	459,409
Ceylinco Life	1,788,403	936,699	13,906,140	6,752	3,771,492	1,579,705	21,989,191	17,133,081
Cooplife	84,122	11,727	300,427	1,936	432,752	34,918	865,882	589,123
HNB Life	453,841	300,384	1,697,310	806	980,410	258,531	3,691,283	2,653,681
Janashakthi Life	460,431	250,364	2,479,801	2,220	922,572	234,465	4,349,854	3,331,694
LIC	40,735	65,364	206,213	43	126,036	35,598	473,991	338,702
LOLC Life	33,484	72,585	1,068,704	6,006	428,801	76,140	1,685,720	1,258,533
MBSL	8,245	25,398	38,938	22	20,022	10,646	103,271	76,062
Sanasa Life	26,138	181,540	157,429	17	95,106	22,215	482,445	377,961
SLIC	1,722,707	2,410,946	12,072,062		6,011,473	1,721,707	23,938,896	17,370,300
Softlogic Life	305,146	920,645	3,508,957	2,067	4,599,898	321,649	9,658,363	6,610,593
Union Life	550,837	982,231	4,614,727	184	1,633,884	668,703	8,450,567	6,396,436
Total	**5,947,425**	**7,171,081**	**43,534,817**	**22,150**	**23,017,944**	**5,817,151**	**85,510,570**	**62,675,845**

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Insurer	As at 31st December 2021 (b) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
AIA Life	403,735	510,328	2,744,866		2,500,256	722,278	6,881,463	4,490,070
Allianz Life	3,969	6,945	287,262	1,380	223,094	64,203	586,853	378,981
Amana Life	20,272	142,869	107,436	416	34,414	33,257	338,665	275,187
Arpico	57,884	20,376	190,809	67	391,312	42,480	702,929	476,828
Ceylinco Life	2,023,077	811,405	14,630,734	6,683	4,176,320	1,738,317	23,386,536	18,048,010
Cooplife	108,421	15,266	303,239	2,158	272,764	36,080	737,928	509,721
HNB Life	473,139	227,543	3,230,051		808,262	287,928	5,026,923	4,023,288
Janashakthi Life	480,563	267,471	2,352,740	2,290	1,125,374	250,797	4,479,235	3,310,343
LIC	40,357	25,025	228,100	36	93,368	34,651	421,536	309,953
LOLC Life	77,563	123,120	439,121	560	318,412	95,129	1,053,905	721,459
MBSL	11,376	2,415	41,166	119	17,159	9,930	82,165	58,536
Sanasa Life	38,331	167,799	253,871		83,280	25,756	569,036	468,187
SLIC	1,772,087	2,510,518	16,403,680		6,233,425	1,851,946	28,771,656	21,684,273
Softlogic Life	493,551	991,029	2,242,839	848	5,735,787	375,911	9,839,964	6,851,316
Union Life	618,464	516,349	8,174,153	140	1,586,154	689,689	11,584,949	9,468,422
Total	**6,622,788**	**6,338,460**	**51,630,067**	**14,697**	**23,599,379**	**6,258,352**	**94,463,744**	**71,074,573**

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

Total life insurance policies in force as at end 2021 was 4,297,794 (2020: 4,063,568) displaying a modest growth of 5.76% compared to the surge in growth reported in 2020 amounting to 20.11%. The new life policies issued displayed a drop of 3.37% (2020: 23.04%) and amounted to 873,762 in 2021 (2020: 904,224) which was largely driven by drop in new policies issued by two life insurers compared to 2020.

Number of life policies in force as a percentage of the total population and number of life policies in force as a percentage of the labour force, further maintained the increasing trend, by improving to 19.40% (2020: 18.54%) and to 50.25% (2020: 47.99%) respectively in 2021. Chart 10 illustrates the number of insurance policies issued and policies in force for long-term insurance business.

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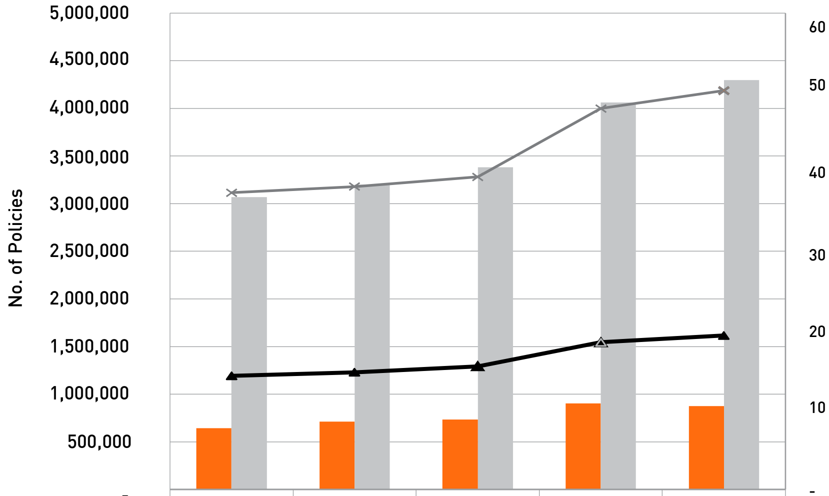
Chart 10
Number of Insurance Policies Issued and Policies in Force- Long Term Insurance Business



	2017	2018	2019	2020 (a)	2021 (b)
No. of New Life Policies Issued	643,483	711,126	734,896	904,224	873,762
No. of Life Policies in Force	3,068,866	3,199,354	3,383,290	4,063,568	4,297,794
No. of Life Policies in Force as % of the Total Population*	14.31	14.76	15.52	18.54	19.40
No. of Life Policies in Force as % of the Labour Force*	37.39	38.14	39.38	47.99	50.25

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

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

Table 15 summarizes the product-wise details of policies in force for both 2021 and 2020 for term insurance, universal life, whole life insurance, endowments and others. The 'Other' category mainly includes details of healthcare plans, unit linked, annuities, group life, single premium products etc. The total policies in force highlighting a modest growth rate of 5.76% aggregated to 4,297,794 (2020: 4,063,568) whilst the sum insured displaying a robust growth totaled up to LKR 6,267 billion (2020: LKR 4,823 billion) by the end of 2021.

Similar to the previous year, endowment policies represented the largest category in terms of the number of policies in force by reporting 1,276,647 (2020: 1,273,095) demonstrating a slight growth rate of 0.28% in 2021. However, the sum insured of the same category experienced a drop by reaching LKR 501 billion (2020: LKR 685 billion) predominantly due to one life insurer. The number of Universal life policies increased to 1,057,060 (2020: 992,360), while the sum insured increased to LKR 620 billion (2020: LKR 515 billion), driven by four life insurers.

Number of policies in force of "Other" category exhibiting a robust growth of 38.60% improved to 1,016,278 (2020: 733,250) where sum insured of the same amounted to LKR 3,422 billion (2020: LKR 2,066 billion) largely boosted by one life insurer as a result of growth recorded in Mortgage Protection Plan - Single Premium and Healthcare Plans. Further, sum insured for riders also demonstrated an impressive growth of the same life insurer.

Term insurance, posting a drop of 11.22% marked 924,270 (2020: 1,041,132) in terms of number of policies in 2021, however, conversely the sum insured of the same category improved with a growth rate of 10.70% by accounting for LKR 1,722 billion (2020: LKR 1,556 billion).

Whole Life insurance, further dropped in both the number of policies and sum insured by reaching 23,539 (2020: 23,731) and LKR 1,555 million (2020: LKR 1,555 million) reflecting the drop in demand for the same.

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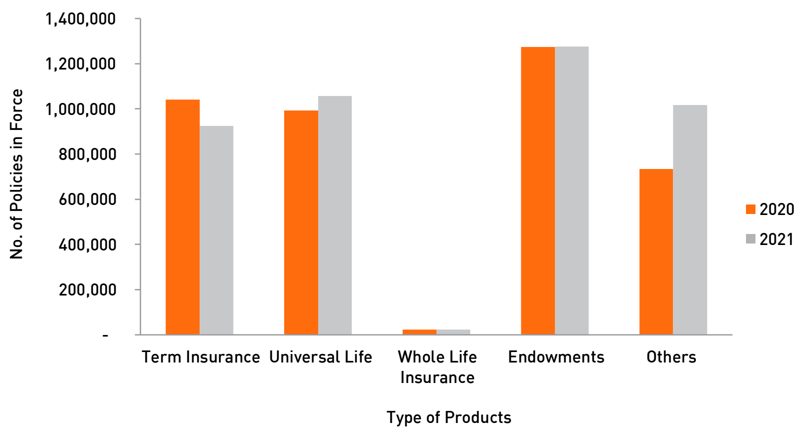
Table 15
Product-wise Policies in Force and Sum Insured for 2021 and 2020 - Long Term Insurance Business

Type of Product	2020		2021	
	No: of Policies in Force	Sum Insured (LKR '000)	No: of Policies in force	Sum Insured (LKR '000)
Term Insurance	1,041,132	1,556,004,122	924,270	1,722,498,648
Universal Life	992,360	514,703,931	1,057,060	620,345,090
Whole Life Insurance	23,731	1,555,115	23,539	1,554,973
Endowments	1,273,095	684,919,131	1,276,647	501,347,497
Others	733,250	2,065,977,502	1,016,278	3,421,566,810
Total	**4,063,568**	**4,823,159,802**	**4,297,794**	**6,267,313,018**

Chart 11
Product-wise Policies in Force for 2020 and 2021 - Long Term Insurance Business



Insurance Policy Lapses – Long Term Insurance Business

Insurance policy lapses which can be defined as policies terminated due to non-payment of premiums and expiry of the contractual grace period, amounted to 268,905 (2020: 273,879) posting a drop of 1.82%. The new insurance policies lapses totaled to 86,170 (2020: 70,152) displaying a growth rate of 22.83% compared to 2020, driven by traditional non-participating and universal life categories of business.

Total insurance policies lapsed as a percentage of total policies in force, continuing its downward trend, amounted to 6.26% (2020: 6.74%). However, the new insurance policies lapsed as the percentage of new policies issued, which was also experiencing a declining trajectory over the last few years, increased to 9.86% (2020: 7.76%) in 2021.

Chart 12 depicts insurance policy lapses of the long-term insurance business.

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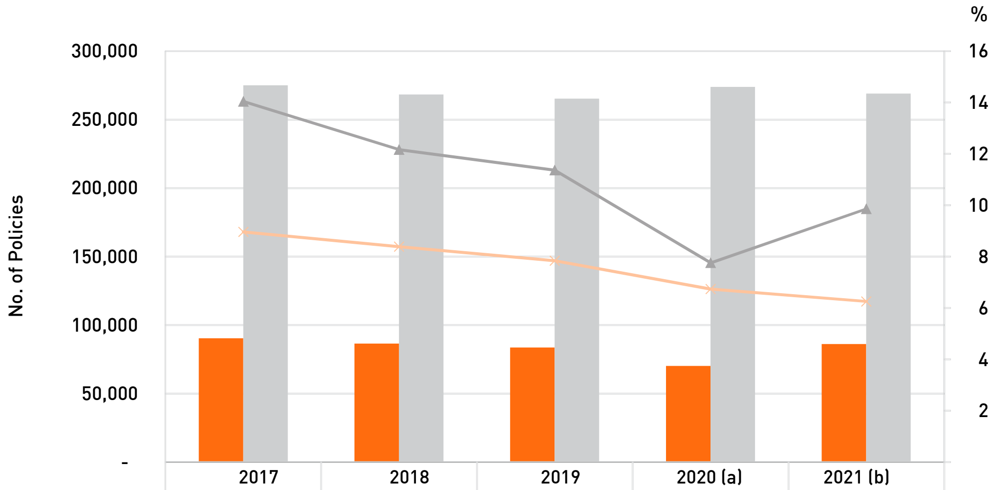
Chart 12
Insurance Policy Lapses – Long Term Insurance Business



	2017	2018	2019	2020 (a)	2021 (b)
New Insurance Policies Lapsed	90,350	86,484	83,547	70,152	86,170
Total Insurance Policies Lapsed	275,039	268,339	265,256	273,879	268,905
New Insurance Policies Lapsed as a % of New Policies Issued	14.04	12.16	11.37	7.76	9.86
Total Insurance Policies Lapsed as a % of Total Policies in Force	8.96	8.39	7.84	6.74	6.26

Claims Incurred by Insurance Companies – Long Term Insurance Business

Claims incurred by long-term insurers further increased during the year under review, reaching LKR 46,113 million (2020: LKR 37,909 million) posting a considerable growth of 21.64% (2020: 7.88%). Claims incurred to policyholders by long-term insurers can be categorized into Disability Benefits, Death, Surrenders, Maturity Benefits and Other benefits which are illustrated in detail in Chart 13 for last few years.

Maturity benefits, with a modest growth of 3.34%, accounted for LKR 22,428 million (2020: LKR 21,703 million) by occupying a significant share of 48.64% (2020: 57.25%) of the total claims incurred for the year 2021. Surrenders, holding a share of 17.73% (2020: 18.34%), increased to LKR 8,174 million (2020: LKR 6,952 million), posting a growth rate of 17.58%.

Other categories of benefits which includes hospitalization benefits, advance payments, cash and loyalty bonus expenses etc. amounted to LKR 8,390 million (2020: LKR 5,902 million) with a sharp growth of 42.14% and occupying 18.19% (2020: 15.57%) of the total claims incurred by long term insurers.

Further, Death benefits amounted to LKR 6,196 million (2020: LKR 2,647 million) and Disability benefits reached to LKR 925 million (2020: LKR 706 million) in 2021.

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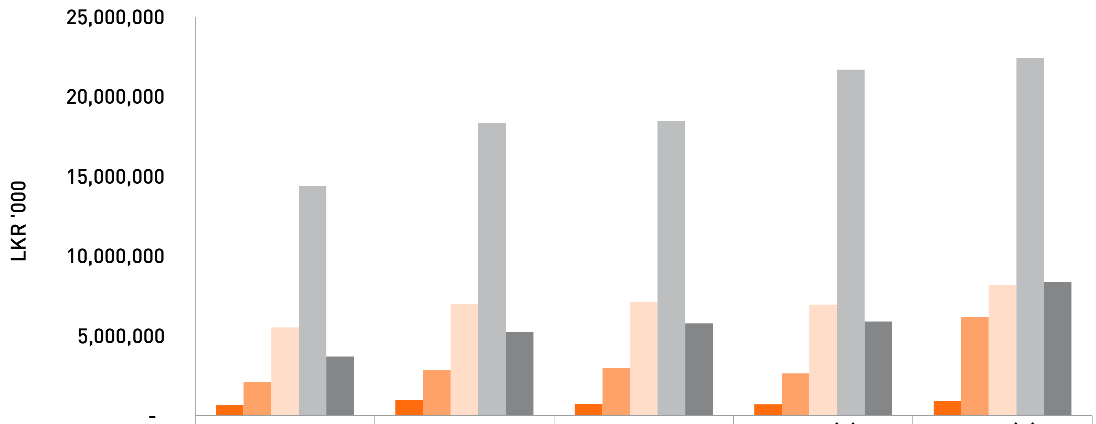
Chart 13
Claims Incurred by Insurance Companies – Long Term Insurance Business



	2017	2018	2019	2020 (a)	2021 (b)
Disability Benefits	636,472	984,923	731,803	705,887	925,434
Death	2,106,087	2,842,975	2,991,518	2,646,832	6,195,906
Surrenders	5,530,517	7,004,688	7,141,731	6,951,595	8,173,793
Maturity Benefits	14,393,605	18,343,285	18,485,420	21,702,673	22,428,031
Others	3,704,469	5,240,493	5,788,922	5,902,181	8,389,628

Number of Insurance Claims - Long Term Insurance Business

The total number of claims in the long-term insurance business escalated to 544,675 (2020: 505,533) demonstrating a growth rate of 7.74% (2020: 15.82%) in 2021. Other benefits which include hospitalization and critical illness benefits, cash and loyalty bonus expenses, annuities etc. represented the largest category in terms of claims volume, reporting 232,373 (2020: 173,183) claims in the long-term industry. Maturity benefits amounted to 157,176 (2020: 153,491) with a slight growth of 2.40%.

Surrenders declined by 18.64% by reaching 126,686 (2020: 155,718) in volume. It is noteworthy to mention that there was a sudden spike in a number of surrenders in 2020 due to surrendering existing DTA policies to take new DTA policies for new loans as the customers were compelled to reschedule existing loans due to diminished interest rates in the market.

Death claims and disability benefits amounted to 14,454 (2020: 12,105) and 13,986 (2020: 11,036) respectively in 2021.

Table 16 details out the number of insurance claims under different categories of the long-term insurance business for the past five years.

Table 16
Number of Insurance Claims - Long Term Insurance Business

	2017	2018	2019	2020 (a)	2021 (b)
Disability Benefits	10,749	10,737	12,251	11,036	13,986
Death	11,247	11,935	12,958	12,105	14,454
Surrenders	47,191	70,412	75,988	155,718	126,686
Maturity Benefits	128,266	153,856	130,723	153,491	157,176
Other benefits	145,452	166,745	204,564	173,183	232,373
Total	**342,905**	**413,685**	**436,484**	**505,533**	**544,675**

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General Insurance Business

The year 2021 started off while the COVID-19 pandemic still continued in its direst form and Sri Lanka, as a country hounded by many pre-existing socio-economic and political challenges and weaknesses throughout the years, was battling against the odds to overcome the downfall caused by the pandemic. The emergence of the Delta variant in 2021 turned out to be more severe than anticipated, resulting in an increased number of hospitalizations and deaths, triggering three lockdowns during the year in Sri Lanka. As a repercussion of the above, businesses were significantly impacted around the country. Numerous sectors in the country, along with the insurance industry, had to face plentiful challenges due to the unfavorable economic environment.

New registration of motor vehicles continued to decline in the year 2021 due to the expansion of restraints imposed on motor vehicle importation. As per the annual report 2021 of the Central Bank of Sri Lanka, new registrations of motor vehicles declined notably by 83.3%, compared to a deterioration of 44.8% in 2020. New registrations in all major categories of motor vehicles including single cabs, motor cars, motorcycles, and dual-purpose vehicles witnessed a fall. Nevertheless, with the aid of the commendable performance of the remaining classes of general insurance business, the entire general insurance industry made progress of 3.32% against the 2.25% contraction recorded in the year 2020 and reached the highest GWP for the past five years.

Asset base and the investment income of the general insurance sector displayed a development of 9.92% and 9.72% respectively along with adequate capital and liquidity buffers.

Compared to the past five years, claims of health insurance business were at its peak for the year 2021 with a growth of 42.71% against the previous year's negative growth of 27.80%. As a consequence of several lockdowns occurred during the year 2020, intimation of large number of claims delayed and clearance of same took place in the year 2021 which resulted a sudden hike in claims of health insurance sector. Besides, circulation of novel COVID-19 variants and acceleration of number of cases rapidly increased individuals' attention to their medical needs, which eventually supported to the increment in claims of health insurance sector. The general insurance industry was displaying a marginal contraction in profits due to increase in claims.

With the success of widespread vaccination programs and the relaxation of global travel restrictions by the end of 2021, there appeared to be a light at the end of the tunnel. Defeating the business interruptions caused by the pandemic, insurance sector entered year 2021 with a more positive outlook. Many insurers initiated speedy and smooth transition to digital processes therefore sustaining the customer relationship around the clock. Therefore, insurers managed to provide an uninterrupted service to the customers throughout the year. As a modality to overcome obstacles posed by the pandemic, insurers in Sri Lanka offered several extended benefits to policyholders in respect of premium collection, claim payments etc.

Gross Written Premium

Despite ongoing COVID-19 concerns and challenging economic surroundings, the general insurance industry presented a slender progress of 3.32% compared to the previous year's adverse trend of 2.25%, recording a premium income of LKR 108,760 million (2020: LKR 105,265 million). Widespread vaccination programs and the alleviation of pandemic-related restrictions in the latter half of 2021 assisted people and businesses in resuming previously halted commercial activities and moving forward. As a result, most sectors of the economy were running smoothly, and this was reflected in the Sri Lankan economy, which achieved 3.7% GDP growth in 2021. On that account, many insurers exhibited a reasonable performance and therefore showed the progress of the general insurance sector for the last five years.

SLIC General, being the largest contributor to the general insurance market in the year 2020, managed to occupy the first position in the year 2021 as well, disclosing a market share of 18.74% (2020: 18.40%) generating a GWP amounting to LKR 20,382 million (2020: LKR 19,371 million). Subcategories of the miscellaneous business class such as title, personal accident, and public liability, have enhanced the capacity during the year 2021, improving the total GWP of SLIC General. The expansion of foreign employment had uplifted premium

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collection compared to the previous year, further boosting the company's total GWP.

In the year under review, with a market share of 17.01% (2020: 17.75%), Ceylinco General seized the second position in the general insurance market, generating GWP worth LKR 18,499 million (2020: LKR 18,681 million). The reduction in motor insurance business resulted in the above slight drop in GWP of Ceylinco General. NITF had climbed up the ladder and become the third contender in the general insurance market by achieving a GWP worth LKR 13,365 million (2020: LKR 12,052 million) and recording a market share of 12.29% (2020: 11.45%).

It was noted that, contraction in business volumes, noticeably in motor insurance business, had adversely influenced all general insurers. Being a victim of the same conundrum Allianz General, the preceding year's third market player, had attained the fourth position this year, recording a GWP of LKR 12,490 million (2020: LKR 13,853 million) with a market share of 11.48% (2020: 13.16%).

Fairfirst was able to occupy fifth place in the general insurance market for this year as well, with a market share of 10.95% (2020: 11.34%) and a GWP worth LKR 11,914 million (2020: LKR 11,937 million).

Regardless of the fallout of COVID-19 pandemic followed by economic provocations, all general insurers except for four insurers had exhibited an improvement in GWP, providing modest reassurance compared to the former year's downturn of total GWP.

Table 17 & Chart 14 depict the company-wise GWP and market share of general insurance companies.

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

Insurer	2017		2018		2019		2020 (a)		2021 (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 (%)
Allianz Gen.	5,956,142	6.38	17,983,748	17.88	18,095,258	16.80	13,852,829	13.16	12,490,133	11.48
Amana Gen.	1,686,270	1.81	1,841,067	1.83	1,621,461	1.51	1,631,666	1.55	2,173,073	2.00
Ceylinco Gen.	17,012,087	18.22	18,137,933	18.03	18,401,405	17.09	18,680,545	17.75	18,498,751	17.01
Continental	3,892,780	4.17	4,545,405	4.52	5,002,548	4.65	4,808,964	4.57	4,888,930	4.50
Cooperative Gen.	2,966,679	3.18	3,692,397	3.67	4,192,960	3.89	4,274,397	4.06	4,374,591	4.02
Fairfirst	9,610,990	10.29	10,980,850	10.92	11,247,669	10.44	11,937,482	11.34	11,914,064	10.95
HNB Gen.	3,662,008	3.92	4,062,171	4.04	4,394,457	4.08	4,583,235	4.35	5,166,812	4.75
Janashakthi Gen.	11,740,185	12.57								
LOLC Gen.	3,795,106	4.06	4,318,721	4.29	4,954,896	4.60	5,612,894	5.33	6,562,651	6.03
MBSL	260,806	0.28	(512)	0.00	95,979	0.09	297,995	0.28	413,070	0.38
NITF	8,114,412	8.69	9,644,901	9.59	13,358,203	12.40	12,051,863	11.45	13,365,348	12.29
Orient	1,179,000	1.26	1,376,398	1.37	1,564,902	1.45	1,628,153	1.55	2,027,885	1.86
People's	4,587,432	4.91	5,354,368	5.32	5,694,164	5.29	5,686,758	5.40	5,634,586	5.18
Sanasa Gen.	569,509	0.61	732,379	0.73	898,079	0.83	847,117	0.80	868,306	0.80
SLIC	18,355,361	19.65	17,916,274	17.81	18,162,766	16.87	19,370,895	18.40	20,382,188	18.74
Total	**93,388,766**	**100**	**100,586,101**	**100**	**107,684,747**	**100**	**105,264,793**	**100**	**108,760,388**	**100**
Growth Rate (%)	**17.34**		**7.71**		**7.06**		**-2.25**		**3.32**	

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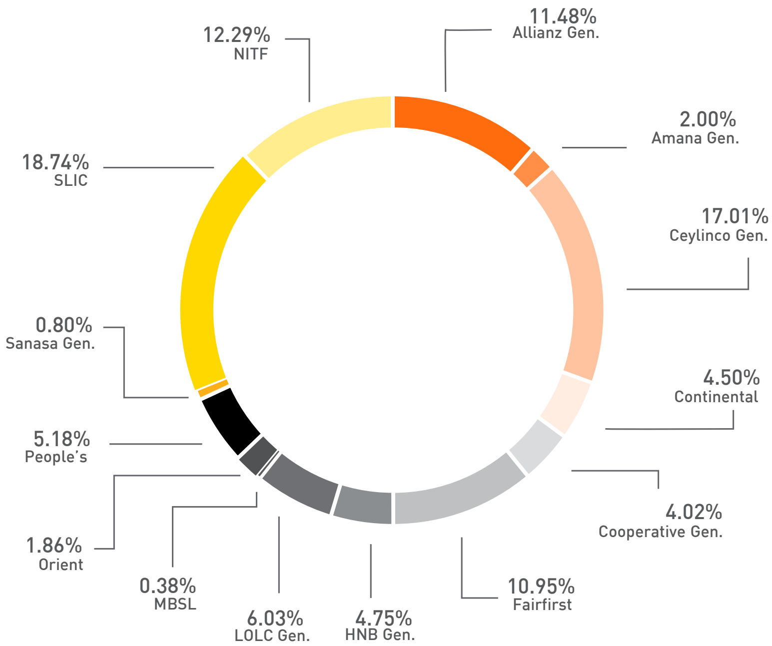
Chart 14
Company-wise Market Share of Gross Written Premium - General Insurance Business for the year ended 31st December 2021



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

SLIC General, Ceylinco General, NITF, Allianz General and Fairfirst occupied the top five positions in the general insurance market in the year 2021, representing a total GWP worth LKR 76,650 million (2020: LKR 75,894 million) with a market share of 70.48% (2020: 72.10%). The remaining nine companies generated GWP worth LKR 32,110 million (2020: LKR 29,371 million) depicting a market share of 29.52% (2020: 27.90%) collectively.

Similar to the previous year, SLIC General and Ceylinco General had triumphantly maintained the first and second positions in the general insurance market consecutively in the year 2021 as well. However, the performance of Ceylinco General had slightly dropped compared to the previous year.

NITF, acquiring the third position, outlined a slight hike in market share compared to the previous year. In contrast, Allianz General, the fourth contributor to the general insurance market, recorded a notable shrinkage in market share by 1.68% where we have witnessed this trend for the past three years. The decline in business volumes in the motor and property lines of business hampered Allianz General's premium collection, resulting in negative results. Fairfirst also demonstrated a slender contraction in market share compared to the preceding year.

A fair improvement can be witnessed in the remaining insurers, who have further expanded their market share by 1.61% compared to the year 2020. Therefore, the major five contributors evinced a deterioration in market share, providing more room for remaining contributors to extend their influence in the general insurance market.

Chart 15 exhibits the market share of the top five contributors to GWP and other insurers from 2017 to 2021.

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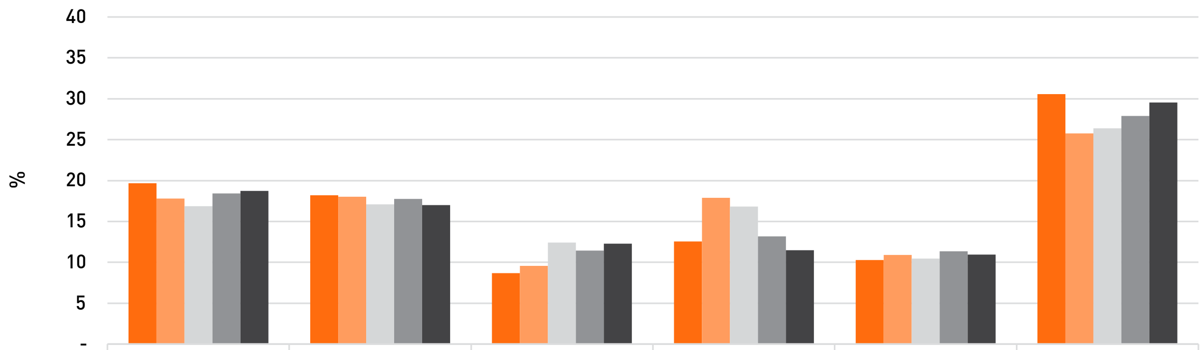
Chart 15
Market Share of Top Five Contributors to GWP and Other Insurers for the Years 2017 to 2021 - General Insurance Business



	SLIC	Ceylinco	NITF	Janashakthi Gen./Allianz Gen.	Fairfirst	Others
2017	19.65	18.22	8.69	12.57	10.29	30.58
2018	17.81	18.03	9.59	17.88	10.92	25.77
2019	16.87	17.09	12.40	16.80	10.44	26.39
2020 (a)	18.40	17.75	11.45	13.16	11.34	27.90
2021 (b)	18.74	17.01	12.29	11.48	10.95	29.52

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

The motor insurance business persistently continued to dominate the general insurance industry registering a premium amounting to LKR 59,734 million (2020: LKR 61,276 million) and characterized by a market share of 54.92% (2020: 58.21%) of total GWP. However, regrettably, compared to the past four-year period, the motor insurance business had reported the lowest premium during the year 2021, marking the only general insurance business class with a negative growth rate for the year. From 2018 onwards, the market share of the motor insurance business had been gradually decreasing giving an alarming inkling to the general insurance industry.

The reduction of motor premium amounted to LKR 1,542 million with a negative growth rate of 2.52% compared to the previous year 2020, which was justifiable to a certain degree due to the prolonged import restrictions on motor vehicles followed by the foreign currency liquidity crisis, lockdowns and travel restrictions. Therefore, as a consequence of adverse economic conditions, policyholders' preferences for motor third-party policies, which has a lower premium, were in demand compared to the comprehensive policies. Conclusively at the renewal, the alteration of motor comprehensive policies to motor third party policies were witnessed. Therefore, a notable improvement in motor third-party policies was visible with high renewal and new business policies.

The emergence of uncertainties due to the recent pandemic led people to contemplate the importance of having health insurance. Therefore, the health insurance business was capable of achieving GWP worth of LKR 19,960 million (2020: LKR 18,878 million) fairly increasing its market percentage share to 18.35% (2020: 17.93%). Though the health insurance business had performed, as the second-largest contributor to the general insurance industry's premium, a substantial reduction in growth rate was noticeable

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compared to previous two years. In year 2021 the growth rate of the health insurance business stood at 5.73% against the previous year's growth rate of 13.76%.

The fire insurance business displayed a growth rate of 16.16% (2020: 7.48%), which logged the highest premium for the last five years, amounting to LKR 10,325 million (2020: LKR 8,888 million). The fire insurance business surpassed all other classes and had been able to mark the highest increment in premium compared to the last year with a growth of LKR 1,436 million in value and presented a market share of 9.49% (2020: 8.44%).

The increase in the miscellaneous class of insurance business was fairly affected by a moderate pickup in the tourism industry in the latter part of the year, as well as the removal of travel restrictions. This class of insurance had improved its performance and exhibited an impressive growth of 13.43% as opposed to the last year negative growth of 24.75%, with a premium worth LKR 8,913 million (2020: LKR 7,858 million) and a market share of 8.20% (2020: 7.46%).

In 2021, the marine insurance business, generated GWP of LKR 3,074 million (2020: LKR 2,276 million) and presented a growth of 35.04% against the downward trajectory reported in the previous two years. Further, the marine insurance business was able to record a market share of 2.83% in year 2021 compared to 2.16% recorded in year 2020.

Reaching the highest premium and market share for the last five years and marking a growth rate of 10.93% against the negative growth rate of 3.47% last year, SRCC & T (Strike, Riot, Civil Commotion and Terrorism) cover of NITF reported premium amounting to LKR 6,754 million (LKR 6,088 million) and market share of 6.21% (2020: 5.78%).

All classes except for the motor insurance business were able to display a positive shift in premium during the year 2021.

Gross Written Premium generated from the main sub-classes of general insurance business & premiums pertaining to SRCC & T cover provided by NITF, along with their growth rates and percentage share from the total GWP of general insurance business for the period from 2017 to 2021, are presented in Table 18 and Chart 16.

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

Class	Gross Written Premium (LKR '000)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	8,597,489	8,821,655	8,269,991	8,888,258	10,324,853
Marine	2,191,654	2,403,366	2,385,566	2,276,474	3,074,111
Motor	56,047,640	62,363,476	63,685,555	61,276,210	59,733,959
Health	14,649,440	14,161,542	16,593,661	18,877,585	19,960,147
Miscellaneous	7,866,260	8,254,421	10,442,624	7,857,768	8,913,184
Sub Total	**89,352,484**	**96,004,460**	**101,377,397**	**99,176,296**	**102,006,254**
SRCC & T	4,036,283	4,581,641	6,307,350	6,088,496	6,754,134
Total	**93,388,766**	**100,586,101**	**107,684,747**	**105,264,792**	**108,760,388**

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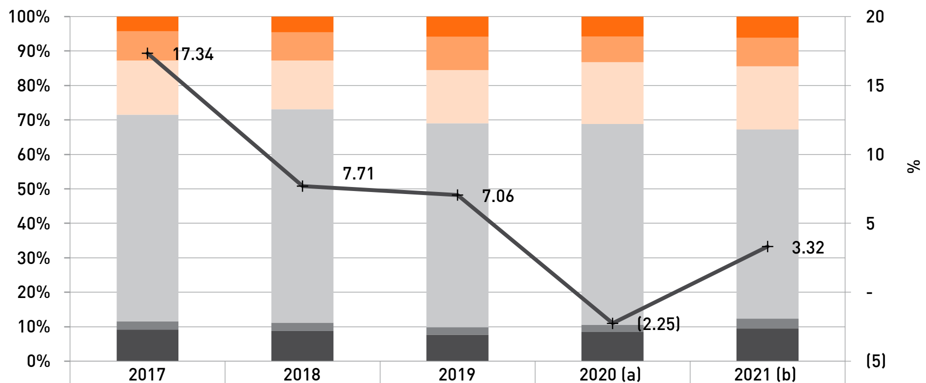
Class	Growth (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	14.94	2.61	(6.25)	7.48	16.16
Marine	5.05	9.66	(0.74)	(4.57)	35.04
Motor	13.61	11.27	2.12	(3.78)	(2.52)
Health	45.96	(3.33)	17.17	13.76	5.73
Miscellaneous	10.47	4.93	26.51	(24.75)	13.43
Sub Total	**17.48**	**7.44**	**5.60**	**(2.17)**	**2.85**
SRCC & T	14.23	13.51	37.67	(3.47)	10.93
Total	**17.34**	**7.71**	**7.06**	**(2.25)**	**3.32**

Class	Percentage Share (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	9.21	8.77	7.68	8.44	9.49
Marine	2.35	2.39	2.22	2.16	2.83
Motor	60.02	62.00	59.14	58.21	54.92
Health	15.69	14.08	15.41	17.93	18.35
Miscellaneous	8.42	8.21	9.70	7.46	8.20
Sub Total	**95.68**	**95.45**	**94.14**	**94.22**	**93.79**
SRCC & T	4.32	4.55	5.86	5.78	6.21
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Chart 16
Class-wise Analysis of GWP from 2017 to 2021 - General Insurance Business



	2017	2018	2019	2020 (a)	2021 (b)
SRCC & T	4.32	4.55	5.86	5.78	6.21
Miscellaneous	8.42	8.21	9.70	7.46	8.20
Health	15.69	14.08	15.41	17.93	18.35
Motor	60.02	62.00	59.14	58.21	54.92
Marine	2.35	2.39	2.22	2.16	2.83
Fire	9.21	8.77	7.68	8.44	9.49
Industry Growth	17.34	7.71	7.06	(2.25)	3.32

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Category -wise Analysis of GWP of Miscellaneous Insurance Business

Comprehensive details on the miscellaneous insurance business accompanying its subclasses for the years 2021 and 2020 are indicated in Table 19.

While the COVID-19 pandemic affected the entire industry, different types of businesses were impacted differently by the economic disruption and instability. In the year 2021, conveying a total GWP worth of LKR 8,913 million (2020: LKR 7,858 million), the miscellaneous insurance class of business excluding SRCC & T had improved compared to the previous year. Overcoming the adverse growth recorded in the previous year, subcategories such as Air Craft Hull and Personal Accident functioned well in the year 2021, furnishing GWP amounting to LKR 687 million (LKR 467 million) and LKR 1,445 million (2020: LKR 1,298 million) with a growth of 47.05% and 11.27% respectively.

Due to the restrictions imposed in the last year on travel and tourism sectors within and outside the country, Travel Insurance, being the most critically affected subcategory of miscellaneous insurance business, showed slender progress of 9.38% during the year 2021 by recording GWP amounting to LKR 219 million (2020: LKR 200 million).

The repercussions of the pandemic, such as dramatic spike in unemployment, shutdowns and bankruptcy of small businesses, were unavoidable, and therefore the sudden sink in the workers' compensation category of the miscellaneous class of business was inevitable.

Personal Accident, Aircraft Hull, Travel Insurance, Professional Indemnity and Title had revealed significant progress. Thus, it can be concluded that except for a few categories, the miscellaneous insurance business had performed better than the previous year.

Table 19
Category - wise Analysis of GWP of Miscellaneous Insurance premium for 2020 & 2021

Category	GWP LKR '000	
	2020 (a)	2021 (b)
Title	320,719	451,618
Personal Accident	1,298,399	1,444,673
Contractors' All Risk	684,871	774,805
Professional Indemnity	457,580	590,741
Travel Insurance	200,359	219,156
Fidelity Guarantee	85,470	86,145
Burglary	360,929	350,996
Cash in transit including cash in safe	429,854	402,520
Goods in Transits	89,536	96,516
Products Liability	166,807	189,736
Public Liability	444,852	473,320
Bankers' Indemnity	421,349	489,309
Air Craft Hull	466,924	686,625
WCI	555,011	546,340
Others	2,555,699	3,218,280
Subtotal	**8,538,359**	**10,020,780**
Less: Total of SRCC & T due to NITF	(610,936)	(1,015,369)
Coinsurance Premium	(69,649)	(92,227)
Total	**7,857,774**	**8,913,184**

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

Table 20 and Chart 17 project the details of reinsurance premium ceded to reinsurers and the level of retention of GWP by general insurers for main subclasses of general insurance business from 2017 to 2021.

Following the pattern of GWP generation, the reinsurance premium ceded to reinsurers for the year 2021 (excluding SRCC & T) stood at LKR 20,478 million (2020: LKR 18,511 million).

In comparison to the other classes, fire and miscellaneous had the highest reinsurance premiums in 2021.The reinsurance premium of marine and health classes also improved compared to the previous year whilst motor class showed a reduction, which can be witnessed in class wise projections in GWP generation as well.

Reinsurance premium recorded under the SRCC & T segment for the year 2021 amounted to LKR 78 million (2020: LKR 32 million). However, this represented the actual exposure of reinsurance premium ceded for SRCC & T cover, which commenced from 01st August 2020 to 31st January 2022.

The general insurance sector indicated an overall retention ratio of 79.92% (excluding SRCC & T), corresponding to the preceding year's retention ratio of 81.33%, observing a reduction of 1.41% and exhibiting a retention premium of LKR. 81,528 million (LKR. 80,665 million). The overall retention ratio stood at 81.10% (2020: 82.38%), reflecting the lowest retention ratio for the past five years.

Despite being the only general insurance subclass that generated a negative growth during the year 2021, the motor insurance business, by recording a retention ratio of 93.93% (2020: 92.89%), had slightly improved compared to the previous year.

Following the past trend, the health insurance business represented the second-highest retention ratio of 91.67% (2020: 91.28%).

The other three classes of general insurance business, fire, marine and miscellaneous, exhibited a retention ratio of 22.54%, 38.66% and 40.47%, respectively, in the year 2021.

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

Class	GWP (LKR '000)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	8,597,489	8,821,655	8,269,991	8,888,258	10,324,853
Marine	2,191,654	2,403,366	2,385,566	2,276,474	3,074,111
Motor	56,047,640	62,363,476	63,685,555	61,276,210	59,733,959
Health	14,649,440	14,161,542	16,593,661	18,877,585	19,960,147
Miscellaneous	7,866,260	8,254,421	10,442,624	7,857,768	8,913,184
Sub Total	**89,352,484**	**96,004,460**	**101,377,397**	**99,176,296**	**102,006,254**
SRCC & T	4,036,283	4,581,641	6,307,350	6,088,496	6,754,134
Total	**93,388,766**	**100,586,101**	**107,684,747**	**105,264,792**	**108,760,388**

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Class	Reinsurance Premium (LKR '000)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	6,947,675	6,103,609	6,061,855	6,609,886	7,997,992
Marine	1,177,400	1,200,069	1,224,829	1,352,679	1,885,798
Motor	2,152,508	4,296,451	4,229,915	4,356,260	3,625,979
Health	2,682,617	1,771,091	1,480,482	1,645,816	1,662,947
Miscellaneous	3,840,459	4,462,894	4,813,310	4,546,844	5,305,779
Sub Total	**16,800,660**	**17,834,113**	**17,810,391**	**18,511,486**	**20,478,495**
SRCC & T	108,750	81,656	55,564	32,283	77,523
Total Reinsurance Premium	**16,909,410**	**17,915,770**	**17,865,954**	**18,543,769**	**20,556,018**

Class	Retention (LKR '000)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	1,649,814	2,718,046	2,208,136	2,278,372	2,326,860
Marine	1,014,254	1,203,297	1,160,737	923,795	1,188,314
Motor	53,895,132	58,067,024	59,455,641	56,919,950	56,107,980
Health	11,966,823	12,390,451	15,113,179	17,231,770	18,297,200
Miscellaneous	4,025,800	3,791,528	5,629,314	3,310,924	3,607,405
Sub Total	**72,551,823**	**78,170,347**	**83,567,006**	**80,664,810**	**81,527,759**
SRCC & T	3,927,533	4,499,984	6,251,787	6,056,213	6,676,611
Total Net Written Premium	**76,479,356**	**82,670,331**	**89,818,793**	**86,721,023**	**88,204,370**

Class	Retention as a Percentage of GWP (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	19.19	30.81	26.70	25.63	22.54
Marine	46.28	50.07	48.66	40.58	38.66
Motor	96.16	93.11	93.36	92.89	93.93
Health	81.69	87.49	91.08	91.28	91.67
Miscellaneous	51.18	45.93	53.91	42.14	40.47
Sub Total	**81.20**	**81.42**	**82.43**	**81.33**	**79.92**
SRCC & T	97.31	98.22	99.12	99.47	98.85
Overall Retention Ratio	**81.89**	**82.19**	**83.41**	**82.38**	**81.10**

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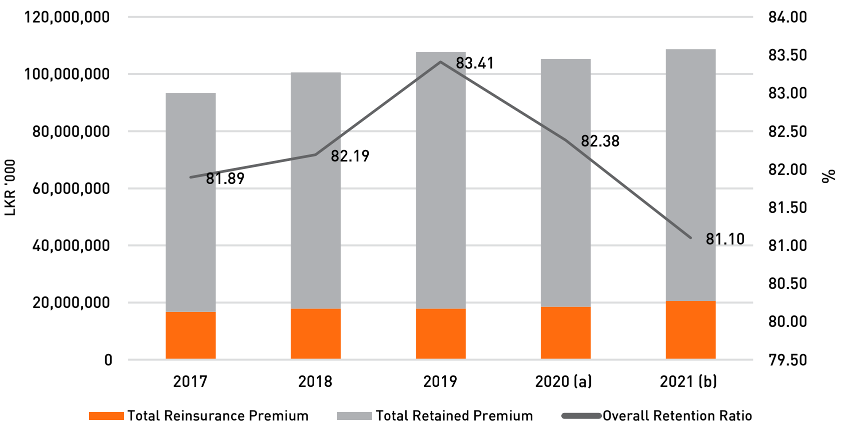
Chart 17
Reinsurance Premium and Retention by Insurers - General Insurance Business



Company wise Analysis of Total Asset- General Insurance Business

The total assets of the general insurance sector displayed growth of LKR 22,578 million with a satisfactory growth rate of 9.92%, signifying progress regardless of the numerous challenges. Total assets of the general insurance sector amounted to LKR 250,217 million (2020: LKR 227,640 million) as at 31st December 2021.

Considering the larger picture of the total assets of the general insurance sector, it is a relief to witness the aforesaid growth regardless of several economic downturns such as interest rate and equity market fluctuations, credit issues and respective market risks involved with them. Nevertheless, many insurers have overcome such barriers and displayed growth in their individual asset bases.

Table 21 illustrates the distribution of assets among general insurance companies as at 31st December 2021 and 2020.

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

Insurer	2020 (a)		2021 (b)	
	(LKR' 000)	%	(LKR' 000)	%
Allianz Gen.	28,024,882	12.31	27,968,687	11.18
Amana Gen.	2,945,567	1.29	3,402,269	1.36
Ceylinco Gen.	32,061,287	14.08	36,648,668	14.65
Continental	7,866,408	3.46	8,455,319	3.38
Cooperative Gen.	7,935,838	3.49	9,806,005	3.92
Fairfirst	18,046,123	7.93	19,312,806	7.72
HNB Gen.	6,855,077	3.01	7,568,781	3.02
LOLC Gen.	9,891,278	4.35	11,999,920	4.80
MBSL	1,426,185	0.63	1,399,160	0.56
NITF	21,487,172	9.44	24,444,867	9.77
Orient	2,612,380	1.15	3,194,603	1.28
People's	10,783,719	4.74	11,251,468	4.50
Sanasa Gen.	1,303,081	0.57	1,372,239	0.55
SLIC	76,400,546	33.56	83,392,699	33.33
Total	**227,639,542**	**100**	**250,217,491**	**100**

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Continuing the momentum in 2020, SLIC General, Ceylinco General and Allianz General, have been able to account for 33.33%, 14.65% and 11.18% of total assets and recorded assets worth of LKR 83,393 million, LKR 36,649 million and LKR 27,969 million respectively in the year 2021.

SLIC General, the dominant asset holder in the general insurance sector, led by a significant margin (approximately LKR 46,744 million) over the second performer, Ceylinco General, with total assets worth LKR 83,393 million (2020: LKR 76,401 million). However, SLIC General characterized a slender growth rate of 9.15% and reported asset growth worth of LKR 6,992 million, the highest growth of assets in terms of value mainly driven by financial investments.

Ceylinco General, the next most asset holder, documented assets worth of LKR 36,649 million (2020: LKR 32,061 million) and reported a growth of LKR 4,587 million in value. Financial investments, reinsurance receivables and premium receivables from policyholders are the major contributors towards the said growth.

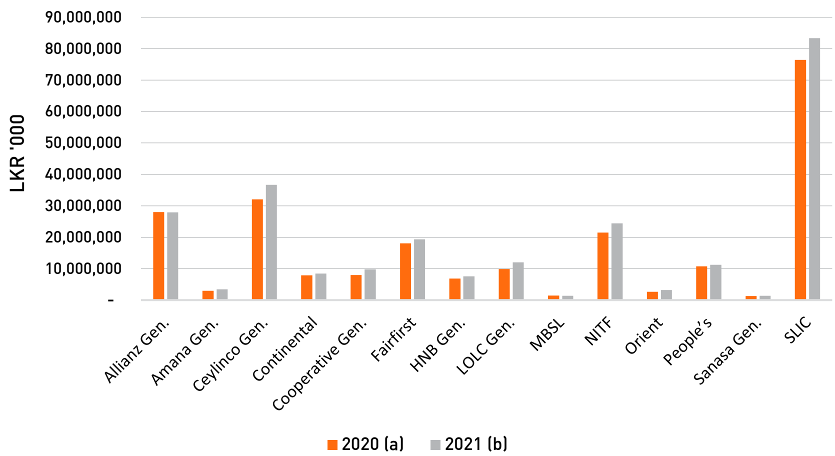
NITF had only risen by 13.76% in the year 2021 presenting assets worth of LKR 24,445 million. Assets of SRCC & T segment can be recognized as the most well performed segment of NITF, which had represented 96.21% (LKR 23,519 million) of total assets of NITF.

Allianz General showed a negative growth with a slight drop in total assets yet managed to secure the third place of total assets in the general insurance sector.

Six insurers had displayed an enhanced performance by transcending LKR 1 billion growth in assets in terms of value, whilst only two insurers showed a negative growth.

Chart 18 displays a company-wise analysis of total assets as of 31st December 2021 & 2020.

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



Concentration of Assets of General Insurance Business

Financial investments play a pivotal role among the diversified assets of the general insurance sector. Approximately, 65.43% of total assets represent financial investments led by Government Debt Securities, the prime contributor followed by Equities, Deposits, Corporate Debts and Unit Trusts.

The investments in government debt securities increased to LKR 76,226 million (2020: LKR 65,700 million) in the year 2021 owning 30.59% (2020: 28.99%) of total assets. Five insurers had strengthened their investments in government debt securities by approximately LKR 1 billion each during 2021, therefore presenting a growth of 16.02% and assets worth LKR 10,526 million in total Government Debt Securities. Being an ideal risk-free investment and providing long term returns alongside good liquidity, Government Debt Securities hold the utmost advantage of topping the list.

Disclosing a growth of 7.39%, Equity investments had captured the second position by logging LKR 34,972 million (2020: LKR 32,567 million) and representing 14.03% of total assets. Continuation of low interest rates during the year 2021 had lured insurers towards Equity investments and thus expanding exposure towards the equity market.

Premium receivable from policyholders and intermediaries

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exhibited a higher rank by reporting LKR 28,674 million (2020: LKR 27,576 million) and depicting 11.51% (2020: 12.17%) of total assets. The continuation of relief provided for policyholders concerning premium collection, which came into effect after considering the difficulties faced aftermath of the COVID-19 pandemic, can be described as one of the primary reasons for the noticeable increase.

Deposits were less popular in 2021, and it appeared that insurers were more interested in finding other opportunities that provided major victories and commanding returns. Providing an affirmation, investments in Deposits reported a negative growth of 8.55% compared to the growth recorded in the prior year. Deposits recorded a percentage share of 9.42% (2020: 11.32%) of total assets, and stood at LKR 23,471 million (2020: LKR 25,664 million) at the end of the year 2021.

Corporate Debts and Unit Trusts also conveyed a growth of 12.80% and 12.33% representing LKR 20,092 million (2020: LKR 17,812 million) and LKR 7,357 million (LKR 6,549 million) worth of assets respectively. Unit Trust being the investment type that had furnished the highest growth rate in the preceding year, had exhibited a modest growth in the year 2021.

All remaining investment types such as Property Plant & Equipment, Other Assets, Reinsurance Receivables and Land & Buildings portrayed an improvement whilst Cash, and Cash Equivalents depicted the highest growth rate of 26.47% compared to the prior year. Thus, investments in deposits were the only investment type that failed to grow in 2021, owing primarily to a reduction in investments in deposits by a single insurer.

Table 22 & Chart 19 furnish the information on the concentration of assets as of 31st December 2020 & 2021.

Table 22
Concentration of Assets as at 31st December 2020 & 2021 - General Insurance Business

Type of Asset	2020 (a)		2021 (b)	
	LKR '000	%	LKR '000	%
Government Debt Securities	65,700,091	28.99	76,226,076	30.59
Equities	32,566,853	14.37	34,972,269	14.03
Corporate Debts	17,812,377	7.86	20,092,438	8.06
Land & Buildings	1,964,966	0.87	2,203,600	0.88
Deposits	25,664,111	11.32	23,470,757	9.42
Unit Trusts	6,549,296	2.89	7,356,946	2.95
Reinsurance receivables	12,974,157	5.72	14,966,120	6.01
Premium receivable from policyholders and intermediaries	27,576,167	12.17	28,673,779	11.51
Property Plant and Equipment	18,628,155	8.22	20,783,833	8.34
Other Assets	13,017,177	5.74	15,177,549	6.09
Cash and cash equivalents	4,186,189	1.85	5,294,128	2.12
Total	**226,639,539**	**100**	**249,217,495**	**100**

Note: Right of Use Asset (ROU Asset) has been added to Property Plant & Equipment Difference is due to Intersegment receivable and payable balances of NITF

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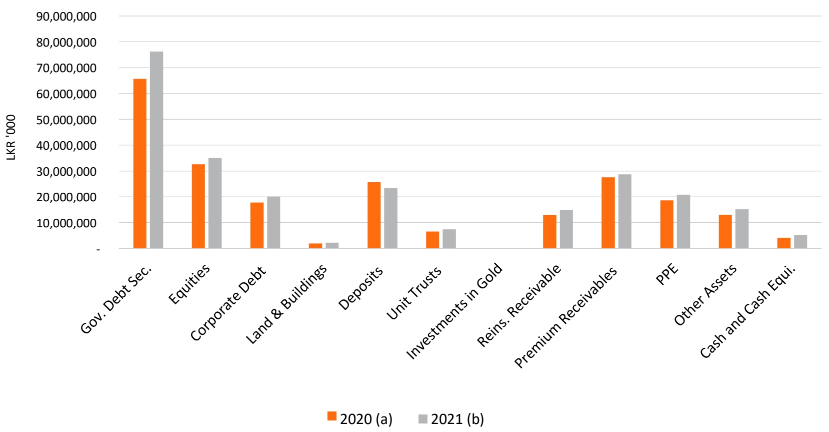
Chart 19
Concentration of Assets as at 31st December 2020 & 2021 - General Insurance Business



Investment Income – General Insurance Business

Market interest rates dropped significantly from the first part of 2020 until mid-2021. However, as the Central Bank of Sri Lanka tightened its monetary policy, market interest rates increased gradually by the end of 2021. Consequently, market interest rates, which declined to historic low levels, started to adjust upwards gradually. Amidst macroeconomic impacts, the overall investment income of the general insurance business considerably increased to LKR 11,282 million in 2021 from LKR 10,282 million in 2020 and presented a growth of 9.72% surpassing the negative growth of 18.29% reported in 2020. The growth of the investment income is largely driven by the category of Equity, mainly due to single insurer earning a capital gain of LKR 1,147 million in 2021 compared to LKR 316 million recorded in 2020.

The average investment of general insurance business in 2021 expanded by 11.20% to LKR 159,061 million (2020: LKR 143,034 million). Thus, the main investment category of general insurance business, investment in Government Debt Securities stood at LKR 70,963 million (2020: LKR 60,248 million) as at end of 2021 recording a growth of 17.79%.

The second largest investment category was Equity investment which recorded an average investment of LKR 33,770 million (2020: LKR 32,387 million), reflecting a slower growth of 4.27% compared to the year 2020.

Deposits generated from bank and finance companies were the next largest category of investment while recording an average investment of LKR 24,567 million which was slightly decreased from LKR 24,807 million in 2020. Meanwhile, the yield on Bank Deposits recorded a decline during the year 2021 and exhibited a notable decay of investment income by 27.51% to LKR 1,390 million (2020: LKR 1,917 million) in response to the lower interest rates for Bank Deposits existed throughout the year 2021.

Corporate Debt had generated an investment income of LKR 2,334 million (2020: LKR 2,080 million) which grew by 12.21% and reported the highest investment yield ratio of around 12% out of all financial investments for both years.

Meanwhile, general insurers favored investing in Unit Trust and recorded an improvement in average investment of LKR 6,953 million (2020: LKR 4,256 million) where the investment income also increased compatibly to LKR 178 million (2020: LKR 161 million).

The overall investment yield slightly decreased to 7.09% in 2021 from 7.19% in 2020.

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

Category	2020 (a)		2021 (b)	
	Investment Income (LKR '000)	Average Investments (LKR '000)	Investment Income (LKR '000)	Average Investments (LKR '000)
Government Debt Securities	4,404,110	60,247,654	4,648,430	70,963,084
- Treasury Bonds	2,157,968		1,964,914	
- Treasury Bills	999,323		1,303,595	
- Others (REPO)	1,246,819		1,379,921	
Equity	898,981	32,387,148	1,991,517	33,769,561
- Capital Gain/Losses	71,609		263,904	
- Dividend	26,057		64,052	
Corporate Debts	2,079,777	17,208,530	2,333,726	18,952,408
- Debentures	1,991,480		2,220,056	
- Commercial Papers	88,297		100,632	
Land and Buildings		2,937,537		2,084,283
Deposits	2,411,947	24,806,714	1,834,701	24,567,434
- Banks	1,917,425		1,389,995	
- Finance Companies	494,521		431,673	
Unit Trusts	160,778	4,255,684	177,610	6,953,121
Others	326,826	1,190,753	296,175	1,770,844
Total	**10,282,419**	**143,034,019**	**11,282,159**	**159,060,733**
Average Investment Yield	**7.19%**		**7.09%**	

Solvency Position of Insurance Companies - General Insurance Business

Despite the unprecedented challenges encountered during the year, the IRCSL continued to measure and monitor the risk-based capital level of general insurers, thereby protecting the interests of policyholders through a properly managed insurance sector. Under RBC Rules, insurers are required to maintain a minimum Total Available Capital (TAC) of LKR 500 million and a Capital Adequacy Ratio (CAR) of 120% in order to comply with capital adequacy requirements.

Accordingly, the total TAC of general insurers logged LKR 74,960 million and exhibited a 15.25 % growth from LKR 65,041 million in 2020, excluding National Insurance Trust Fund (NITF). As depicted in Table 24 below, SLIC General clinched the top spot with a share of 44.57 % of the total TAC in the year 2021 and surged by 21.75% to LKR 33,407 million (LKR 27,440 million) compared to the year 2020. Except for two insurers, all of the others had demonstrated an improvement in TAC in terms of value amidst the turbulent period. Further, except for one insurer, all other general insurers remained stable with the minimum TAC requirement of LKR 500 million as at 31st December 2021, and most of them maintained their capital at a healthy level.

The average CAR of general insurance business was recorded for the year 2021 as 250% (2020: 249%). All general insurance companies had satisfied the minimum CAR requirement as at 31st December 2021 and reported above the enforcement level of 160% as stipulated in the Enforcement Strategy on RBC issued by the IRCSL.

The CAR and TAC of NITF were recorded for the year 2021 as 600% (2020: 562%) and LKR 15,799 million (2020: LKR 13,010 million) respectively, which is not included in Table 24.

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Tables 24, 25, and 26 demonstrate details relating to the Risk-Based Capital (RBC) of general insurers for the years 2020 & 2021.

Table 24
Company-wise Analysis of Solvency Position - General Insurance Business as at 31st December 2020 & 2021

Insurer	As at 31st December 2020 (a)			As at 31st December 2021 (b)		
	TAC (LKR'000)	RCR (LKR'000)	CAR (%)	TAC (LKR '000)	RCR (LKR'000)	CAR (%)
Allianz Gen.	8,426,064	3,978,744	212	9,577,256	3,438,763	279
Amana Gen.	525,369	279,610	188	677,630	369,517	183
Ceylinco Gen.	7,472,104	4,081,902	183	7,792,202	3,918,202	199
Continental	2,629,220	904,617	291	2,729,200	861,759	317
Cooperative Gen.	2,550,823	1,024,217	249	3,604,790	1,138,230	317
Fairfirst	5,055,284	2,692,148	188	5,244,163	2,510,774	209
HNB Gen.	1,840,729	722,199	255	1,903,450	732,013	260
LOLC Gen.	2,946,390	978,112	301	3,549,395	1,925,844	184
MBSL	422,154	135,852	311	317,546	157,521	202
Orient	941,383	346,306	272	1,065,529	389,562	274
People's	4,162,922	1,369,045	304	4,471,464	1,432,832	312
Sanasa Gen.	628,444	247,000	254	620,364	231,398	268
SLIC	27,440,331	12,307,698	223	33,407,280	13,898,660	240
Total	**65,041,217**	**29,067,450**	**249**	**74,960,269**	**31,005,075**	**250**

Total Available Capital (TAC) Requirement of Insurance Companies - General Insurance Business.

TAC is measured through the addition of Tier I and Tier II capital and subtracting the deductions mostly comprising intangible and illiquid assets that are not generally available for covering losses. As depicted in Table 25, the TAC of the industry accumulated to LKR 74,960 million (2020: LKR 65,041 million) and posted an enriched growth of 15.25% against the previous year. The growth was largely driven by the overall improvement in Tier 1 capital of the industry. Tier I capital amounted to LKR 99,878 million as at 31st December 2021 compared to LKR 90,870 million as at 31st December 2020 and grew by 9.91%. Tier II capital consists of cumulative irredeemable preference shares, redeemable preference shares, revaluation reserves for freehold property, etc., which amounted to LKR 11,069 million (2020: LKR 8,640 million) posting a significant growth of 28.11% in the year 2021 compared to the year 2020. TAC of SLIC General extensively increased in 2021, which was driven by the growth in 'Retained Earnings 'and 'Revaluation reserves for freehold property' of Tier I and Tier II capital respectively. Except for the two companies namely MBSL and Sanasa Gen, all the other insurers showcased growth in their TAC mainly driven by Tier I capital compared to the year 2020. The deductions, which generally comprise of intangible or illiquid assets amounted to LKR 35,987 million (2020: LKR 34,469 million) and slightly improved by 4.40% in the year 2021.

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Table 25
Company-wise Analysis of Total Available Capital (TAC) as at 31st December 2020 & 2021 -General Insurance Business

Insurer	TAC as at 31st December 2020 (a) (LKR'000)	As at 31st December 2021 (b)			
		Tier 1 (LKR'000)	Tier II (LKR'000)	Deductions (LKR'000)	TAC (LKR '000)
Allianz Gen.	8,426,064	12,218,928		2,641,672	9,577,256
Amana Gen.	525,369	1,448,646	439,596	1,210,612	677,630
Ceylinco Gen.	7,472,104	12,722,935	468,226	5,398,959	7,792,202
Continental	2,629,220	3,354,351		625,152	2,729,199
Cooperative Gen.	2,550,823	4,013,499	734,928	1,143,638	3,604,789
Fairfirst	5,055,284	6,849,598		1,605,435	5,244,163
HNB Gen.	1,840,729	2,189,999		286,549	1,903,450
LOLC Gen.	2,946,390	3,956,370		406,975	3,549,395
MBSL	422,154	431,171	4,192	117,817	317,546
Orient	941,383	1,120,556		55,027	1,065,529
People's	4,162,922	4,944,181		472,718	4,471,464
Sanasa Gen.	628,444	730,759		110,396	620,363
SLIC	27,440,331	45,897,050	9,422,000	21,911,770	33,407,280
Total	**65,041,217**	**99,878,043**	**11,068,942**	**35,986,720**	**74,960,266**

Comparisons of Risk-Based Capital Required (RCR) of Insurance Companies - General Insurance Business

Risk-Based Capital Required (RCR) includes all relevant and material categories of risks, such as credit risk, concentration risk, market risk, reinsurance risk, liability risk, and operational risk, that are used to calculate a company's capital requirement. Table 26 illustrates the company-wise analysis of RCR with main risk categories as stipulated in the RBC rule as at 31st December 2020 and 2021.

Total RCR before and after diversification recorded by general insurance companies was LKR 42,368 million (2020: LKR 39,920 million) and LKR 31,005 million (2020: LKR 29,035 million), representing a 6.13% and 6.78% increase, respectively. Similar to the previous year, concentration risk, market risk, and liability risk possessed the highest composition of the RCR in the general insurance sector and collectively contributed to 89.82% (2020: 90.14%) of the total RCR before diversification. Further, the market risk of the industry has increased to LKR 12,632 million in 2021 from LKR 10,641 million in 2020 as a result of the increase in the interest risk charges due to a mismatch in asset and liability durations due to prevailing market conditions caused by policy uncertainty and weakening macroeconomic environment.

NITF which is not included in Table 26, reported LKR 3,939 million (2020: LKR 3,442 million) and LKR 2,633 million (2020: 2,316 million) RCR before and after diversification respectively for the year ended 31st December 2021.

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Table 26
Company-wise Analysis of Risk Capital Required (RCR) as at 31st December 2020 and 2021 - General Insurance Business

Insurer	As at 31st December 2020 (a) (LKR '000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	102,501	2,665,343	502,633	32,584	2,202,872	259,886	5,765,820	3,978,744
Amana Gen.	20,821	155,490	14,344	8,341	144,798	26,585	370,379	247,534
Ceylinco Gen.	262,027	2,240,028	943,650	221,688	1,770,939	275,549	5,713,881	4,081,902
Continental	98,013	317,117	314,862	24,340	494,275	70,767	1,319,374	904,617
Cooperative Gen.	156,866	173,732	493,406	14,530	583,482	73,693	1,495,709	1,024,217
Fairfirst	52,320	1,253,312	833,750	348,916	1,016,716	149,395	3,654,409	2,692,148
HNB Gen.	78,508	224,018	168,735	24,755	521,326	61,308	1,078,650	722,199
LOLC Gen.	27,268	229,491	393,645	38,397	689,523	82,542	1,460,866	978,112
MBSL	10,548	53,429	13,849	6,112	105,870	14,198	204,006	135,852
Orient	26,681	238,859	2,319	4,153	213,025	23,620	508,657	346,306
People's	192,721	523,220	327,517	19,335	857,117	100,517	2,020,428	1,369,045
Sanasa Gen.	12,223	141,767	79,877	1,647	73,370	12,598	321,482	247,000
SLIC	162,613	4,994,508	6,552,587	77,164	3,460,241	758,831	16,005,944	12,307,698
Total	**1,203,110**	**13,210,314**	**10,641,174**	**821,962**	**12,133,554**	**1,909,489**	**39,919,605**	**29,035,374**

Insurer	As at 31st December 2021 (b) (LKR'000)							
	Credit Risk	Concentration Risk	Market Risk	Reinsurance Risk	Liability Risk	Operational Risk	RCR before diversification	RCR after diversification
Allianz Gen.	80,925	2,104,555	706,492	49,792	1,761,594	260,576	4,963,934	3,438,763
Amana Gen.	26,175	243,938	38,540	9,347	185,514	31,665	535,179	369,517
Ceylinco Gen.	274,996	1,829,593	1,000,586	294,496	1,926,146	290,700	5,616,517	3,918,202
Continental	109,191	209,470	392,901	28,551	434,697	76,815	1,251,625	861,759
Cooperative Gen.	173,171	112,193	690,495	15,763	551,718	88,652	1,631,992	1,138,230
Fairfirst	62,557	984,517	815,478	361,452	1,154,715	156,293	3,535,012	2,510,774
HNB Gen.	84,074	173,859	191,437	29,482	549,587	67,056	1,095,495	732,013
LOLC Gen.	78,137	634,157	956,236	28,739	903,945	105,059	2,706,273	1,925,844
MBSL	7,119	99,289	6,530	4,373	104,223	13,728	235,262	157,521
Orient	36,069	221,051	40,114	6,560	242,247	28,005	574,046	389,562
People's	155,016	587,246	380,411	30,565	844,042	103,158	2,100,438	1,432,832
Sanasa Gen.	13,490	106,951	96,935	2,466	71,094	12,641	303,577	231,398
SLIC	173,616	5,793,956	7,316,338	117,270	3,591,404	826,414	17,818,998	13,898,660
Total	**1,274,536**	**13,100,775**	**12,632,493**	**978,856**	**12,320,926**	**2,060,762**	**42,368,348**	**31,005,075**

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

As shown in Table 27 and Chart 20 net earned premium generated from main sub-classes of general insurance business including SRCC & T was LKR 86,981 million unaffected & exhibited a slight increase from LKR 86,490 million in 2020. Moderate growth in GWP hindered the growth in net earned premium backed by the pandemic as continuity of lockdowns, restrictions on mobility, and disruptions to businesses throughout the year 2021.

Similar to previous years, motor insurance as the driving force of the general insurance market recorded the highest net earned premium amount of LKR 56,002 million (2020: LKR 57,930 million) and represented 69.42% (2020:72.12%) of the total net earned premium excluding SRCC & T while indicating a negative growth of 3.33% in 2021. The health insurance business has recorded a net earned premium amounting to LKR 18,078 million (2020: LKR 14,996 million) representing 22.41% (2020:18.67%) of the total net earned premium (excluding SRCC & T). The growth was earmarked mainly due to Suraksha Insurance Scheme, which commenced in the latter part of the said year.

Further, net earned premium figures allied to miscellaneous and fire classes of businesses have shown a downward trend when considering years from 2019 to 2021 and recorded LKR 3,307 million (2020: LKR 4,110 million) and LKR 2,144 million (2020: LKR 2,321 million) respectively in 2021. On the flip side, the net earned premium of SRCC & T has gradually increased during the last five years and recorded 69.09% growth from the year 2017 to 2021.

The total net claims incurred by the general insurance sector amounted to LKR 48,317 million excluding SRCC & T in 2021, showing an increase of 13.60% compared to LKR 42,534 million in 2020. The growth of net claims incurred was driven by claims posted in the 'Suraksha' Insurance Scheme and & 'Agrahara' medical insurance scheme recorded under the health class of business. Meanwhile, the net claims incurred under the motor class of business fell by 1.13% during the year 2021, resulting in less incidence for claims from motor vehicles. However, it is notable that each other classes of the business-exhibited mounting in net claims incurred during the year 2021.

The net claim ratio which can be explained as net claims incurred as a percentage of net earned premium (excluding SRCC & T) was 59.90% (2020:52.95%). The increase in net claims ratio by 6.95% over the year 2020 can largely be explained by flood and cyclone storm tempest events that occurred in the month of May, June, and November in the year 2021 which is categorized under fire insurance business. Accordingly, the fire insurance business has reported the highest claims ratio of 113.40%, which extensively increased from 87.87% in 2020.

The high cost of the health business was also a challenge for all insurance companies where the net claims ratio for the same was high as 95.52% in 2021 (2020:80.69%). Similar to previous years' marine insurance and miscellaneous insurance businesses recorded low claims ratios of 45.71% and 45.68% respectively in 2021.

As depicted in Table 27, expenses incurred by general insurers increased in a slower phase from the year 2020 by 2.08% and this further fell to 1.34% in 2021 and mounted at LKR 34,419 million (2020: LKR 33,961 million). There was a negligible increase in the overall net expense ratio to 39.57% in the general insurance segment from 39.27% a year ago.

The impact of the high claim ratio has worsened the industry's combined ratio to 95.16% in 2021 as against 88.43% in 2020 and it further worsened without SRCC & T and recorded 101.21% (2020: 93.85%). Accordingly, a higher combined ratio that has pressurized the financial performance of the general insurance companies managed to function well to some extent with the investment income generated in 2021.

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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)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	1,721,160	1,957,237	2,183,650	2,320,976	2,144,141
Marine	991,573	1,104,376	1,175,289	973,261	1,135,974
Motor	50,580,010	56,891,349	58,724,480	57,930,115	56,001,558
Health	11,435,476	12,386,134	15,153,049	14,995,566	18,077,560
Miscellaneous	3,891,564	4,492,033	4,942,850	4,109,992	3,307,351
Sub Total	**68,619,783**	**76,831,128**	**82,179,319**	**80,329,911**	**80,666,585**
SRCC & T	3,734,321	4,031,846	5,568,739	6,159,888	6,314,379
Total	**72,354,104**	**80,862,975**	**87,748,058**	**86,489,799**	**86,980,964**

Class	Net Claims Incurred (LKR'000)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	1,640,062	1,696,698	2,546,301	2,039,484	2,431,448
Marine	345,331	453,917	500,555	277,372	519,210
Motor	31,134,209	34,681,762	34,501,309	26,891,271	26,587,890
Health	10,511,212	12,148,224	16,759,694	12,099,917	17,267,200
Miscellaneous	4,186,860	3,457,623	3,148,570	1,225,842	1,510,957
Sub Total	**47,817,674**	**52,438,224**	**57,456,428**	**42,533,886**	**48,316,704**
SRCC & T	(10,519)	76,068	692,927	(14,382)	36,899
Total	**47,807,154**	**52,514,292**	**58,149,354**	**42,519,504**	**48,353,603**

Class	Net Claims Ratio (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	95.29	86.69	116.61	87.87	113.40
Marine	34.83	41.10	42.59	28.50	45.71
Motor	61.55	60.96	58.75	46.42	47.48
Health	91.92	98.08	110.60	80.69	95.52
Miscellaneous	107.59	76.97	63.70	29.83	45.68
Sub Total	**69.68**	**68.25**	**69.92**	**52.95**	**59.90**
SRCC & T	(0.28)	1.89	12.44	(0.23)	0.58
Total	**66.07**	**64.94**	**66.27**	**49.16**	**55.59**

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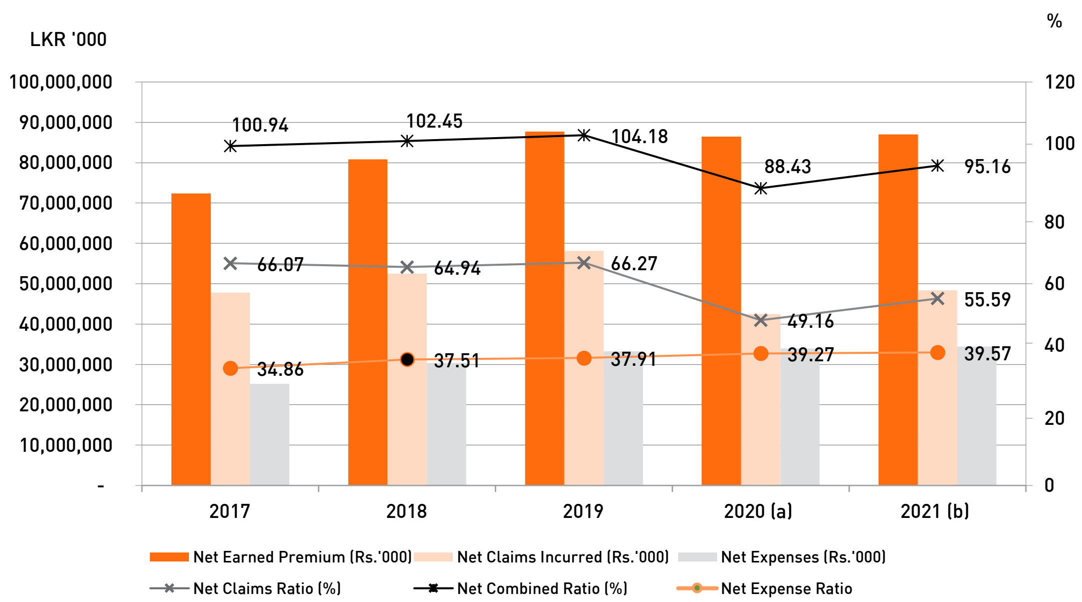
Description	Net Expenses (LKR '000)				
	2017	2018	2019	2020 (a)	2021 (b)
Net Expenses for all classes of General Insurance Business except SRCC & T	24,491,746	29,490,544	31,855,625	32,858,828	33,327,292
SRCC & T	732,786	842,515	1,411,974	1,102,435	1,091,603
Total	**25,224,532**	**30,333,059**	**33,267,599**	**33,961,263**	**34,418,895**

Description	Net Expense Ratio (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	35.69	38.38	38.76	40.90	41.31
Net Expense Ratio of General Insurance Business	34.86	37.51	37.91	39.27	39.57

Description	Net Combined Ratio (%)				
	2017	2018	2019	2020 (a)	2021 (b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	105.38	106.63	108.68	93.85	101.21
Net Combined Ratio of General Insurance Business	100.94	102.45	104.18	88.43	95.16

Chart 20
Class-wise Analysis of GWP from 2017 to 2021 - General Insurance Business



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Number of Policies representing Gross Written Premium - General Insurance Business

As depicted in Table 28, the total number of insurance policies that contributed to generating GWP from different sub classes of the general insurance industry was 6,620,274 in 2021. The number of total policies has increased by 80,719 compared to 2020. Further, the total number of policies gently increased over the last five years and recorded an 8.04% growth in 2021 from 2017. Similar to previous years the majority represented the motor subclass which comprised third-party insurance policies of 3,285,221 (2020: 3,067,955) and comprehensive policies of 2,671,816 (2020: 2,849,393). However, comprehensive policies declined by 6.23% continuing the downward trajectory witnessed in the year 2020 and – third party policies an upsurge of 7.08% in contrast to comprehensive policies as mentioned above.

Nonetheless, except for the miscellaneous class of business, the number of policies representing Gross Written Premium for all other subclasses of business increased in 2021 compared to contractions recorded in both 2020 and 2019.

Table 28

Number of Policies representing Gross Written Premium - General Insurance Business

Class	No. of policies				
	2017	2018	2019	2020 (a)	2021 (b)
Fire	241,884	245,027	234,408	220,196	236,361
Marine	172,733	187,338	179,001	137,093	160,258
Motor	5,390,222	5,614,901	5,937,989	5,917,348	5,957,037
3rd Party Only	2,784,920	2,821,529	2,919,884	3,067,955	3,285,221
Comprehensive	2,605,302	2,793,372	3,018,105	2,849,393	2,671,816
Health	11,893	17,267	23,237	28,985	31,380
Miscellaneous	311,084	427,470	329,509	235,933	235,238
Total	**6,127,816**	**6,492,003**	**6,704,144**	**6,539,555**	**6,620,274**

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

Details of new, renewed and in force policies for both 2021 and 2020 are summarized in Table 29 and Chart 21 under the main subclasses of the general insurance business. Amidst the stagnant market conditions, the performance of the general insurance sector is reflected through the reduction of the number of new policies issued and the recorded negative growth of 3.69 % during the year 2021. The decline was majorly triggered by motor insurance policies as a result of restrictions imposed by the Government on the importation of motor vehicles as a measure to restrict forex outflow. As aforementioned, new comprehensive policies reduced, and oppositely third-party policies increased, and altogether new policies issued under the category of motor stood at 2,364,055 (2020:2,471,051).

In addition, new policies under the health and miscellaneous insurance businesses recorded negative growth of 13.74% and 14.14% respectively in 2021. On the contrary, new policies issued under fire and marine insurance businesses exhibited an improvement of 15,179 and 11,525, compared to the year 2020.

During the year 2021, general insurers have underwritten renewed policies amounting to 3,884,351 (2020: 3,664,333) and presented a modest pace growth of 6.00% which was mainly driven by the motor insurance policies. Alongside, the number of policies in force in the general insurance sector has grown to 6,595,661 from 6,478,167 in 2020 and recorded a slow growth rate of 1.81% in 2021.

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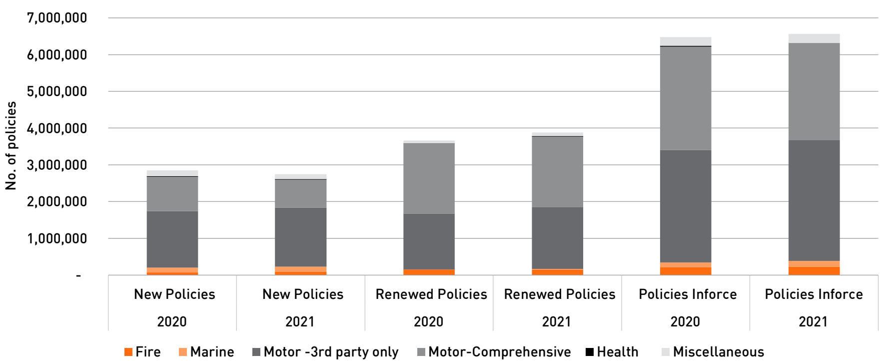
Table 29

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

Class	2020			2021		
	New policies	Renewed Policies	Policies inforce at year end	New policies	Renewed Policies	Policies inforce at year end
Fire	71,135	149,084	216,847	86,314	152,071	234,193
Marine	134,232	3,726	130,828	145,757	15,065	153,877
Motor	2,471,051	3,424,277	5,863,856	2,364,055	3,602,840	5,935,088
3rd party only	1,531,788	1,515,051	3,049,797	1,603,102	1,682,388	3,288,442
Comprehensive	939,263	1,909,226	2,814,059	760,953	1,920,452	2,646,646
Health	19,146	9,829	29,670	16,515	14,796	32,465
Miscellaneous	157,610	77,417	236,966	135,320	99,579	240,038
Total	**2,853,174**	**3,664,333**	**6,478,167**	**2,747,961**	**3,884,351**	**6,595,661**

Chart 21

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



Reinsurance Business

National Insurance Trust Fund Board (NITF) acts as the 'National Reinsurer' to all primary insurance companies operating in Sri Lanka as they are required to cede thirty percent of their total liability arising out of every general reinsurance business to NITF, according to the Government Gazette Notification No. 1791/4 of 31st December 2012.

During the year 2021, the reinsurance premium income of NITF reported as LKR 3,549 million demonstrating an increase of 9.68% in comparison to LKR 3,235 million reported in 2020. Reinsurance premium income experienced a reduction in the year 2020 because of the non-acceptance of facultative reinsurance cessions with effect from 31st March 2020 due to the absence of Retrocession Cover. However, with the re-commencement of Retrocession Cover from 1st of August 2020, NITF has resumed the acceptance of facultative reinsurance and accordingly, reinsurance premium income began to recover and reported growth in year 2021 compared to previous year.

The net exposure of retrocession premiums ceded to reinsurers in 2020 amounted to LKR 275 million representing the minimum deposit premium of Retrocession Cover relevant to year 2020. The net exposure of premiums ceded in 2021 amounted to LKR 1,120 million, demonstrating an increase compared to previous year because of LKR 466 million worth of adjustment premium of retrocession reported during the year.

Claims incurred by NITF pertaining to the reinsurance business amounted to LKR 2,379 million

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during the year, exhibiting 58% growth in comparison to LKR 1,505 million reported in the year 2020. Mobility restrictions and country lockdowns implemented in the year 2020 had a major impact on claims incurred, which contracted significantly. However, due to several large claims settled in the second half of the year, the incurred claims have escalated by a substantial margin during 2021. The gradual normalization of economic activities and lifting of lockdown restrictions have also influenced the overall claims of general insurance business to increase in 2021 and created adverse impacts on reinsurance claims reported to NITF. Corresponding to the escalation in claims incurred, the reinsurance business generated an underwriting loss of LKR 774 million and a loss before tax of LKR 525 million in 2021.

The total asset portfolio of NITF's reinsurance business decreased in 2021 from LKR 6,066 million to LKR 5,533 million because of large claim settlements reported during the year. Financial Investments, Premium Receivables and Reinsurance Receivables dominated the overall asset composition of the reinsurance business representing 37.73%, 28.75% and 19.56% of total assets respectively as at 31st December 2021. Entire financial assets of the reinsurance business invested in Government Securities totaling to LKR 2,088 million by the end 2021. However, only 63% of the reinsurance liability has been covered via approved investments as there were no adequate financial assets to support the reinsurance business as of 31st December 2021.

Insurance Brokering Companies

Insurance brokering companies as intermediaries help customers to procure suitable insurance policies as per their specific needs. In addition, they may focus on one particular type of insurance solution or they could provide advice on many different types of insurance solutions. While performing many of the same functions as insurance agents, they differ from agents in that they act in the interest of policyholders. Insurance brokers sell policies under one or many insurance companies they represent as enforced by Section 82 of the Regulation of Insurance Industry Act, No.43 of 2000.

By the end of 2021, 68 insurance brokering companies operated in the market and generated a Gross Written Premium (GWP) amounting to LKR 30,286 million (2020: LKR 28,912 million). This total GWP consisted of premium income generated through long-term insurance business and general insurance business which amounted to LKR 1,812 million (2020: LKR 1,422 million) and LKR 28,474 million (2020: LKR 27,490 million) respectively. Out of the total GWP generated, 94.02% represented GWP of general insurance business and only 5.98% represented the GWP of long-term insurance business.

The total GWP generated through the insurance brokering business recorded an increase of 4.75% in 2021 compared to LKR 28,912 million generated in 2020. A noticeable increase in the GWP of long-term insurance business, which is 27.42% was noticed during the year mainly due to the increased demand for life insurance policies with the pandemic situation in the country.

As intermediaries, insurance brokering companies have contributed to generating a considerable GWP of general insurance business (LKR 108,760 million) including SRCC & T premiums. Similar to previous years, the contribution of insurance brokering companies towards long-term insurance business during 2021 was insignificant. As per the details provided by the brokering companies, only 1.45 % of the total GWP of the long-term insurance business (LKR 124,752 million) was generated through them.

In 2021, thirty-four insurance brokering companies procured GWP exceeding LKR 100 million each, and these insurance brokering companies collectively generated GWP amounting to LKR 28,801 million. The remaining thirty-four insurance brokering companies generated LKR 1,485 million as depicted in Table 30.

In addition, Insurance Brokering companies have extended their arms functioning as intermediaries to re-insurance brokering services and accordingly few brokering companies have earned considerable premiums and commissions during the year 2021, which accumulated, to LKR 1,409 million. (2020: LKR 463 million)

STATISTICAL REVIEW

Table 30

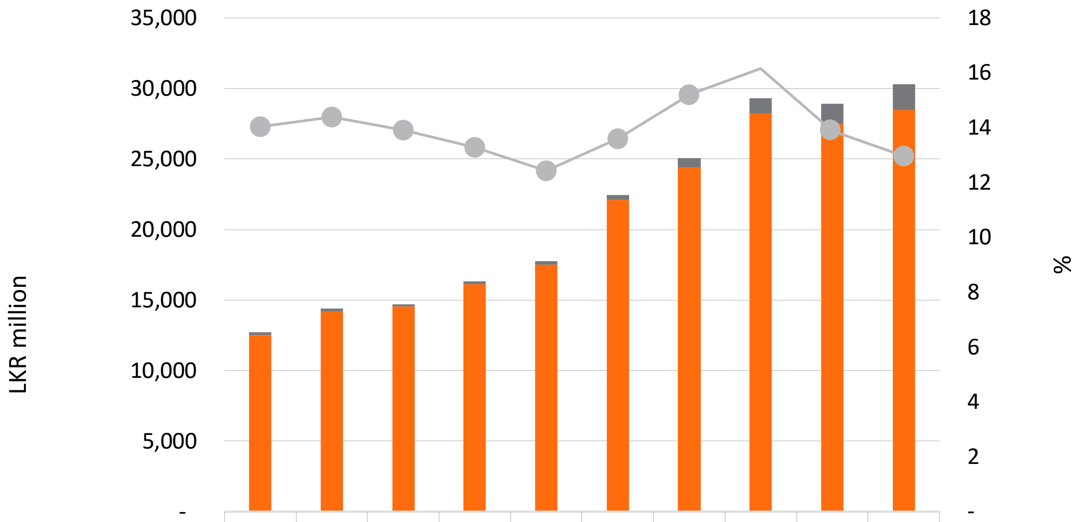
Gross Written Premium generated through Insurance Brokering Companies – 2021

No.	Name of the Broker	Gross Written Premium					
		Long Term Insurance Business		General Insurance Business		Total	
		LKR ('000)	Market Share (%)	LKR ('000)	Market Share (%)	LKR ('000)	Market Share (%)
1	ADZ Insurance Brokers (Pvt) Limited	54,989	3.03	1,707,105	6.00	1,762,094	5.82
2	Aitken Spence Insurance Brokers (Pvt) Ltd.			911,379	3.20	911,379	3.01
3	Alfinco Insurance Brokers (Pvt) Limited	130	0.01	1,043,716	3.67	1,043,846	3.45
4	Allion Insurance Brokers (Pvt) Ltd.	43,697	2.41	75,850	0.27	119,547	0.39
5	Aseki Insurance Brokers (Pvt) Ltd.	35	0.00	2,256,371	7.92	2,256,406	7.45
6	Assetline Insurance Brokers Limited	36,714	2.03	1,669,485	5.86	1,706,199	5.63
7	AX Insurance Brokers (Pvt) Ltd.			112,368	0.39	112,368	0.37
8	Bima Lanka Insurance Brokers (Pvt) Ltd.	69,991	3.86	181,631	0.64	251,622	0.83
9	Ceynergy Insurance Brokers (Pvt) Ltd.	57,919	3.20	116,285	0.41	174,204	0.58
10	CF Insurance Brokers (Pvt) Limited	231	0.01	2,602,795	9.14	2,603,026	8.59
11	Colombore Insurance Brokers (Pvt) Ltd.	6,008	0.33	330,547	1.16	336,555	1.11
12	Commercial Insurance Brokers (Pvt) Ltd.	43,538	2.40	1,795,924	6.31	1,839,462	6.07
13	Delmege Insurance Brokers (Pvt) Limited	141,106	7.79	1,373,135	4.82	1,514,241	5.00
14	Equity Insurance (Pvt) Limited			112,937	0.40	112,937	0.37
15	Essajee Carimjee Insurance Brokers (Pvt) Limited	24,697	1.36	633,877	2.23	658,574	2.17
16	Foremost Insurance & Re Ins. Brokers (Pvt) Ltd.	2,204	0.12	100,850	0.35	103,054	0.34
17	George Steuart Insurance Brokers (Pvt) Limited	28,380	1.57	1,994,783	7.01	2,023,163	6.68
18	Global Insurance Brokers and Services (Pvt) Ltd.	15,859	0.88	115,881	0.41	131,740	0.43
19	IIRM Insurance Brokers (pvt) ltd	67,989	3.75	1,055,616	3.71	1,123,605	3.71
20	InsureMe Insurance Brokers (Pvt) Ltd.	50,213	2.77	1,047,764	3.68	1,097,977	3.63
21	Life & General Ins. Brokers Ceylon (Pvt) Ltd.	61,544	3.40	325,860	1.14	387,404	1.28
22	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	28,961	1.60	929,417	3.26	958,378	3.16
23	Mercantile Insurance Brokers (Pvt) Ltd.	41,087	2.27	523,210	1.84	564,297	1.86
24	My Insurance Brokers (Pvt) Ltd.			109,372	0.38	109,372	0.36
25	Nations Insurance Brokers Limited	86,626	4.78	1,561,137	5.48	1,647,763	5.44
26	Priority Insurance Brokers (Pvt) Ltd.	156,325	8.63	105,763	0.37	262,088	0.87
27	Procare Insurance Brokers (Pvt) Limited	55,433	3.06	328,907	1.16	384,340	1.27
28	Protection & Assurance Ins. Brokers (Pvt) Ltd.	82,658	4.56	564,851	1.98	647,509	2.14
29	Reliance Insurance Brokers (Pvt) Ltd.	134,684	7.43	982,482	3.45	1,117,166	3.69
30	Senaratne Insurance Brokers (Pvt) Ltd	59,309	3.27	998,275	3.51	1,057,584	3.49
31	Senkadagala Insurance Brokers (Private) Ltd.			850,634	2.99	850,634	2.81
32	Strategic Insurance Brokers (Pvt) Limited	49,979	2.76	119,392	0.42	169,371	0.56
33	Volanka Insurance Services (Pvt) Limited	168,312	9.29	124,143	0.44	292,455	0.97
34	Zenith Insurance Brokers (Pvt) Limited	100,585	5.55	369,959	1.30	470,544	1.55
	Other Insurance Brokering Companies (34)	**142,704**	**7.88**	**1,341,810**	**4.71**	**1,484,514**	**4.90**
	Grand Total	**1,811,907**	**100.00**	**28,473,511**	**100.00**	**30,285,418**	**100.00**

STATISTICAL REVIEW

Chart 22

Gross Written Premium generated through insurance brokering companies from 2012 to 2021



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Long term insurance GWP (LKR million)	195	191	158	206	263	341	655	1,095	1,422	1,812
General insurance GWP (LKR million)	12,532	14,189	14,559	16,124	17,518	22,083	24,408	28,222	27,490	28,474
Brokers' Contribution as a % of total GWP	14.0	14.3	13.9	13.2	12.4	13.5	15.1	16.1	13.8	12.9

REVIEW OF OPERATIONS
SUPERVISORY REVIEW

Insurance Companies

1. Review of Returns

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

Insurance companies are required to submit their Annual Statutory Returns and Audited Financial Statements to 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.

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

b) Assessment of Financial Vulnerabilities of Insurance Companies and Groups

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

c) Reinsurance Arrangements

In accordance with the Terms and Conditions to be complied with by insurers in terms of section 31 (1) of the Act, insurers are required to submit reinsurance arrangements along with relevant Certifications, to IRCSL on or before 15th March 2021. IRCSL has taken necessary steps to facilitate obtaining same via e-version considering the COVID 19 pandemic. 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 company, to take corrective actions within stipulated time lines.

d) Quarterly Returns

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

Quarterly Returns submitted during the year 2021 were reviewed to assess their performance and to ensure compliance with the 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 assets 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.

Insurers are required to submit Compliance Certifications along with the Quarterly Returns, which depict the status of compliance with the provisions of the Act, Rules and Regulations prescribed by IRCSL and the relevant provisions of the Financial Transactions Reporting Act, No. 6 of 2006.

e) Monthly reporting

In 2021, one company has been directed to submit Statutory Returns, Financial Statements, RBC status etc. based on the non-compliances reported from time to time. Accordingly,

SUPERVISORY REVIEW

the Commission reviewed the Monthly Returns submitted, to ensure 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 to ensure compliance with the Solvency Margin Rules. If insurers are unable to fulfill the Solvency Margin requirements or if the computations are inaccurate, IRCSL 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 part of their insurance funds in government securities. As per section 25 of the Act, 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 should be invested in government securities. The IRCSL monitors compliance with the said provisions on a monthly, Quarterly, and Annual basis, based on the returns and relevant supporting documents submitted.

Any non-compliance or deviation observed is 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 Determination 1 of 1st March 2011 and its subsequent amendments. The Commission reviews the investment details of the Technical Reserves and Long-Term Insurance Fund on a monthly, quarterly, and annual basis, based on the returns submitted to ensure compliance with Determination 1.

During the year, 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 IRCSL 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, two 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 2021, the Division had to temporarily postpone carrying out onsite inspections of insurance companies due to significant disruption caused by COVID-19. However, the Division has completed two remote inspections in the year 2021. The purpose of this inspection was to evaluate focused areas of the company such as investments, enterprise risk management, financial condition, etc. Observations made during the onsite inspections were communicated to the insurer together with IRCSL's recommendations for areas, which needed improvements in order to obtain their responses.

SUPERVISORY REVIEW

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

The IRCSL 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. Submission of Progress report to the Ministry of Finance

The Division prepared a report on the Progress of Result Achievement of the Division on quarterly basis, which was submitted to the Ministry of Finance. This covers the Division's supervisory activities carried out during the quarter.

8. Industry Handbook 2020

The Division has prepared the industry handbook (e-book) for the year 2020 based on the Audited Financial Statements and statistics submitted to IRCSL. Accordingly, the Industry Hand book contains statistics pertaining to the industry & company wise Balance Sheets, Income Statements, Concentration of Assets etc. Same was published in IRCSL website.

9. Risk Tool

Based on the financial and other information submitted by insurers through Annual Returns and Quarterly Returns, IRCSL developed an internal risk tool to identify each insurer's core risks as early warning mechanisms. The risk profiling was categorized for Life and General Companies separately mainly on a financial and compliance perspective, later modified by incorporating the Risk Assessment Report (RAR) as well. Main financial criteria considered include Capital, Assets, Profitability, Market share etc. and Compliance perspective includes compliance with Solvency requirements, Reinsurance Terms & Conditions, Determination 1, delay in submissions etc.

Accordingly, insurance companies are categorized as "High", "Medium" & "Low" risk companies based on the scoring. The division uses yearly performance of respective insurance companies in order to categorize them according to the previously mentioned risk categories. The Division closely monitors the performance of insurance companies that are categorized as "High Risk" Companies. Considering risk-based approach, company-specific regulatory requirements and the degree of supervision will vary depending on the risk score of the insurer.

10. 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 remote 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 inspections were communicated to the respective insurers in order to take corrective measures for the same.

b) Risk Tool

In terms of the provisions of the Financial Transactions Reporting Act, No. 6 of 2006, IRCSL in collaboration with the FIU of Central Bank have initiated assessing the Money Laundering vulnerabilities of all Life Insurance Companies and developed a risk tool to ascertain the AML/CFT risk.

Accordingly, IRCSL has circulated a questionnaire among life insurance companies for the purpose of collecting wide range of information related to each company, such as products, customers, PEP's, distribution channels, Corporate Governance, policies & procedures, risk management, employee due diligence, compliance, internal controls etc. for the period from 1st October 2020 to 30th September 2021. Based on the information, IRCSL has updated the risk tool to ascertain the AML/CFT risk of Life Insurance companies and closely monitored for the year 2022.

c) National Risk Assessment of Money Laundering and Terrorist Financing

During the year 2021, the Financial Intelligence Unit (FIU) of the Central Bank of

SUPERVISORY REVIEW

Sri Lanka has commenced work to update the National Risk Assessment of Money Laundering and Terrorist Financing (ML/TF). In this regard, the working group which represents members from IRCSL, FIU and the Insurance sector has developed a questionnaire in accordance with the Risk Assessment module to assess the ML/TF risk with respect to the insurance sector. Accordingly, the same was sent to all insurance companies and collated information submitted by the companies, and same was forward to FIU for necessary action.

11. Impact of Covid-19 on operation and business continuity to the insurance industry

As many insurance supervisors, IRCSL has prudently taken regulatory actions to ensure business continuity and flexible treatment to policyholders against huge uncertainties from potential COVID 19 fallouts. IRCSL directed all insurers to report the following to IRCSL on a monthly basis commencing from the month ended 31st March 2020;

(a) Status of capital adequacy requirements, i.e., TAC, RCR, SVCC, and CAR.

(b) Certify the compliance of Determination # 1 requirement by the Principal Officer and if not in compliance, details should be provided by the Principal Officer of the company.

Accordingly, the monthly status that was submitted during the year 2021 was reviewed by IRCSL to ensure compliance with relevant requirements. Further, the Division has taken several important actions in terms of the Enforcement Strategy on companies who faced difficulties in meeting RBC Rules and Determination # 1.

12. Proposed Dividend Distribution

As per the Directions dated 10th March 2021 & 30th August 2021(amended) "Dividend Declaration and Distribution," all insurers are required to declare dividends based on the terms and conditions as prescribed by Direction 1. Further, the Board of Directors of Insurance Companies should submit a confirmation that it has considered all the terms and conditions stipulated in the Direction and place signatures, informing the proposed dividend value, prior to at least 2 weeks before the declaration of divided to shareholders.

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

During 2021, the majority of insurance brokering companies submitted their Quarterly Returns within the deadline. The Commission reviewed the Quarterly Returns to assess their financial position, performance and compliance with the regulatory requirements. Non-compliance or deviations observed were communicated to respective brokering companies for clarification and rectification.

Insurance Brokering Companies are required to submit Audited Financial Statements (AFS) within six months of the expiry of the accounting period in terms of the Section 86 (2) of the RII Act. 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. Renewal of Registration

Applications were received from insurance brokering companies for the renewal of their annual licenses for the year 2022. The Commission analyzed Audited Financial Statements and Quarterly Returns to ascertain their financial position and performance prior to the renewal of licenses.

3. Registration of New Insurance Brokering Companies

During the year, applications were received 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. Accordingly, the number of registered insurers is 28 and out of that one insurance company is 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 suspension imposed on Ceylinco Takaful Limited in year 2009 continued throughout the year 2021. 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.

Directions

1. The Commission has issued a Direction specifying Terms and Conditions for the Board of an insurer should consider when declaring and distributing dividends including interim dividends. The said Direction further required to submit a confirmation of compliance certified by Directors and Principal Officer of the insurer two weeks prior to the declaration of Dividends.

   Item 1(b) of the said direction requires all insurers who plan to declare dividend required to demonstrate to the IRCSL the impact on financials and solvency assuming all contingent liabilities are fully provided and proposed dividend payout to the shareholders as directed by the commission.

   However, considering requests received from the industry on item 1(b) of the Direction mainly on the *"all contingent liabilities have been fully provided"*, the said item was amended substituting as follows: i. Decisions on contingent liabilities have been taken by the company following a proper scrutiny based on broader framework and assess the risk associated with same against the sustainability of the financials and solvency position of the company. ii. Impact on financials and solvency position considering proposed payout to the shareholders. Subject to insurers complying with the relevant accounting standards.

2. The Commission has issued a Direction to all insurers and brokers imposing a restriction on providing codes and changing codes. As per the Direction, insurers are permitted to provide codes only to insurance brokers and insurance agents while brokers are permitted to provide codes only to insurance agents. The companies are further restricted in providing codes to Banks, Finance and leasing companies. Further, Insurers are restricted in changing existing codes without the written consent of the broker or insurance agent. However, the written consent is not applicable if the policyholder wishes to change its existing agent or broker.

3. During the year the Commission has revised a Direction directing persons registered under the RII Act (insurers, brokers & loss adjusters) to refrain from employing persons, in any capacity of employment, whose services have been terminated on the grounds of financial misappropriation or fraud. However, in the event of termination of a person is carried out by an insurer, broker, loss adjuster, such persons are required to follow due process, especially follow the principles of Natural Justice prior to such decision to terminate is taken.

4. The Commission has decided to issue a Direction to all insurers in respect of Termination of using Telecommunication Service Providers' Platforms (Mobile Insurance) and matters connected therewith and incidental thereto.

   The said Direction prohibited insurers selling insurance products to potential policyholders and general public using the platform of telecommunication service providers' services such as mobile and fixed lines. It further advised insurers to sell their products through their own marketing techniques and strategies. Only the trained officers and staff of the respective insurers, brokers or insurance agents are permitted

REGULATORY REVIEW

to offer insurance products. In case of liability regarding the continuation of servicing the insurance, policies which have been sold through using the telecommunication service providers' platforms shall be borne by the respective insurance companies.

5. Direction #9 dated 13th May 2016 has been revised in the year requiring the Principal Officer of an insurer or an insurance broker to be the Chief Executive Officer/ Managing Director and the he/ she shall be responsible for the general control, direction and supervision of the business activities of the company. The said requirement was made effective from November 2022.

6. The Commission after having examined show cause letters issued to an insurer were of the firm view that the said insurer has failed to satisfactorily justify/ reason as to why the Chief Executive Officer of the said insurer should not be removed from his current position based on the allegations against him, in terms of Section 57 of the RII Act. In view of above, the Commission directed the insurer to immediately remove the said CEO from the said position.

   In a similar situation, the Commission has directed another insurer in terms of Section 57 of the RII Act to remove its Specified Officer from the said post with immediate effect as he had been acting without due care, neglecting his statutory role in terms of Sections 94 & 32 of the RII Act while functioning as the Principal Officer /Specified Officer.

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

The Commission received ten new business proposals during the year from persons who are interested to be registered as insurance brokers. The Commission granted name approvals to ten persons to incorporate companies during the year. The Commission also granted registration to three companies as insurance brokers during the year. Another two existing companies (carrying on general insurance brokering business) were granted registration to carry out Long Term insurance brokering business.

Applications from 67 insurance brokering companies, seeking renewal of registration for year 2022 were received by the Commission during the year, and renewal of registration was granted to all 67 companies in view of them fulfilling necessary requirements under the Act.

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

No letters of warnings were issued to companies or Principal Officers during the year.

Suspensions

No suspensions were imposed during the year.

Cancellations

No cancellations were imposed during the year.

Registration of Loss Adjusters and Renewal of Registration of Loss Adjusters

The Commission granted registration to four persons as loss adjusters during the year. The Commission also renewed the registration granted to twenty-five 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 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. However, several requests were not acceded to due to non-compliance with Direction # 17 on Corporate Governance Framework.

2. 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.

REGULATORY REVIEW

3. The Commision has consented to the request made by the National Council for Road Safety (NCRS) through the Secretary to the Minister of Transport, to increase 1% contribution of the premium of third party covers to 2% to the Road Safety Fund by amending the "Road Safety Fund Regulation No. 01 of 2004" with the collaboration of the Department of Motor Traffic, to incorporate the above change.

4. The Commission has observed that one insurer has recorded LKR 14 million under "Lapsed Policies" in "Other Operating Revenue" of Income Statement for the year ended 31st December 2019 and same was comprised of Unpresented Cheques (Long outstanding) LKR 2.6 million and Unidentified Deposits amounting to LKR 12 million. This has contravened the Commission requirement issued via letter dated 08th January 2020, which prohibited insurance companies to write-back/ transfer premium deposits received from policyholders /proposers not recognized to GWP as liability balances in different form such as excess, advance, unidentified, proposal and expired policy premiums, etc. to the income statement with effect from financial year 2019.

   As such, the Commission directed the said insurer in terms Section 57 of the RII Act to comply with the Commission requirement informed by letter dated 8th January 2020 and to reverse and maintain the unidentified deposits as a liability under the long-term insurance fund in the Balance Sheet.

5. The Commission has amended the Quarterly Return format of insurance brokering companies and the revised format came in to effect from the quarter ending 31st March 2021.

6. Having considered the request made by one insurer, the Commission decided to accede to their request to obtain a credit facility from Seylan Bank PLC amounting to Rs.200Mn. subject to conditions.

7. The Commission having reviewed Condition # VI of IRCSL letter dated 28th February 2019, granting approval to segregation read with Item #1 of IRCSL letter dated 13th October 2015, has approved the request made by one insurer to invest Rs. 90 million in debentures of its Holding Company, from maturity of REPOs, subject to the company meeting all statutory requirements stipulated by the IRCSL under the RII Act and its subordinate legislation.

8. Having reviewed request of a number of insurance brokers for renewal of overseas health insurance products in terms of Circular # 36, the Commission has renewed the authorization period for a further year.

   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.

9. The Commission has accepted and recognized that the Secondary School Examination Certificate issued by the Central Board of Secondary Education, Delhi is equivalent to the G.C.E. (Ordinary Level) certificate issued by the Department of Examinations, Sri Lanka 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

10. Sri Lanka Shipping Company Limited (SLSCL) has requested the Commission to renew their hull, machinery and war risk insurance cover with foreign insurers in terms of Section 101 of the RII Act for the next 5 years, as it expired on 31st May 2021. However, having considered the national interest, the Commission decided not to accede to the request made by SLSCL to renew the said policy with British Marine or any other insurer not registered in Sri Lanka.

11. The Commission has granted several extensions to a state-owned insurer to ensure that it complies with the requirement stipulated in Section 53 of the RII (Amendment) Act, No. 3 of 2011, which requires composite insurance companies to segregate the two businesses (long term and general insurance business) into two separate companies. However, despite the several extensions given by the Commission, the said Company has failed to comply with same. As such the Commission decided that no exemption to the statutory requirement of segregation will be considered by the Commission and that the said insurer is required to take immediate steps to comply with the legal requirement laid down in the RII Act to comply with the mandatory statutory requirement.

INVESTIGATORY REVIEW

INVESTIGATORY REVIEW

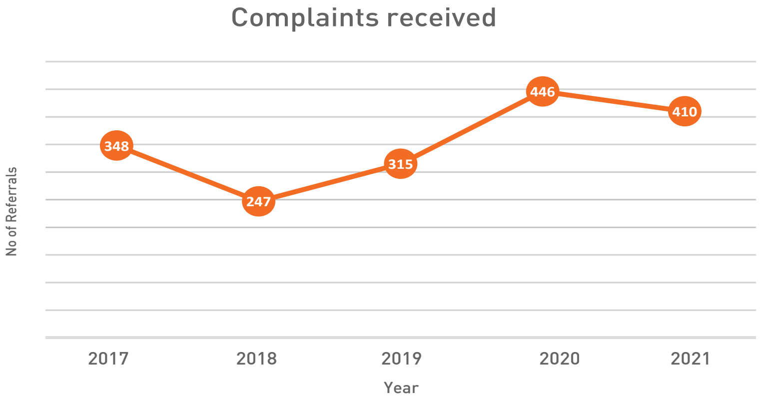
The Commission, under its overall objective of safeguarding the interests of policyholders, is empowered to investigate into and resolve disputes between insurers and claimants, which are referred to the Commission. The Commission also investigates into complaints pertaining to market conduct of any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

410 matters were referred to the Commission and 446 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 118 matters, which amounted to claim payments worth Rs. 68.35 million.

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



During the past five (5) year period, a total 1,766 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 (410) has decreased slightly compared to the previous year (446). Impact on Covid-19 lock down and postal delay may have been the reason for decreased number of referrals during the year.

Chart 2: Month wise analysis of referrals during the year 2021

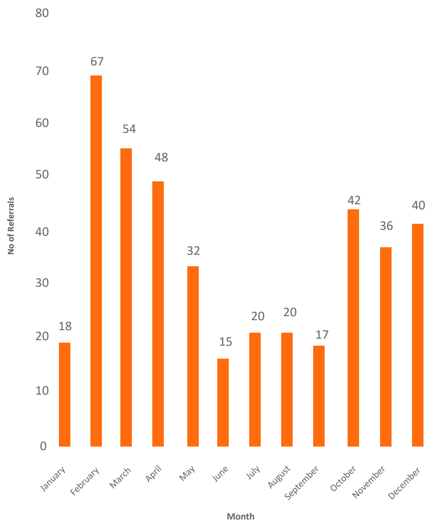


Chart 2, shows the month wise breakdown of the number of matters referred to the Commission during the year under review. Highest number of referrals (67) has been recorded in the month of February whereas the month of June recorded the lowest number of referrals (15). On average, 34 matters per month have been referred to the Commission during the year under review and the months; February, March, April, October, November and December have recorded referrals above average.

Chart 3 – Classification of total matters referred to in the year 2021

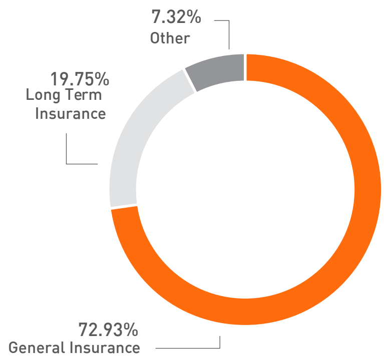


Chart 3, depicts the composition of total matters referred to Commission during the year 2021. Majority of referrals i.e. 299 (72.93 %) were with respect to general insurance business and 81 (19.75 %) referrals were relating to long term insurance business. The balance 30 (7.32 %) referrals cannot be 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 significantly from 68% (in 2020) to 72.93%, and the percentage of referrals with respect to the long-term insurance business has declined from 24% (in 2020) to 19.75%. The proportion of other referrals has slightly decreased from 8% (in 2020) to 7.32%.

INVESTIGATORY REVIEW

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	Numbers		Percentage	
Claim disputes		268		89.63
Non-acceptance of liability	102		34.11	
Dissatisfied with the claim offered/paid	16		5.35	
Delays in settling claims	150		50.17	
Other complaints		31		10.37
TOTAL		**299**		**100.0**

As shown in Table 1, out of the total referrals (299) under the general insurance business, 268 (89.63%) were claims disputes while the balance 31 referrals (10.37%) were other complaints such as mid-term policy cancellations, not responding to queries, requests for premium refunds and non-receipt of policy documents.

The root-cause-analysis of referrals relation to non-acceptance of liability (34.11%) 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 whereas fraud or deliberate misrepresentation of facts relating to the claim, were not identified.

Delay in claim settlements was the other main reason for referrals (50.17 %) under the claim disputes. It was observed that most of the delays have occurred 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. The balance sixteen (16) disputes referred to the Commission were relating to the dissatisfaction with the claim offered/paid. 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.

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	Numbers		Percentage	
Claims disputes		21		26
Non-acceptance of liability	8		39	
Maturity and surrender benefits	10		47	
Dissatisfied with the claims offered	3		14	
Other complaints		60		74
Request to refund/cancellation or revival	24		40	
Provision of information	4		6.67	
Payment/misappropriation of premia	1		1.67	
Other	31		51.66	
TOTAL		**81**		**100.0**

INVESTIGATORY REVIEW

As per Table 2, the total referrals (81) related to the long-term insurance business consists (26%) of claim disputes and (74%) of other complaints.

The main cause (47 %) for claims disputes was relating to obtaining maturity and surrender benefits. The main reason for such disputes is the lack of comprehension 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.

Another 39% of claim disputes were related to non-acceptance of liability. 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. 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 timely payment of premiums could be confirmed or the delay in payment could be justified. Almost in all the disputes (14%) 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 clamants.

The majority (51.66 %) of the other complaints referred to under the other. Matters in relation to requests to cancel the policies and obtain refund of premiums could not be assisted, as the policyholders do not have the 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 the premium paid to life insurance policy are lack of understanding of the policyholders of the importance of life insurance and financial difficulties faced when paying regular premium.

Other Referrals

30 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.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

Awareness creation is considered as a key element affecting the protection of the interests of the policyholders and the growth of the insurance industry. The existing and prospective policyholders, being the main stakeholders of the insurance industry, needs to be empowered with knowledge, in order to protect their interests and to be in a position to make an informed decision when entering into an insurance contract.

The year 2021 has been a challenging year to conduct the scheduled awareness programmes & activities due to the spread of COVID 19 virus. Therefore, in year 2021, we focused mainly on activities of creating awareness through print, electronic and social media. 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 rights relating to the insurance covers, 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 utilized various communication channels to reach the target audience. The details of the communication channels utilized and activities carried out during the year under review are as follows:

Awareness through Print & Electronic Media

Print Media

The Commission published several press advertisements and press releases during the period under review.

Press advertisements

Four advertisements titled "Are you aware of Life Insurance", "Are you aware of Health Insurance", "Obtain a Motor Insurance with better understanding" and "Registered Insurance Companies, Insurance Brokering Companies and Loss Adjusters" have been published during the year 2021 in order to create awareness among the masses.

Press Releases

The following press releases were published during the year-:

- Insurance Industry Performance Quarter 03, 2020
- Insurance Regulator marks 20th Anniversary
- Insurance Industry Performance during the year 2020
- Insurance Industry Performance Q1, 2021
- Insurance Industry Performance of 1st half 2021

Electronic Media

Radio Programmes

Two radio programmes were conducted during the year. Pre-recorded short messages about insurance, policyholders' rights etc. were aired in Sinhala language on City FM Channel of SLBC. The 2nd programme, which was a discussion programme was aired in Swadeshiya Sevaya of SLBC.

- 01 live program/discussion in 2021.
- 02 months awareness advertising campaign

Awareness through Digital Media

Social Media

The Commission also created awareness on various important aspects of insurance and the rights of a policyholder through its official social media channels. The increase of the follower base of its LinkedIn and Facebook pages was a result of adding important content consistently. Some of such content included press releases on industry performance, press interviews and messages related to the National Insurance Day/month.

Revamping of the Website

The Commission reviewed the current website of the IRCSL and suggested improvements in order to make it more informative and user-friendly. The website with a new look was relaunched at the 20th anniversary celebrations in March 2021.

E-Newsletter

Two editions of the E-newsletter have been prepared based on interesting facts relating to insurance, rights of a policyholder, responsibilities of the key stakeholders of the insurance industry and statistics of the insurance industry. Both editions were dispatched to a database of 500,000 e-mails during the year 2021.

Awareness through SMS

The Commission conducted the SMS campaign via a mobile network operator (MNO) under the name tag "IRCSL" and Short Messages covering the areas such as importance of insurance, life insurance, motor insurance, health insurance, etc., were sent to a database of mobile numbers created by the Commission.

ADB TA - 9213 SRI: Capital Market Development Programme (CMDP) - Insurance Education Component

Strengthen the existing website and expand the communication programme by adding YouTube to increase insurance literacy and to ensure consumer protection.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

Six (06) videos have been uploaded carrying messages on the importance of insurance and the role of IRCSL, Health Insurance, Life Insurance, Motor Insurance, Property Insurance and Travel Insurance.

Provide direction to insurance providers to deliver insurance literacy for vulnerable households in under-served markets.

As required under delivery framework of the Consumer Education Strategy (CES), the Commission intended to conduct six (06) awareness programmes for vulnerable groups during the year and to commence the programmes in the 2nd quarter of 2021. All background work have been completed to conduct the awareness programmes. However, the said programmes had to be postponed due to the pandemic situation in the country.

Facilitate to deliver insurance awareness programmes for students of selected post-school education/training institutes

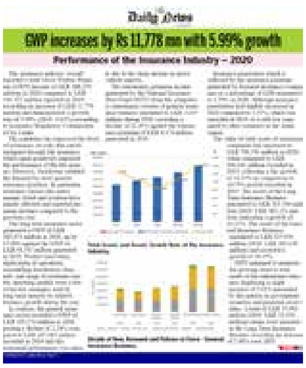
As required under delivery framework of the Consumer Education Strategy (CES), the Commission intended to conduct four (04) awareness programmes for teachers and trainee teachers in collaboration with the National Institute of Education (NIE) during 2021. All background work have been finalized. The Commission could not conduct the said programmes due to the pandemic situation in the country.

Pictorials of Publications and Activities Carried Out

20th Anniversary Celebration – Launching of the revamped Website, Facebook & LinkedIn pages and YouTube Channel

Press Releases & Advertisements

"Education key towards increasing awareness on Insurance Industry"



Daily News

GWP increases by Rs 11.778 mn with 5.99% growth

Performance of the Insurance Industry – 2020

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

E- Newsletters

Identify various factors which drive the insurance industry performance through market research and make suggestions to develop the insurance industry

Perception Research

The task of conducting the survey on confidence level was awarded to the University of Colombo (UoC). The Commission, on the recommendation of its Technical Subcommittee, has approved the research proposal submitted by the UoC. Hence, the survey will be conducted in 2022.

Main Research

A large-scale survey on matters relating to 'perception', 'distribution channels', 'product development' and 'claim settlement' has been planned. The Terms of Reference (ToR) has been prepared. The objective of this research has been finalized and it will solely focus on policyholders. The survey will be conducted in 2022.

Identifying the best practices adopted by Insurance Regulators of the countries

The Commission, with a view to adopting the best practices of other insurance regulators to the local insurance industry, prepared a set of guidelines on insurance advertisements. The regulation of insurance advertisements will ensure that insurers and intermediaries (insurance brokering companies registered under the provisions of the RII Act, and authorized insurance agents) adopt fair, honest and transparent practices and avoid practices that tend to impair the confidence of the public and create undue competitive advantage. The said guideline has been implemented in 2022.

Financial Sector Modernization Project (FSMP)

The Commission commenced work with the Actuarial Consultant relating to the components allocated under Market Development and External Relations activities as follows-:

- Component# 11 (a) - Develop centralized data framework to collect information to develop mortality and morbidity tables
- Component # 13 - Review and facilitate implementing the recommendations contained in the gap analysis reports pertaining to Motor, Fire and Health Insurance products

National Financial Inclusion Strategy (NFIS)

The officers of the Commission participated in two working group meetings on increasing Financial Literacy. Main tasks of the MDER division under NFIS project are;

- To incorporate financial education into the education curriculum in a more innovative and practical manner
- To develop principles, guidelines, and quality standards on the design and implementation of financial education initiatives.
- To consult stakeholders, develop a roadmap for the implementation of financial education programs

The Commission commenced the work with the view of improving coordination of financial literacy efforts as the Secondary Implementing Entity assisting the CBSL.

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. A Human Resource Consultant was appointed in October 2021 under the Financial Sector Modernization Project of the World Bank for strengthen the efficiency and effectiveness of the organizational and divisional structures, processes, procedures and skills, strengthen the HR functions and systems in relation to HR in line with international best practices.

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 human resources through timely recruitment of required professionals. To meet such initiatives, an Assistant Actuary, and an Executive were recruited to the permanent cadre during the year under review. Total staff strength of the Commission stood at 49 as at 31st December 2021.

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
49	11	04	06	05	08	03

Training

Focus on training and development covers the broad policy of enhancing the staff to obtain knowledge and job related skills to achieve the goals of the organization. Due to pandemic situation of COVID 19, only online training opportunities were provided for staff during the year.

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 took several measures to protect the safety and health of the staff from COVID-19 pandemic.

FINANCIAL REVIEW

Policyholders' Protection Fund (PPF)

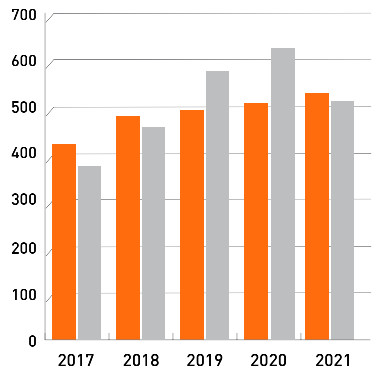
The Cess collected to the Policyholders' Protection Fund (PPF) has been invested by the Commission in a prudent manner, however, with the significant drop in the interest rates in 2021, the overall interest income was reduced. Chart 1 depicts the Cess collection and investment income for the years 2017 to 2021. In spite of the COVID 19 Pandemic, Cess income recorded a slight increase.

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 2017 to 2020 but the interest rate dropped significantly in 2021 and continued to be low for a major part of the year 2021.

Value of the PPF has increased over the last five years and Chart 2 depicts the same. The high interest rates for long term investments coupled with the net surplus transfers from the Commission till 2020 contributed to the steady growth in the Fund.

Chart 1

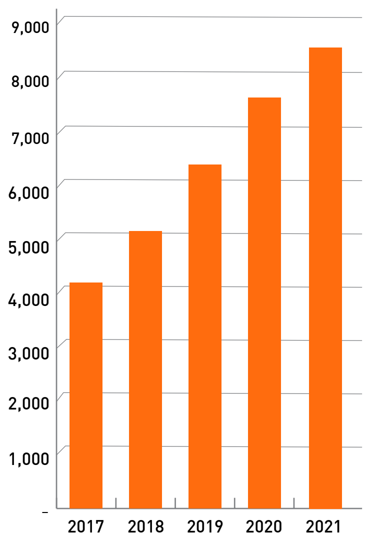
Cess Income and Investment Income for the period 2017-2021



	2017	2018	2019	2020	2021
Cess Income (LKR million)	418	479	493	506	546
Investment Income (LKR Million)	372	455	574	622	516

Chart 2

Policyholders' Protection Fund Values for the period 2017 - 2021

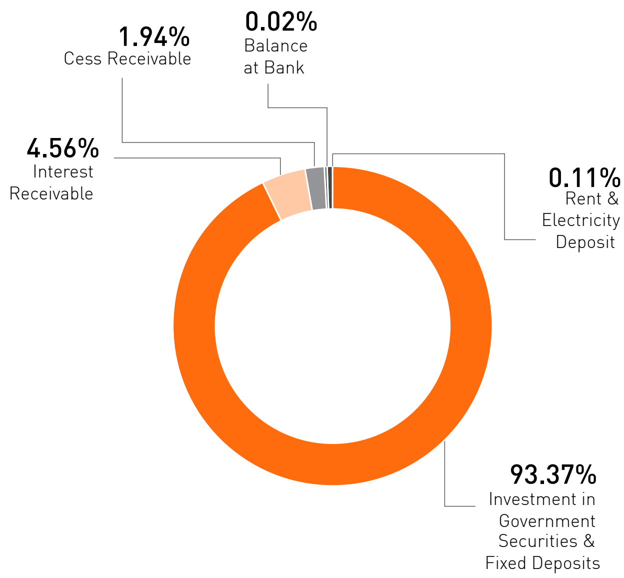


	2017	2018	2019	2020	2021
Fund Value (LKR million)	4,110	5,043	6,253	7,469	8,444

The composition of assets of the Fund as at 31st December 2021 is depicted below:

Chart 3

Assets Composition of Policyholders' Protection Fund as at 31st December 2021



FINANCIAL REVIEW

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 depicts the breakup of overall income received for the period 2017 to 2021.

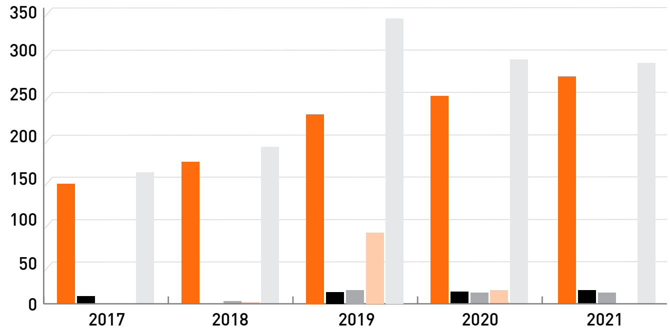
Expenses of the Commission

The total expenditure increased by 12% mainly due to the increase in staff cost and operational cost. The staff cost increased due to new recruits and promotions while the operational cost increased due to the impact of depreciation subsequent to revaluations.

Chart 5 below depicts the total expenses of the Commission for the period 2017 to 2021.

Chart 4

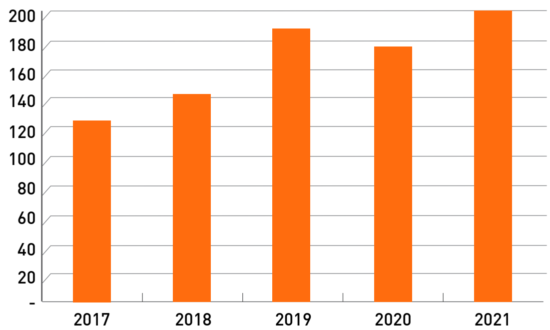
Income of the Commision for the period 2017-2021



	2017	2018	2019	2020	2021
Annual Fees (LKR million)	142	168	224	245	258
Registration & Renewal Fees (LKR million)	9	8	14	14	15
Other Income (LKR million)	3	8	16	13	13
Recognition of Grants (LKR million)	1	2	84	16	0
Total Income (LKR million)	155	186	339	288	286

Chart 5

Total Expenses of the Commission for the period 2017-2021



	2017	2018	2019	2020	2021
Total Expenses (LKR million)	125	143	188	178	200

FINANCIAL INFORMATION

AUDITOR GENERAL'S REPORT

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. } INS/A/02/IRCSL/AR/2021   ඔබේ අංකය / உமது இல. }   දිනය / திகதி / Date } 30 November 2022

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 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka ("Commission") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets and statement of cash flows 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 Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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 opinion.

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AUDITOR GENERAL'S REPORT

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1.3 Other information included in the Commission 2021 Annual Report.

The other information comprises the information included in the Commission's 2021 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Commission's 2021 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154(6) of the Constitution that will be tabled in due course.

1.4 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, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or 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 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 annual and periodic financial statements to be prepared of the Commission.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement

AUDITOR GENERAL'S REPORT

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

2. Report on Other Legal and Regulatory Requirements

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

2.1.1 I have obtained all the information and explanation that 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;

AUDITOR GENERAL'S REPORT

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2.1.2 The financial statements presented 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.

2.1.3 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.

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

2.2.1 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 except for;

Nature of interest	Comment
Medical insurance cover	An insurance cover had been obtained for 02 board members without obtaining the approval of the General Treasury. The premium of Rs.111,830 had been paid by the Commission for the year 2021 for this cover.

2.2.2 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 except for;

	Reference to law/ direction	Description
(a.)	Presidential Secretary's Circular No. PS/GPA/Circular/36/2020 dated10 December 2020, Budget Circular No. 07/2019 dated 04 December 2019 and Budget Circular No. 4/2019 dated 17 June 2019	According to the circular instructions, unless any official/duty-specific participation is essential, the officials should not participate in seminars/workshops etc. at the expense of local funds. However, the commission held its 20th anniversary by incurring Rs. 411,454 at a hotel on 29 March 2021. Gold coins for 16 staff members were awarded by incurring Rs. 952,600 from the commission funds in the 20th Anniversary celebration of the commission.
(b.)	Section 1.3 of the Public Enterprises Circular PED 01/2020 dated 27 January 2020	As per the circular instructions, regardless of the number of committee meetings held monthly, the maximum monthly participation allowance payable to the participants is Rs. 25,000 per month. However, an excess amount of Rs. 245,460 had been paid to five (05) commission members in October 2021 and four (04) members in December 2021 for the participation of board

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		sub-committee meetings.
(c.)	Paragraph 9.14.2 of the Good Governance Guidelines introduced by the Circular No. PED/12 dated 02 June 2003	According to the guidelines, the manuals prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of the Public Enterprises, General Treasury. However, such authorization had not been obtained for the Administration Manual prepared by the commission. Therefore, the provisions of the Establishment Code shall apply in this regard. However, based on the unapproved administrative manual, the Commission had paid distress loan ranging from a Rs. 325,000 to Rs. 500,000 for five employees exceeding the approved maximum limit of Rs. 250,000 as per the Public Administration Circular No. 14/99 dated 31 December 2008. Accordingly, the distress loan amount given in excess is Rs. 662,500 for the year under review.
(d.)	Chapter XXIV Section 7 of the Establishment Code	Although provisions have been made for granting loans through the banks for the purchase of vehicles for executive category employees, vehicle loans amounting to Rs. 1,200,000 had been provided to the three employees from commission funds during the year.
(e.)	Article 40(3) of the National Audit Act No.19 of 2018 and F.R.134(1)	According to the specified provisions, the internal auditor shall directly report to the Head or the Governing Body. However, the Terms of Reference had not been made provisions for reporting responsibilities in accordance with the applicable laws and regulations. In contrary to the above provisions the internal audit reports for the year 2019 had been submitted to the Director General on 06 July 2021.
(f.)	Management Services Circular No. 03/2018 dated 18 July 2018	The Circular instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior approval from the General Treasury. However, one (01) Director, thirteen (13) Manager/Asst. Manager and one (01) Secretary positions had not been approved by Department of Management Services, General Treasury.
(g.)	Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The convener for the Audit Committee is Director – Finance and Administration. Further representative of the Auditor General had not been invited for the audit committee regularly in terms of the provisions of the guideline 4.2 of the Guideline on Corporate Governance for State Owned Enterprises issued under this circular.

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2.2.3 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 except for;

(a.) A performance incentive from the year 2010 had been paid without approval of the General Treasury.

(b.) The scheme, incentive payment basis of one (01) month basic salary had been changed to one and half months (1 ½) gross salary from the year 2019 onwards without obtaining the approval of the General Treasury. Due to this, the total incentive payment had been increased by Rs. 4,605,381 which is 105% more compared to the previous year. Further, all employees had earned 100% marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.

(c.) According to the section 9.14.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, manual of procedures prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of Public Enterprises, General Treasury. However, the Administration Manual of the commission had not been sanctioned by the General Treasury. Therefore, it is observed that the leave encashment payment of Rs. 1,639,753 had been made without proper authority.

2.2.4 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 except for;

(a.) The official activities of the Commission were carried out at an external building, and a sum of Rs. 48,109,101 was paid in the year 2021 as the lease rent of the building without searching for economical location.

(b.) The commission is supposed to be an entity, which needs to be closely dealing with public in performing its role set out in the Insurance Industry Regulation Act No. 43 of 2000. However, its current location, culture, and the entry doors being under strict security conditions make it difficult for the vulnerable general public to access them. Further, there were many occasions observed that no official in the front office to assist the public to enter in to the commission premises. Further, it was observed that in the website all the information is appear only in English.

(c.) **Procurement of board meeting management solution**

(i.) A board meeting solution had been purchased by the commission in the year 2019 by incurring Rs. 1,013,000 for the software and annual subscription of Rs. 923,000 without having proper cost-benefit analysis. According to the cost analysis carried out by the audit, software cost for 01 board meeting held in the year 2020 and 2021 was Rs. 63,533. In addition, the average cost per meeting for communicate board papers through this meeting solution for one board meeting is Rs. 92,995. Therefore, it is doubt whether this solution is a cost-effective method.

(ii.) It is observed that the above IT project was valued Rs.6,044,647. However, according to the paragraph 2.5 of the Public Finance Circular No. 03/2020 dated 10 September 2020, it was not observed that the commission had consult Information and Communication

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Technology Agency (ICTA) in relation to technical matters and ambiguities in this procurement.

(iii.) It is observed that the commission does not have proper documentation process for issuing and receiving iPad and related equipment's to the Commission members when they appoint and resign from the Commission.

(iv.) No evidence had been provided for the audit whether the approval of the commission had been obtained for the revised procurement time table of procurement of Board Meeting Management Solution.

(v.) According to the guideline 2.7.5 of the Procurement Guideline the Secretary to the Line Ministry shall appoint the Department Procurement Committee (DPC). However, the evidence had not available for the audit whether such committee had been appointed according to the Procurement Guideline.

2.3 Other Matters

(a.) Procurement of Internal Audit Service

(i.) Procurement of internal audit service from the audit firm in public practice had been done by the five-member Department Consultants Procurement Committee (CPCD) appointed by the Chief Accounting Officer (CAO) on 19 September 2019 in accordance with Guideline for Selection & Employment of Consultants August 2007. The independence of the appointment is questionable since the four members of the CPCD were key employees of the Commission including Director General and the Director Finance and Administration whose affairs and actions were under the purview of the internal auditor. Therefore, a transparent procedure had not been followed when appointing an internal auditor for the commission. Therefore, the independence and the objectivity of the internal auditor may be impaired.

(ii.) The Reporting frequency and reporting time targets for the internal auditor had not been defined when appointing an Internal Auditor for the year under review.

(iii.) An internal audit work plan had not been obtained along with the proposals in procurement for selecting an internal audit consultant for the Commission. Subsequently, a work plan had been re-called at the evaluation stage for the evaluation of proposals submitted by the consultants.

(iv.) According to the procurement committee meeting minutes of the procurement of internal audit service, the bids had been opened on 18 December 2019. However, bid evaluation had been carried out on 16 June 2021. According to the section 8.4.1 of the Guidelines Selection and Employment of Consultants, proposal evaluation shall be undertaken expeditiously, leaving ample time to seek all the requisite formal approvals. Hence, Proposals shall be evaluated within the period specified in the Procurement time

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schedule. However, it is observed that the evaluations of proposals had been carried out with six months delay after the bid opening date.

(v.) According to the section 6.5.9 of the Guidelines Selection and Employment of Consultants, the evaluation criteria and sub criteria shall be decided before calling RFP's. Marking scheme with short listing and evaluation criteria for the selection of Internal Auditor had been defined after opening of the bids. Those criteria were approved by the procurement committee on 16 June 2020.

(b.) Evaluation of the Director General's performances had been done by the Chairman. This may lead to collusion between two powerful positions in the commission and may lead to take unfavourable decisions. The best practice is the performance of the Director General shall be evaluated by the commission. Further, the performance evaluation form of the Director General had not been available for the audit.

(c.) The insurance core principles (ICPs) are globally accepted framework of principles developed by the International Association of Insurance Supervisors (IAIS). Those principles are key to assess the quality of regulatory and supervisory function of the insurance regulators and use as a framework to introduce regulations for the insurance sector in the country. As a member of the IAIS, the Commission had paid Rs. 4,124,500 as a membership fee for the year 2020. The information had been requested to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.

(d.) The Commission had transferred surplus of the funds of the Commission to the Policy Holders Protection Fund for the respective years until 2020. However, this policy had been suddenly changed in the year under review and the surplus of the commission funds had been carried forward as accumulated fund. However, the approval of the Commission in this regard had not been submitted to the audit. Unless otherwise a proper monitoring of this fund, there will be a possibility to misuse of this fund.

(e.) **Financial Sector Modernization Project**

(i.) According to the agreement of the Finance Sector Modernization Project (FSMP) Project, the implementing entity throughout project implementation, shall furnish to the International Development Association (IDA) an annual work plan and budget for the activities under component 2(c) of the project of each subsequent fiscal year for approval as soon as available, but not later than 30 November of each year. However, the annual work plans for the year 2020 and 2021 had not been furnished to the audit and information had not been available whether those documents had been submitted to the IDA.

(ii.) The amount of USD 945,450 (SDR. 0.67 million) had been allocated for the segregation of National Insurance Trust Fund (NITF)'s Insurance and Reinsurance

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Business under the supervision of the IRCSL under this project. However, this money had not been utilized for this purpose.

(iii.) The detailed work plan for strengthening the supervisory and regulatory capacity of the Commission under this project had not been available to the audit.

(iv.) To achieve the objectives of the project, the experts and the consultants work shall be interrelated. However, it was observed that, the consultants for the project had been recruited from time to time and it was not observed strong interrelationship among those consultants to achieve the common objectives of the project. Due to this weak project management, the expected project objectives and the outcomes had not been achieved.

(v.) The Actuary Consultant had terminated his contract with effect from 29 March 2022. According to the report named as "Consultant's Evaluation of the Insurance (Actuarial) Project to date" as at 24 January 2022 by the Actuary Consultant the reasons for termination were actuary had not provided comments for his recommendations by the management, no steps had been taken by the Commission to implement action plans and follow up, component leaders had not responded to his proposals with fair arguments, the actuary's work had been done without any support of insurance experts who required to recruit under this project, the Commission was obligated to provide insurance and IT experts, but not provided and ignore his advices without providing proper explanations by the Commission. Based on the above observations, it is observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.

(vi.) According to the information available for audit the actuarial consultant had not issue any report or working for 3 components according to the given work plan. Therefore, the final and draft reports for 14 components out of 17 components had been submitted. As per the detail available for the audit those reports had not been submitted to the commission and no any evidence that those reports had discussed with relevant parties who responsible for commenting, developing and making policies as regulator.

(vii.) According to the work plan Consultant actuary's task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, we observed that the Commission had not facilitated them to coordinate among those consultants.

(viii.) According to the task assigned to Human Resources consultant, the final task is the consultant should liaise with other consultants hired under the project in order to obtain views on future developments of the client when performing the consultant's work. According to the project progress only actuarial consultant had been appointed. There is no evidence that, Human Resources consultant had able to contact and discussed with other consultants in this project. Therefore, the project will not be

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achieved expected results due to no proper coordination and communication among consultants.

(ix.) According to the progress report for December 2021 and email received from World Bank representative on 29 November 2021, it was informed that the FSMP project will terminate from 30 June 2022. However, the date of the decision taken to terminate the project, the authority who takes the decision to terminate the project, the reasons for terminate the project had not been available for the audit.

(f.) Internal Audit Reports for the year 2020 and 2021 had not been available as of 20 October 2022. Therefore, timely actions for the issues identified may not be possible for the commission. Further, the external auditor could not be able to use the work of the internal auditor when planning and performing external auditor's works.

(g.) Based on the Attorney General's opinion the commission had decided their own carder and the salary scheme. By the Memorandum dated 31 May 2019, Director General sought the approval of the chairman to effect the salary adjustment, carder revision, payment of cost-of-living allowance of Rs. 7,800, Competency Allowance of 15% from Basic salary and Special Living Allowance of Rs.12,500 for the commission staff with effect from 01 July 2018. Even though the commission is an entity subject to the purview of the Ministry of Finance the commission had not obtained the clearance or concurrence from the General Treasury to decide their carder and increase of salaries and allowances.

(h.) The salaries of the commission had increased between 12.98% to 59.73% in the year 2019 based on Attorney General's opinion without obtaining the prior approval of the Management Services Department in contrary to the Management Service circular 03/2018 dated 18 July 2018. The treasury representative in the board had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.

(i.) The commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. The commission spent their funds of Rs. 6.2 million for the year 2021 for obtaining insurance cover without any contribution from the employees. However, it was observed that in the year 2017, the National Insurance Trust Fund has extended self-contributory insurance scheme for semi-government sector employees as well by charging a contribution of Rs.1000 per employee per month.

(j.) The budgeted welfare expenditure for the year 2021 is Rs.3,036,000 but the actual cost is Rs. 3,477,654. Accordingly, Rs.441,654 (12.7 percent) had been spent more than the budgeted expenditure. Furthermore, considering the welfare expenses other than the welfare expenses for the transportation of the commission, the annual welfare expenses borne by the Commission funds per employee is Rs. 36,640 for the year under review.

W.P.C. Wickramaratne
Auditor General

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	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
2.2.1	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 except for;	
	Medical insurance cover An insurance cover had been obtained for the 02 board members without obtaining the approval of the General Treasury. The premium of Rs.111,830 had been paid by the Commission for the year 2021 for this cover.	Due to the pandemic situation in 2021, some of the Commission members made requests to extend the Insurance Cover for them under the exigencies of circumstances, specially to mitigate the risk of COVID 19 as they were exposed to the risk when attending the Commission meetings in the pandemic situation. Due to the high priority to activate the cover, it was given based on the Commission approval and the audit committee Chairman's comment that the PED circulars are silent about providing insurance coverage to members. The Chairman and the three Ex-Officio members did not avail the facility.
2.2.2	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 except for;	
(a)	Presidential Secretary's Circular No. PS/GPA/Circular/36/2020 dated10 December 2020, Budget Circular No. 07/2019 dated 04 December 2019 and Budget Circular No. 4/2019 dated 17 June 2019 According to the circular instructions, unless any official/duty-specific participation is essential, the officials should not participate in seminars/workshops etc. at the expense of local funds. However, the commission held its 20th anniversary by incurring Rs. 411,454 at a hotel on 29 March 2021. Gold coins for 16 staff members were awarded by incurring Rs. 952,600 from the commission funds in the 20th Anniversary celebration of the commission.	The Anniversary celebration at IRCSL was held for the first time ever in its 20th year. It motivates other staff members to contribute their best to the organization. The entire staff was invited to participate at this event as their participation was essential to such an organizational event held for the first time. Further, it was not a seminar/workshop as stated in the letter. An award for service is when an employee is given an award as a gesture to thank for service rendered to the business for a certain length of time. An award shows the employees that they are valued members of the organization and their dedication has not gone unrecognized and their service is appreciated. The aim is to encourage employees to stay within the organization for a long time. It is a known factor that the time, stress and cost of hiring and training new employees are significant and staff turnover can have a negative impact on the organization's outcomes. The location was selected after following the procurement procedure and the Government owned hotel Hilton was selected for a reasonable cost of Rs. 280,000/-.

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	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(b)	Section 1.3 of the Public Enterprises Circular PED 01/2020 dated 27 January 2020 As per the circular instructions, regardless of the number of committee meetings held monthly, the maximum monthly participation allowance payable to the participants is Rs. 25,000 per month. However, an excess amount of Rs. 245,460 had been paid to five (05) commission members in October 2021 and four (04) members in December 2021 for the participation of board sub-committee meetings.	As per the Section 1.3 of the PED 01/2020, payment of allowances to the Chairmen, Executive and Non-Executive Directors and Observers should be based on the conditions stipulated in the Public Enterprises Circular No: PED 3/2015. However, regardless of the number of Board Meetings attended by a Board Member or an Observer during a month, the total sitting allowance for Board meetings held during a month should not exceed Rs. 25,000/- per month. The Board Meeting payments did not exceed Rs. 25,000/- per month. All other payments were made for Sub-Committee meetings, for which no maximum limit is placed in the circular. Hence, payments made to Board members referred to in your letter are in order.
(c)	Paragraph 9.14.2 of the Good Governance Guidelines introduced by the Circular No. PED/12 dated 02 June 2003 According to the guidelines, the manuals prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of the Public Enterprises, General Treasury. However, such authorization had not been obtained for the Administration Manual prepared by the commission. Therefore, the provisions of the Establishment Code shall apply in this regard. However, based on the unapproved administrative manual, the Commission had paid distress loan ranging from a Rs. 325,000 to Rs. 500,000 for five employees exceeding the approved maximum limit of Rs. 250,000 as per the Public Administration Circular No. 14/99 dated 31 December 2008. Accordingly, the distress loan amount given in excess is Rs. 662,500 for the year under review.	The Administration Manual (Manual) of the IRCSL was prepared a long time ago. It was mainly based on the Securities and Exchange Commission of Sri Lanka Administration Manual in which the IRCSL (then IBSL) operated under the same Chairmanship. The IRCSL adopted the same from the inception with the Board's approval. Based on the necessity, periodic changes have been incorporated to the said Manual with the approval of the Board/ Commission. The Administration Manal was forwarded to the approval of the Ministry of Finance and Mass Media based on the Public Enterprise Guidelines for Good Governance and the initial Manual was forwarded to the Ministry on the 23rd October 2012 and reminders were sent from time to time. Subsequently, the changes made to the manual were also informed.

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	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(d)	Chapter XXIV Section 7 of the Establishment Code Although provisions have been made for granting loans through the banks for the purchase of vehicles for executive category employees, vehicle loans amounting to Rs. 1,200,000 had been provided to the three employees from commission funds during the year.	On the 05th April 2018, the Department of Public Enterprises informed the Commission that there was a delay in the process in granting the approval for Administration Manual due to the complications of the procedure to be followed. Further, they stated that the Department of Public Enterprises requires us to adopt circulars issued in relation to the areas in the Manual until they consider approving the Manual. Accordingly, the Commission made a comparison between the facilities provided to the staff of the IRCSL and government regulations/ circulars. As a result, it was noted that the facilities are substantially different. The Commission decided that it is prudent to explain our inability to adopt government circulars. Drastic changes will cause severe disruption to the smooth operation of the IRCSL and to proceed as per the admin manual that has been approved by the Commission. It should be also noted that the Act has empowered as confirmed by the Attorney General, that the Commission with full authority to determine the remuneration and conditions of employment of the staff. Similar financial sector regulators provide much better facilities for their staff than what is provided to the staff at IRCSL.
(e)	Article 40(3) of the National Audit Act No.19 of 2018 and F.R.134(1) According to the specified provisions, the internal auditor shall directly report to the Head or the Governing Body. However, the Terms of Reference had not been made provisions for reporting responsibilities in accordance with the applicable laws and regulations. In contrary to the above provisions the internal audit reports for the year 2019 had been submitted to the Director General on 06 July 2021.	We will request the internal auditor to forward auditor to forward its report for 2020 and 2021 to Chairman, IRCSL.
(f)	Management Services Circular No. 03/2018 dated 18 July 2018 The Circular instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior approval from the General Treasury. However, one (01) Director, thirteen (13) Manager/Asst. Manager and one (01) Secretary positions had not been approved by Department of Management Services, General Treasury.	The Commission has acted in terms of the applicable legal provisions and authority given by the legislature.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

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(g)	Public Enterprises Circular No. 01/2021 dated 16 November 2021. The convener for the Audit Committee is Director – Finance and Administration. Further representative of the Auditor General had not been invited for the audit committee regularly in terms of the provisions of the guideline 4.2 of the Guideline on Corporate Governance for State Owned Enterprises issued under this circular.	It was noted to be satisfied now as the new convener (Assistant Director, Legal) of the Audit Committee will be commencing work from the next Audit Committee meeting
2.2.3 (a)	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 except for; A performance incentive from the year 2010 had been paid without approval of the General Treasury.	The scheme has been forwarded many times to the Treasury.
(b)	The scheme, incentive payment basis of one (01) month basic salary had been changed to one and half months (1 ½) gross salary from the year 2019 onwards without obtaining the approval of the General Treasury. Due to this, the total incentive payment had been increased by Rs. 4,605,381 which is 105% more compared to the previous year. Further, all employees had earned 100% marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.	The scheme is to pay incentives if employees have reached certain percentages of performance.
(c)	According to the section 9.14.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, manual of procedures prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of Public Enterprises, General Treasury. However, the Administration Manual of the commission had not been sanctioned by the General Treasury. Therefore, it is observed that the leave encashment payment of Rs. 1,639,753 had been made without proper authority.	The Administration manual which includes the payment of Leave encashment has been forwarded to the approval of the Ministry of Finance and Mass Media based on the Public Enterprise Guidelines for Good Governance. The initial Manual was forwarded to the Ministry on 23rd October 2012 and sent reminders from time to time. Subsequently the changes made to the manual were also informed. On 05th April 2018, the Department of Public Enterprises informed the Commission that there is a delay in the process in granting approval for Administration Manuals due to the complications of the procedure to be followed. Therefore, the Commission has adopted the provisions in the Administration manual.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

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2.2.4	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 except for;	
(a)	The official activities of the Commission were carried out at an external building, and a sum of Rs. 48,109,101 was paid in the year 2021 as the lease rent of the building without searching for economical location.	The Commission at its 224th meeting decided to accept the Overseas Realty (Ceylon) PLC offer until the end of the current lease period in September 2024. However, the management was requested to see the possibility of purchasing its own premises at the expiry of the two years.
(b)	The commission is supposed to be an entity, which needs to be closely dealing with public in performing its role set out in the Insurance Industry Regulation Act No. 43 of 2000. However, its current location, culture, and the entry doors being under strict security conditions make it difficult for the vulnerable general public to access them. Further, there were many occasions observed that no official in the front office to assist the public to enter in to the commission premises. Further, it was observed that in the website all the information is appear only in English.	Steps are in place already to translate the contents of the IRCSL website from English to Sinhala and to Tamil. Further, the officials of the IRCSL serve the general public in their convenient language (Sinhala, Tamil or English) when communicating via letters, phone or when they visit the office for official purposes. IRCSL has provided all facilities to the public, including the vulnerable group to reach and get services.
(c)	Procurement of board meeting management solution	

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(i)	A board meeting solution had been purchased by the commission in the year 2019 by incurring Rs. 1,013,000 for the software and annual subscription of Rs. 923,000 without having proper cost-benefit analysis. According to the cost analysis carried out by the audit, software cost for 01 board meeting held in the year 2020 and 2021 was Rs. 63,533. In addition, the average cost per meeting for communicate board papers through this meeting solution for one board meeting is Rs. 92,995. Therefore, it is doubt whether this solution is a cost-effective method.	Board Meeting management solution has been specifically designed for the following benefits. • Quick Access • Support accessing and sharing comments • Remote Access • Increase Board Member engagement • Quick Access for previous meeting records etc. However, we wish to draw your attention that, the cost of Rs. 2,859,000/- considered for the software cost per meeting computation should be amended as Rs. 38,120. The Board Meeting Management solution the IRCSL was able to reduce cost involved for printing of meeting agenda which consumes heavy number of papers, toner, time involvement for photo coping of papers, delivering of agenda etc. Further, thorough the system automatic archiving of board papers and board decision taken place. This type of solution is used by other government institutions for the reasons set out above. Accordingly, the IRCSL obtained maximum benefit from the solution when comparing with the cost.
(ii)	It is observed that the above IT project was valued Rs.6,044,647. However, according to the paragraph 2.5 of the Public Finance Circular No. 03/2020 dated 10 September 2020, it was not observed that the commission had consult Information and Communication Technology Agency (ICTA) in relation to technical matters and ambiguities in this procurement.	The said circular has been issued in September 2020 whereas Board Meeting Management Solution was procured in 2019, before the requirement came in to place.
(iii)	It is observed that the commission does not have proper documentation process for issuing and receiving iPad and related equipment's to the Commission members when they appoint and resign from the Commission.	Proper documents are available for issuing ipads and related equipment to the Commission Members.
(iv)	No evidence had been provided for the audit whether the approval of the commission had been obtained for the revised procurement time table of procurement of Board Meeting Management Solution.	The procurements plan included Board Meeting management solution which consist of both hardware and software

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(v)	According to the guideline 2.7.5 of the Procurement Guideline the Secretary to the Line Ministry shall appoint the Department Procurement Committee (DPC). However, the evidence had not available for the audit whether such committee had been appointed according to the Procurement Guideline.	DPC was appointed by the Line Ministry for the year 2019.
2.3	Other Matters	
a)	Procurement of Internal Audit Service	
(i)	Procurement of internal audit service from the audit firm in public practice had been done by the five-member Department Consultants Procurement Committee (CPCD) appointed by the Chief Accounting Officer (CAO) on 19 September 2019 in accordance with Guideline for Selection & Employment of Consultants August 2007. The independence of the appointment is questionable since the four members of the CPCD were key employees of the Commission including Director General and the Director Finance and Administration whose affairs and actions were under the purview of the internal auditor. Therefore, a transparent procedure had not been followed when appointing an internal auditor for the Commission. Therefore, the independence and the objectivity of the internal auditor may be impaired.	The CPCD has been appointed complying with the guidelines. However, in view of the comments given by the audit, the IRCSL will make arrangements to appoint an Internal Auditor for years 2022 to 2024 having obtained the recommendations of the Audit and Management Committee and the Commission approval on same.
(ii)	The Reporting frequency and reporting time targets for the internal auditor had not been defined when appointing an Internal Auditor for the year under review.	TOR has requested audit pan/work schedule. Tech 8 has the details.
(iii)	An internal audit work plan had not been obtained along with the proposals in procurement for selecting an internal audit consultant for the Commission. Subsequently, a work plan had been re-called at the evaluation stage for the evaluation of proposals submitted by the consultants.	All proponents were required to submit the audit work plan with the proposals. M/s Barker Tilly has submitted the Methodology and Work Plan at the time of sending their proposal.
(iv)	According to the procurement committee meeting minutes of the procurement of internal audit service, the bids had been opened on 18 December 2019. However, bid evaluation had been carried out on 16 June 2021. According to the section 8.4.1 of the Guidelines Selection and Employment of Consultants, proposal evaluation shall be undertaken expeditiously, leaving ample time to seek all the requisite formal approvals. Hence, Proposals shall be evaluated within the period specified in the Procurement time schedule. However, it is observed that the evaluations of proposals had been carried out with six months delay after the bid opening date.	Due to outbreak of COVID 19, most of the office functions were performed on work from home concept. Therefore, the procurement process has taken a longer time than under normal conditions.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(v)	According to the section 6.5.9 of the Guidelines Selection and Employment of Consultants, the evaluation criteria and sub criteria shall be decided before calling RFP's. Marking scheme with short listing and evaluation criteria for the selection of Internal Auditor had been defined after opening of the bids. Those criteria were approved by the procurement committee on 16 June 2020.	Under the Terms of Reference (ToR), the evaluation criteria and point system have been clearly mentioned and has informed to consultants at the time of sending the Request for Proposals (RFP) to consultants and attached a copy for information. The evaluation has been performed on that basis.
(b)	Evaluation of the Director General's performances had been done by the Chairman. This may lead to collusion between two powerful positions in the commission and may lead to take unfavourable decisions. The best practice is the performance of the Director General shall be evaluated by the commission. Further, the performance evaluation form of the Director General had not been available for the audit.	The immediate supervisor to the Director General, Chairman is directly apprised of the work of DG as the appraiser. The HR consultant also recommended face to face evaluation between appraisee and the appraiser. The performance appraisal forms are filed in the personal files and as the DG's file is kept in custody of the Chairman. Non receipt of DG's personal file and performance evaluations for the audit was not brought to the attention of the DFA or DG, who would have made available same to audit. The non-receipt of same was known only from the letter.
c)	The insurance core principles (ICPs) are globally accepted framework of principles developed by the International Association of Insurance Supervisors (IAIS). Those principles are key to assess the quality of regulatory and supervisory function of the insurance regulators and use as a framework to introduce regulations for the insurance sector in the country. As a member of the IAIS, the Commission had paid Rs. 4,124,500 as a membership fee for the year 2020. The information had been requested to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.	IRCSL has been part of few peer reviews of ICPs. They are ICP 1,2,9,10 where assessment is largely observed. There are currently 25 ICP approved by the International Association of Insurance Supervisors in year 2019. Further review of ICPs will be carried out in setting/amending appropriate provisions to the Regulation of Insurance Industry Act, and subordinate legislation.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(d)	The Commission had transferred surplus of the funds of the Commission to the Policy Holders Protection Fund for the respective years until 2020. However, this policy had been suddenly changed in the year under review and the surplus of the commission funds had been carried forward as accumulated fund. However, the approval of the Commission in this regard had not been submitted to the audit. Unless otherwise a proper monitoring of this fund, there will be a possibility to misuse of this fund.	The IRCSL has two funds namely, the Commission Fund and the Policy Holders Protection Fund. Both funds are established in terms the Regulation of Insurance Industry Act, No. 43 of 2000, Section 6 and 103 respectively. The Commission Fund is used to defray the expenditure incurred by the Commission, in the exercise of its power, discharge of its functions and performance of its duties. The Policyholders' Protection Fund (PPF) is established with the view of safeguarding the interest of policyholders and potential policyholders. The PPF is credited with Cess levy from insurers and returns on investment. As the purpose of establishment of the PPF is different to that of the Fund of the Commission At the 153rd and 160th Commission meeting it was decided, when there is a surplus in a particular year, The surplus will be transferred to the PPF by eliminating any surplus in Board's account and it will be transferred back to cover the Board's expenses in succeeding years when required, subject to 20% of annual interest income of the PPF. Also fund transfer from PPF to cover capital expenses will be done as previous practice. This practice has been discussed at the 3rd Audit Committee meeting for the year 2021 and suggested to maintain two funds separately. A detailed paper on PPF will be submitted to the next Audit Committee.
(e)	Financial Sector Modernization Project	
(i)	According to the agreement of the Finance Sector Modernization Project (FSMP) Project, the implementing entity throughout project implementation, shall furnish to the International Development Association (IDA) an annual work plan and budget for the activities under component 2(c) of the project of each subsequent fiscal year for approval as soon as available, but not later than 30 November of each year. However, the annual work plans for the year 2020 and 2021 had not been furnished to the audit and information had not been available whether those documents had been submitted to the IDA.	The Annual work plan and the budget have been sent to the Central Project Coordination Unit (CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(ii)	The amount of USD 945,450 (SDR. 0.67 million) had been allocated for the segregation of National Insurance Trust Fund (NITF)'s Insurance and Reinsurance Business under the supervision of the IRCSL under this project. However, this money had not been utilized for this purpose.	The letter referred to initiated as the Chairman, NITF at project review meetings held between World Bank, CPCU mentioned that the NITF board has finally decided not to segregate its insurance and reinsurance businesses and therefore they do not wish to seek technical assistance from World Bank for same. IRCSL responsibility in relation to the DLI would have been initiated once NITF submitted its proposal to segregate to IRCSL. If NITF had submitted the proposal, IRCSL would have been required to review the proposal and grant no objection for the DLI to be achieved. However, NITF did not submit the proposal for segregation for IRCSL to do its part. We have requested that the decision of NITF to abandon the segregation to be confirmed. Awaiting a response from NITF. However, the project has been cancelled now.
(iii)	The detailed work plan for strengthening the supervisory and regulatory capacity of the Commission under this project had not been available to the audit.	The Annual work plan and the budget have been sent to the Central Project Coordination Unit (CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(iv)	To achieve the objectives of the project, the experts and the consultants work shall be interrelated. However, it was observed that, the consultants for the project had been recruited from time to time and it was not observed strong interrelationship among those consultants to achieve the common objectives of the project. Due to this weak project management, the expected project objectives and the outcomes had not been achieved.	As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services. The consulting services were: I. Actuarial Expertise II. Insurance Expertise III. IT Expertise IV. HR Expertise V. Consultancy firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka. The Consultancies had to some extent and inter-relationship due to the nature of the activity. TORs of the said consultancies reflect the plan to meet the objective. IRCSL was able to hire 2 consultancies, but was not able to award the rest of 3 consultancies due to certain obstacles during the process of procurements.
(v)	The Actuary Consultant had terminated his contract with effect from 29 March 2022. According to the report named as "Consultant's Evaluation of the Insurance (Actuarial) Project to date" as at 24 January 2022 by the Actuary Consultant the reasons for termination were actuary had not provided comments for his recommendations by the management, no steps had been taken by the Commission to implement action plans and follow up, component leaders had not responded to his proposals with fair arguments, the actuary's work had been done without any support of insurance experts who required to recruit under this project, the Commission was obligated to provide insurance and IT experts, but not provided and ignore his advices without providing proper explanations by the Commission. Based on the above observations, it is observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.	The Consultant submitted his proposal agreeing to carry out all tasks in the TOR responding to the EOI. However, after contract signing, he did not agree to carry out certain tasks saying various reasons, which was unacceptable. The evaluation report referred to was not submitted to IRCSL by the consultant. Hence, we have not responded to the same. Also, there was no requirement for him to produce an evaluation report at that time. We got a copy of his report through the Ministry of Finance as he had made complaints to the Treasury Secretary and to the President's Secretary. Accordingly, the matter was discussed at Commission level, and referred to the Audit Committee for further review. Detailed discussions were carried out at the Audit Committee level by all senior management addressing his unreasonable allegations. As a compromise it was decided at the audit committee to pay proportionate fees on some reports given by him. The IRCSL cannot agree with the points stated in the report. Further IRCSL has not ignored his advice. He was required to provide consultation papers on many aspects to discuss with relevant parties, but did not submit. He also asked for additional money for performing without an insurance expert, reasoning

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
		that he qualifies to perform the tasks of an insurance expert. However, we could not agree with his request. He also failed to come to Sri Lanka even once as per conditions of contract. He was arguing about his visa and wasting time and resources. Most of his reports had further points for discussion, before finalizing and submitting to the Commission. However, some reports have been submitted and implemented. Component 15(b) was a task under IT firm in which actuary consultant had to provide support services and advice to IRCSL. As mentioned at the outset, the IT procurement could not be awarded due to reasons beyond the control of IRCSL. Therefore, the payment to actuary consultant cannot be considered as an uneconomic transaction. The reports are the property of IRCSL and advises in all accepted reports will be made use of when IRCSL hires an Actuary. This is a separate matter of discussion as even the current Commission has directly got involved in recruiting an actuary, but has not been successful due to the low salary structures offered.
(vi)	According to the information available for audit the actuarial consultant had not issue any report or working for 3 components according to the given work plan. Therefore, the final and draft reports for 14 components out of 17 components had been submitted. As per the detail available for the audit those reports had not been submitted to the commission and no any evidence that those reports had discussed with relevant parties who responsible for commenting, developing and making policies as regulator.	The reports are the property of IRCSL and advises in all accepted reports will be made use of when IRCSL hires an Actuary and IRCSL is in the process of hiring an Actuary.
(vii)	According to the work plan Consultant actuary's task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, we observed that the Commission had not facilitated them to coordinate among those consultants.	As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services. The consulting services were: I. Actuarial Expertise II. Insurance Expertise III. IT Expertise IV. HR Expertise V. Consultancy firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka. The Consultancies had to some extent an interrelationship due to the nature of the activity. However, HR Expertise had discussions with Actuarial Expertise, since both served the IRCSL at a same period.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(viii)	According to the task assigned to Human Resources consultant, the final task is the consultant should liaise with other consultants hired under the project in order to obtain views on future developments of the client when performing the consultant's work. According to the project progress only actuarial consultant had been appointed. There is no evidence that, Human Resources consultant had able to contact and discussed with other consultants in this project. Therefore, the project will not be achieved expected results due to no proper coordination and communication among consultants.	The expected deliverables of the HR Expert have been properly delivered during his contract period. Due to non-availability of other consultants other than Actuarial Expertise, where he had discussions. Further the TORs of all other experts and he understood what was required from the HR assignment. All his reports have been submitted to the Commission and he has had many discussions with all Commission members collectively and individually. Some reports have been submitted to the Commission for approval to implement, and others are to be discussed at the HR subcommittee, prior to submitting to the Commission.
(ix)	According to the progress report for December 2021 and email received from World Bank representative on 29 November 2021, it was informed that the FSMP project will terminate from 30 June 2022. However, the date of the decision taken to terminate the project, the authority who takes the decision to terminate the project, the reasons for terminate the project had not been available for the audit.	The date of the decision taken to terminate the project – 26/01/2022. As per the decision of the Ministry of Finance, the project has been cancelled in order to allocate balance funds for government priorities.
(f)	Internal Audit Reports for the year 2020 and 2021 had not been available as of 20 October 2022. Therefore, timely actions for the issues identified may not be possible for the commission. Further, the external auditor could not be able to use the work of the internal auditor when planning and performing external auditor's works.	The report of the year 2020 has been received by the IRCSL in February 2022. Year 2021 report has not been received to date. The internal audit report of 2019 has been discussed with the Audit committee meeting held on 30.07.2021. The follow up actions have been discussed at the meeting held on 10.11.2021. The minutes of the audit committee with the recommendations have been submitted to the Commission for approval. Further when such internal audit reports were discussed at the audit committee, the external auditor was invited and was present.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

	Auditor General's Report	Response of Insurance Regulatory Commission of Sri Lanka
(g)	Based on the Attorney General's opinion the commission had decided their own carder and the salary scheme. By the Memorandum dated 31 May 2019, Director General sought the approval of the chairman to effect the salary adjustment, carder revision, payment of cost-of-living allowance of Rs. 7,800, Competency Allowance of 15% from Basic salary and Special Living Allowance of Rs.12,500 for the commission staff with effect from 01 July 2018. Even though the commission is an entity subject to the purview of the Ministry of Finance the commission had not obtained the clearance or concurrence from the General Treasury to decide their carder and increase of salaries and allowances.	The Committee appointed by the Commission on remuneration of the IRCSL, noted that only one salary revision has been granted in 2012 for the last 13 years and hence staff salaries were not comparable with market rates, particularly with the remuneration offered by the other financial sector regulators. As a result, the IRCSL will not be in a position to hire qualified and experienced staff and to retain the existing qualified and experienced staff to meet the ever-increasing complex challenges in the insurance industry, more so in the context of investigations, mergers and takeovers. There is also a need for the current framework to be enhanced in order to be in line with international insurance practices to enhance the effectiveness, efficiency and relevance of the Regulator. Further, we wish to highlight the following facts related to having a good compensation package like other regulators. Recruitments for each and every position of the IRCSL are made with previous experience in reputed organizations and all Executive & amp; above staff should have appropriate qualifications. As per the provisions of the Act, the legislature has given certain autonomy to the institution that it has established. The salary component is around 24% of the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.
(h)	The salaries of the commission had increased between 12.98% to 59.73% in the year 2019 based on Attorney General's opinion without obtaining the prior approval of the Management Services Department in contrary to the Management Service circular 03/2018 dated 18 July 2018. The treasury representative in the board had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.	The salary was revised based on a study carried out by the Remuneration Committee and on their recommendation with the approval of the Commission. Attorney General's opinion confirmed the legal position taken by the Commission. The Commission has unanimously agreed with the decision to revise the salary structures. The salary component is around 24% of the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2021

<table>
<tr><th></th><th>Auditor General's Report</th><th>Response of Insurance Regulatory Commission of Sri Lanka</th></tr>
<tr><td>(i)</td><td>The Commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. The commission spent their funds of Rs. 6.2 million for the year 2021 for obtaining insurance cover without any contribution from the employees. However, it was observed that in the year 2017, the National Insurance Trust Fund has extended self-contributory insurance scheme for semi-government sector employees as well by charging a contribution of Rs.1000 per employee per month.</td><td> From the inception of the Commission, the IRCSL has provided insurance covers for the employees. This is part of the employee remuneration package. Procurement procedures have been followed in all instances. In PED 6/2019, it advises organizations to consider among other things, the cost involved, nature of the risk to be covered, and the quality of the services as well as the convenience of obtaining these services to the organizations. In order to comply with the requirement stipulated in Public Finance Circular No. 06/2019 (i) dated 12th September 2019 (folio 51), DPC decided to call quotations from the top 5 companies based on the market share and also from the state-owned insurance companies registered under the IRCSL. NITF had not attached the quotations. The SLIC, as the health insurance provider to the IRCSL staff for a long time, has been providing a quality service including on the spot claim settlement service, comprehensive cover for COVID 19 etc. Further, as per the previous experience, NITF has not provided satisfactory service with regard to claims such as motor and personal accident cover. Further, Agrahara insurance scheme is subsidized by the Treasury. Therefore, it would not be appropriate. </td></tr>
<tr><td>(j)</td><td>The budgeted welfare expenditure for the year 2021 is Rs.3,036,000 but the actual cost is Rs. 3,477,654. Accordingly, Rs.441,654 (12.7 percent) had been spent more than the budgeted expenditure. Furthermore, considering the welfare expenses other than the welfare expenses for the transportation of the commission, the annual welfare expenses borne by the Commission funds per employee is Rs. 36,640 for the year under review.</td><td> The IRCSL has budgeted Rs 3,100,000 for welfare expenses 2021. Subsequently, Rs 1.3 Mn was transferred to the staff welfare with the approval of the Commission (Commission paper no 206/08 dated 05/03/2021). Since the COVID pandemic situation the IRCSL had to provide transport facilities to the staff. Transport during the COVID had been utilized from the budget of staff welfare and traveling local. Accordingly,
<table>
<tr><th>Description</th><th>Budget (Rs)</th><th>Actual (Rs)</th></tr>
<tr><td>Staff welfare</td><td>4,400,000/- (including transfer of Rs 1.3 Mn)</td><td>4,518,164</td></tr>
<tr><td>Traveling local</td><td>260,000/-</td><td></td></tr>
<tr><td>Total</td><td>4,660,000/-</td><td>4,518,164</td></tr>
</table>
Therefore, the expenditure is within the budgeted amount. </td></tr>
</table>

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2021

	Notes	As at 31.12.2021 Rs	As at 31.12.2020 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant and Equipment	1	**23,827,365**	15,984,713
Fixed and Refundable Deposits (PPF)	2	**445,593,949**	868,593,949
Other non Current Assets	3	**9,639,737**	8,034,020
Total Non Current Assets		**479,061,051**	892,612,682
CURRENT ASSETS			
Inventories	4	**598,430**	522,560
Policyholders' Protection Fund- Investments & Others	2	**7,995,830,615**	6,605,893,807
Other Current Assets	5	**12,448,937**	13,164,043
Investments in Fixed Deposits		**-**	35,000,000
Investments in Government Securities -Repo		**220,000,000**	110,000,000
Cash and Cash Equivalents	6	**6,320,185**	5,673,130
Total Current Assets		**8,235,198,168**	6,770,253,540
TOTAL ASSETS		**8,714,259,219**	7,662,866,222
RESERVES AND LIABILITIES			
RESERVES & FUNDS			
Policyholders' Protection Fund	7	**8,441,424,564**	7,468,719,235
Revaluation Reserve		**28,593,684**	17,689,652
Accumulated fund		**162,942,114**	92,731,913
Grant Received from Ministry of Finance		**552,384**	307,535
Total Reserves & Funds		**8,633,512,746**	7,579,448,336
LIABILITIES			
NON CURRENT LIABILITIES			
Grant	8	**5,061,291**	10,829,811
Deferred Taxation	21	**1,898,049**	483,021
Retirement Benefit Obligation	9	**21,614,840**	19,473,749
Total Non Current Liabilities		**28,574,180**	30,786,581
CURRENT LIABILITIES			
Receipt in Advance		**16,380,329**	14,140,076
Other Current Liabilities	10	**35,791,964**	37,085,332
Bank Negative Balance	6 & 22	**-**	1,405,898
Total Current Liabilities		**52,172,293**	52,631,306
TOTAL RESERVES & LIABILITIES		**8,714,259,219**	7,662,866,222

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 136 to 154.

Razik Zarook
Chairman

Member

Damayanthi Fernando
Director General

Sathiesh Kumar
Director - Finance & Administration

Colombo, Sri Lanka
30th September 2022

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Notes	Year Ended 31.12.2021 Rs	Year Ended 31.12.2020 Rs.
REVENUE			
REVENUE FROM NON- EXCHANGE TRANSACTIONS			
Annual Fees & Renewal Fees	11	**272,610,654**	259,396,415
Recognition of Grant	8	**-**	2,905,041
Income from FSMP	12	**255,150**	12,344,401
REVENUE FROM EXCHANGE TRANSACTIONS			
Interest Income	13	**12,609,727**	12,784,254
Other Income	14	**425,296**	210,661
TOTAL INCOME		**285,900,827**	287,640,772
EXPENDITURE			
Staff Costs	15	**(127,134,065)**	(110,760,060)
Professional Charges	16	**(320,576)**	(302,000)
Operational Expenses	17	**(71,346,108)**	(66,594,283)
FSM Project Expenses	18	**(255,150)**	(640,875)
Finance and Others	19	**(54,613)**	(70,628)
TOTAL EXPENDITURE		**(199,110,512)**	(178,367,845)
Net Surplus /(Deficit) Before Tax		**86,790,315**	109,272,927
Taxation	21	**(16,014,436)**	(16,348,823)
Surplus Transferred to Policyholders' Protection Fund		**-**	(93,214,934)
Net Surplus /(Deficit) After Tax		**70,775,879**	290,831
Surplus Transferred to Accumulated Fund		**70,279,670**	-
Acturial Loss /(Gain) on Retirement Benefit Obligation	9	**496,209**	(290,831)
Net Surplus for the Year		**69,783,461**	-

The accounting policies and notes appearing on pages from 136 to 154 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Revaluation Reserves Rs.	Accumulated Surpluses/ (Deficits). Rs.	Total Rs.
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	-	(2,189,555)	(2,189,555)
Actuarial Loss/ (Gain)	-	515,801	515,801
Transferred to PPF	-	1,673,754	1,673,754
Balance at 31st December 2019	**17,689,652**	**-**	**17,689,652**
Balance at 1st January 2020	17,689,652	-	17,689,652
Deferred Tax impact on Opening Balance	-	(633,973)	(633,974)
Surplus for the year	-	96,001,300	96,001,300
Transferred to PPF	-	(95,600,233)	(95,600,233)
Deferred tax impact on actuarial gain	-	40,716	40,716
Actuarial Loss/ (Gain)	-	(290,831)	(290,831)
Revearsal of Surplus transferred to PPF for the year 2020	-	93,214,934	93,214,934
Balance at 31st December 2020	**17,689,652**	**92,731,913**	**110,421,565**
Balance at 1st January 2021	17,689,652	92,731,913	110,421,565
Net Surplus for the Year 2021	-	69,783,461	69,783,461
Gain on property revaluation	12,679,107	-	12,679,107
Deferred tax	(1,775,075)	-	(1,775,075)
Actuarial Loss/ (Gain)	-	496,209	496,209
Deferred tax	-	(69,469)	(69,469)
Balance at 31st December 2021	**28,593,684**	**162,942,114**	**191,535,798**

Revaluation reserve represents the surplus/deficit arising on the valuation of Motor Vehicles, Furniture and fillings, Office Equopment and EDP

Accumulated Surplus/ Deficits represent the Surplus/ Deficit transferred from the statement of Financial Performance.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Notes	Year Ended 31.12.2021 Rs	Year Ended 31.12.2020 Rs.
Cash Flows from Operating Activities			
Surplus/(deficit) for the Period		**86,790,315**	109,563,757
Provision for Depreciation	1	**7,861,456**	5,480,041
Provision for Retirement Benefit	9	**3,634,057**	3,925,559
Payment made- Retirement Benefit	9	**(1,989,175)**	-
Recognition of Grant	8	**-**	(2,905,041)
Interest Income	13	**(12,609,727)**	(12,784,254)
Net Increase before Working Capital Changes		**83,686,926**	103,280,062
Change of Working Capital			
(Increase)/Decrease in Inventories	4	**(75,870)**	131,762
(Increase)/Decrease of Receivables	5	**(1,127,676)**	374,136
Increase/(Decrease) of Receipt in Advance		**2,240,252**	(192,760)
Increase/(Decrease) of Creditors and Accruals	10	**(464,970)**	3,704,753
Cash Flow used in Operating Activities		**571,736**	4,017,891
Income Tax paid	21	**(16,063,744)**	(12,931,704)
Net Cash Flows from Operating Activities		**68,194,918**	94,366,249
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		**(110,000,000)**	52,000,000
Investment in Fixed Deposits		**35,000,000**	(35,000,000)
Interest Income		**11,638,186**	12,661,839
Purchase of Property Plant and Equipments	1	**(3,025,000)**	(5,773,521)
Net Cash used in Investing Activities		**(66,386,814)**	23,888,318
Cash Flow from Financing Activities			
Capital transfer from Policyholders' Protection Fund		**-**	5,773,521
Surplus transferred to PPF 2019		**-**	(129,844,897)
Grant Received from Ministry of Finance		**244,849**	(668,591)
Net Cash Flows from Financing Activities		**244,849**	(124,739,967)
Net Increase/(Decrease) in Cash and Cash Equivalents		**2,052,952**	(6,485,399)
Cash and Cash Equivalents at the beginning of the year		**4,267,233**	10,752,632
Cash and Cash Equivalents at the end of the year		**6,320,185**	4,267,233
Cash at Bank and in Hand	6 & 22		
Balance at Fund Management Account		**5,437,940**	5,014,430
Bank of Ceylon FSMP Account		**508,578**	658,147
Bank of Ceylon 1877		**373,073**	-
Savings - NSB		**595**	554
		6,320,185	5,673,131
Bank of Ceylon Negative Balance *			
Bank of Ceylon 1877 - as per Ledger		**-**	1,405,898
		6,320,185	4,267,233

The accounting policies and notes appearing on pages 136 to 154 form an integral part of the Financial Statements.

POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Year Ended 31.12.2021 Rs	Year Ended 31.12.2020 Rs.
Cash Flows from Operating Activities		
Net Increase of Policyholders' Protection Fund	972,710,329	1,215,761,003
Net Increase before Working Capital changes	972,710,329	1,215,761,003
Change of Working Capital		
(Increase)/Decrease of Interest Receivable on Government Securities	(35,502,718)	(71,803,279)
(Increase)/Decrease of Cess Receivable	(20,875,866)	(13,765,866)
Increase/(Decrease) of Amount to be Transferred From PPF	87,981,414	36,871,008
	31,602,829	(48,698,137)
Net Cash from Operating Activities	1,004,313,159	1,167,062,867
Cash Flows from/(used in) Investing Activities		
Investments in Government Securities	-	1,076,659,000
Investments in Fixed Deposits	(1,153,407,500)	(2,111,732,500)
Net Cash from Investing Activities	(1,153,407,500)	(1,035,073,500)
Net Increase/(Decrease) in Cash and Cash Equivalents	(149,094,341)	131,989,367
Cash and Cash Equivalents at the beginning of the year	150,396,035	18,406,669
Cash and Cash Equivalents at the end of the year	1,301,693	150,396,035
Balance at Current Account	1,000,000	1,000,000
Balance at Fund Management Account	301,693	149,396,035
	1,301,693	150,396,035

ACCOUNTING POLICIES

1. SIGNIFICANT ACCOUNTING POLICIES

1. 1 Reporting Entity

1.1.1 Legal Form

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.

1.1.2 Principle activities and nature of operations

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) advice 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

1.2.1 Statement of Compliance

The Financial Statements of the Insurance Regulatory Commission of Sri Lanka comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Equity /Net Assets and Cash Flows together with the Notes to the Financial Statements and have been prepared in accordance with the Sri Lanka Public Sector Accounting Standards and are in compliance with the said standards.

These Financial Statements were authorized for issue by the Commission members on 30th September 2022.

1.2.2 Basis of Measurement.

The Financial Statements have been prepared under the historical cost convention and applied consistently with no adjustment being made for inflationary factors affecting the Financial Statements except for the following.

-Defined benefit obligations are measured at its present value based on an Actuarial Valuation as explained in note 3.1.1.

Where appropriate, accounting policies are disclosed in succeeding notes.

1.2.3 Going Concern

When preparing the Financial Statements, the Members of the Commission assessed the ability of the Commission to continue as a going concern. The Members of the Commission have a reasonable assurance that IRCSL will continue in operation and meet its statutory obligations for the foreseeable future. The IRCSL does not foresee a need for liquidation or cessation of operations,

ACCOUNTING POLICIES

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.

1.2.4 Functional and Presentation Currency

The Financial Statements of the Commission are presented in Sri Lankan Rupees, which is the Commission's functional currency. All financial information presented in Rupees has been rounded to the nearest Rupee.

1.2.5 Comparative Information

The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

1.2.6 Materiality and Aggregation

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.7 Significant Accounting Judgements, Estimates an Assumptions

The preparation of Financial Statements in conformity with SLPSAS requires management to make Judgements, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical Judgements in applying accounting policies that have a significant effect on the amounts recognized in the Financial Statements is included in the following notes.

Assessment of impairment- Key Assumptions used in Discounted Cash Flow Projections

The Commission assesses at each reporting date whether there is objective evidence that an asset or a portfolio of assets is impaired. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to its present value using appropriate discount rates that reflects the current market assessments of the time value of money and risk specific to the asset.

Depreciation

Judgement is required in determining the method of depreciation, useful life and residual values.

Deferred Taxation

Management Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the level of future taxable profits together with future tax planning strategies.

Defined benefit Plans

The assessment of the liability of defined benefit obligations involves a significant element of assumptions; including discount rates, future salary increases and mortality rates and due to the long term nature of these plans, such estimates are subject to uncertainty.

Current Taxation

Current Tax liabilities are provided for in the Financial Statements applying the relevant tax statutes and regulations which the management believes reflect the actual liability. There can be instances where the stand taken by the Commission on transactions is contested by Revenue Authorities. Any additional costs on account of these issues are accounted for as a tax expense at the point the liability is confirmed on the Commission.

ACCOUNTING POLICIES

1.2.8. 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.

1.3 Conversion of Foreign Currency

All foreign currency transactions are converted at the rate of exchange prevailing at the time of 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.

1.4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

1.4.1 Market Risk

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

1.4.1.1 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.

1.4.1.2. Liquidity risk

Liquidity risk is that 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 and impairment losses. 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.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration, the asset is initially measured at its fair value.

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 Financial Performance during the financial period in which they are incurred.

Revaluation model is applied for Motor Vehicles, which are revalued once in three years and thereafter to comply with requirements of revaluation model under SLPSAS 7.

Office equipment, furniture and fittings are revalued annually.

DEPRECIATION

Depreciation is charged on the straight-line basis over the estimated useful life of the asset at following rates. The useful life, depreciating methods and residual values are assessed annually or in an earlier date where any circumstances indicates such assessment is required.

Asset	% per annum
Motor Vehicles	25
Furniture, Fixtures and Fittings	12.5
Office and EDP Equipment	25
Training Equipment	25

ACCOUNTING POLICIES

Depreciation is provided from the date of purchase up to the date of disposal. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount.

2.2 INVESTMENTS

Investments are made in fixed deposits and short term investments at Licensed Government banks, in Government Treasury Bills and Government Treasury Bonds which are stated at cost and interest accrued up to the date of the reporting period. These investments are stated at cost plus accrued interest up to the reporting period. 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 carried at expected realizable value after making provision for impairment. All receivables are assessed for specific impairment by considering objective evidences.

2.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Commission assesses at the end of each financial period if events or changes in Circumstances indicate that there is an indication that a non- financial assets maybe impaired. If such indication exists, the Commission makes an estimated recoverable amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

2.6 CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents consist of cash at banks and cash in hand, deposits on call and liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

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. All known liabilities have been accounted at cost in preparing the financial statements.

3.1 Liabilities classified as Current Liabilities in the Statement of Financial Position are those which will fall due for payment on demand or within one year from the Reporting Date.

3.2 Liabilities classified as Non- Current Liabilities in the Statement of Financial Position are those which will fall due for payment after one year from the Reporting Date.

3.3 A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Commission, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation.

3.4 Provisions are recognized when the Commission has a legal or constructive obligation at present as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

3.5 Nature and purpose of reserves

The IRCSL creates and maintains reserves in terms of specific local requirements.

(a) Accumulated Reserve

The surplus/deficit of the Commission is transferred to the Accumulated Fund

(b) Revaluation Reserve

Gain/loss on revaluation of assets are transferred to the Revaluation Reserve.

ACCOUNTING POLICIES

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 2021	19,473,748
Current Service Cost	2,465,632
Interest Cost	1,168,425
Actuarial losses / (gains)	496,209
Charged to profit and loss of the statement of comprehensive income	4,130,266
Benefits paid	(1,989,175)
At the end of financial year 2021	21,614,840

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

The principal actuarial assumptions used were as follows.

Discount Rate	:	11% per annum
Rate of salary increase	:	9%
Retirement Age	:	62 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 GRANT

3.2.1 Policyholders' Protection Fund

Capital Expenditure transferred from Policyholders' Protection Fund is treated as grant and recognized on the estimated useful life of the asset. However, this process was discontinued due to the surplus in the Commission Fund.

3.2.2 Financial Sector Modernization Project (FSMP)

Grants are recognized in the Financial Statements at their fair value. When the grant related to an expense, 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 to the cost incurred.

3.3 Related parties

The IRCSL regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the IRCSL, or vice versa. Members of key management are regarded as related parties and comprise the Line Ministry and Members of the Commission.

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

4.1.1 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Fees and Taxes

The IRCSL recognizes revenues from fees and taxes when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with

ACCOUNTING POLICIES

the asset will flow to the entity and the fair value of the asset can be measured reliably.

IRCSL revenue consists of Annual fees, Renewal Fees, Registration fees and sale of publications, etc.

4.1.2 REVENUE FROM EXCHANGE TRANSACTIONS

Interest income

Interest income has been recognized on a time proportion basis that took into account the effectively yield on the assets.

Sale of Assets

Revenue from the sale of assets is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods.

4.2 EXPENDITURE RECOGNITION

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

4.2.1 INTEREST INCOME AND EXPENSES

Interest expenses are recognized in the Statement of Financial Position on an accrual basis.

4.3 INCOME TAX EXPENSES

Current Taxation

Commission's tax expense is made up of current taxation and deferred tax gain or loss during the year. Provision for taxation is based on the profit/surplus for the year adjusted for taxation purposes.

Deferred Tax

Deferred Taxation is provided using the Balance Sheet liability, method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized only to the extent that is probable that future taxable profits would be available against which the assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.4 CASH FLOW STATEMENT

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

4.5 BUDGET INFORMATION

The annual budget is prepared on the accrual basis; that is, all planned costs and income are presented in a single statement to determine the needs of the IRCSL.

These budget figures are those approved by the Commission at the beginning of the Financial Year.

5 POLICY HOLDERS PROTECTION FUND

5.1 Legal Form

The Policy Holders Protection Fund of Insurance Regulatory Commission of Sri Lanka is established In terms of Section 103(1) of the Regulation of Insurance Industry Act No.43 of 2000 (RII Act) which reads as 'There shall be a fund to be known as the Policy Holders Protection Fund to which shall be credited the CESS charged under Section 7 of the RII Act.

5.2 Principle activities and nature of operations.

According to the Section 103(1) of the Regulation of Insurance Industry Act No.43 of 2000 (RII Act), the funds lying to the credit of this fund shall be utilized for the general protection of the policy holders and for any other specific purpose as may be determined by the Commission by rules made in that behalf.

Further, any money which is not immediately required for any of the purposes referred to above, shall be invested by the Commission in such prudent manner as would yield a good return and safeguard the investment.

There were no changes in the nature of the objects of the Policy Holders Protection Fund during the financial period under review.

5.3 Basis of Measurement.

The Financial Statements have been prepared under the historical cost convention and applied consistently with no adjustment being made for inflationary factors affecting the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
COST/REVALUATION					
Balance as at 1st 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 31st December 2019	**10,300,000**	**15,642,481**	**27,756,264**	**141,450**	**53,840,195**
Balance as at 1st January 2020	10,300,000	15,642,481	27,756,264	141,450	53,840,195
Additions	-	1,383,081	4,390,440	-	5,773,521
Balance as at 31st December 2020	**10,300,000**	**17,025,562**	**32,146,704**	**141,450**	**59,613,716**
Balance as at 1st January 2021	10,300,000	17,025,562	32,146,704	141,450	59,613,716
Additions	-	-	3,025,000	-	3,025,000
Disposals	-	-	-	-	-
Impact on Revaluation	2,500,000	(7,950,627)	(11,817,033)	-	(17,267,660)
Balance as at 31st December 2021	**12,800,000**	**9,074,935**	**23,354,671**	**141,450**	**45,371,056**
ACCUMULATED DEPRECIATION					
Balance as at 1st 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 31st December 2019	**2,575,000**	**13,190,632**	**22,241,880**	**141,450**	**38,148,962**
Balance as at 1st January 2020	2,575,000	13,190,632	22,241,880	141,450	38,148,962
Charge for the year	2,575,000	580,890	2,324,151	-	5,480,041
Disposals	-	-	-	-	-
Balance as at 31st December 2020	**5,150,000**	**13,771,522**	**24,566,031**	**141,450**	**43,629,003**
Charge for the year	2,575,000	1,499,751	3,786,704	-	7,861,456
Disposals	-	-	-	-	
Impact on Revaluation	(7,725,000)	(9,878,066)	(12,343,701)	-	(29,946,767)
Balance as at 31st December 2021	**-**	**5,393,207**	**16,009,034**	**141,450**	**21,543,691**
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2021	**12,800,000**	**3,681,727**	**7,345,638**	**-**	**23,827,365**
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2020	5,150,000	3,254,039	7,580,674	-	15,984,713

Fully Depreciated Assets as at 31.12.2021 amounting 34,964,431 are still in use. Revalued amount is Rs. 2,454,107

The Board of Survey has inspected the condition of these assets and has re- estimated the useful life time. The resulting impact would be adjusted prospectively .

Motor vehicles were revalued by professional valuer, Automobile Association of Ceylon.

NOTES TO THE FINANCIAL STATEMENTS

		Notes	As at 31.12.2021 Rs	As at 31.12.2020 Rs.
2	**POLICYHOLDERS' PROTECTION FUND INVESTMENTS AND OTHERS**			
	NON CURRENT ASSETS			
	Rent and Electricity Deposits		9,593,949	9,593,949
	Fixed Deposits		436,000,000	859,000,000
			445,593,949	868,593,949
	CURRENT ASSETS			
	Investment in Fixed Deposits		7,449,100,000	5,872,692,500
	Interest Receivable on the Government Securities and Fixed Deposits		384,766,481	349,263,763
	CESS Receivable		161,202,441	140,326,575
	Balance at Fund Management Account		301,693	149,396,035
	Balance at Bank		1,000,000	1,000,000
	Amount to be transferred to PPF		-	93,214,934
			7,996,370,615	6,605,893,807
	Less			
	Amount to be transferred from PPF		540,000	-
			7,995,830,615	6,605,893,807
	Total Assets		8,441,424,564	7,474,487,756
3	**OTHER NON CURRENT ASSETS**			
	Refundable Deposit for rent		2,688,246	2,688,246
	Prepayments		775,242	-
	Staff Loans *		6,176,249	5,345,774
			9,639,737	8,034,020
4	**INVENTORIES**			
	Printing, Stationery and Computer Accessories		519,010	490,870
	Stamps		79,420	31,690
			598,430	522,560
5	**OTHER CURRENT ASSETS**			
	Receivable from non Exchange transations			
	Other Receivables		239,953	227,953
	Receivable from Exchange transations			
	Amount to be transferred from PPF		540,000	-
	Provision for Acquisition	5.1	2,200,000	3,193,650
	Staff Loans *		2,292,955	2,052,354
	Festival advance*		1,170,100	1,360,100
	Advance and Pre-payments		4,101,974	4,649,569
	VAT Control		581,313	129,409
	Deposits	5.2	228,686	219,987
	Interest Receivable - Government securities		1,093,957	122,415
	WHT Recoverable		-	1,208,606
			12,448,937	13,164,043

NOTES TO THE FINANCIAL STATEMENTS

5.1 provision for Acquisition is in respect of Laptop computers which was awarded in December 2021

5.2 Deposits represent fuel deposit and NSB deposit for safety locker

			As at 31.12.2021 Rs	As at 31.12.2020 Rs.
	*Loans Granted to Staff			
	Balance as at 1st January 2021		**8,758,228**	5,347,093
	Loans Granted during the year		**7,257,500**	6,436,900
			16,015,728	11,783,993
	Repayments during the year		**(6,376,424)**	(3,025,765)
	Balance as at 31st December 2021		**9,639,304**	8,758,228
6	**CASH & CASH EQUIVALENTS**			
	Cash at Banks			
	Balance at Fund Management Account	22	**5,437,940**	5,014,430
	Cash in Hand		**-**	-
	Bank of Ceylon 1877		**373,073**	-
	Bank of Ceylon FSMP Account		**508,578**	658,147
	Savings Account - NSB		**595**	554
			6,320,185	5,673,130
	Bank of Ceylon Negative Balance *			
	Bank of Ceylon 1877 - as per Ledger	22	**-**	1,405,898
			6,320,185	4,267,232
7	**POLICYHOLDERS' PROTECTION FUND**			
	Opening Balance		**7,468,719,235**	6,252,958,232
	Cess Received during the year		**543,906,322**	506,139,149
	Interest on Repo		**334,087**	479,514
	Interest on Treasury Bond Investment		**-**	33,151,511
	Interest on Fixed Deposits		**515,764,257**	588,341,378
	Interest on Fund Management Account		**150,009**	211,291
	Net Surplus of the current year		**-**	93,219,934
			8,528,873,909	7,474,501,007
	Less:			
	Reversal of Surplus transferred to PPF		**87,446,414**	-
	Transfers for Capital Expenses		**-**	5,773,520
	Total transfers- Policyholders' Protection Fund		**87,446,414**	5,773,520
	Bank charges		**2,932**	8,251
			87,449,347	5,781,772
	Closing Balance		**8,441,424,564**	7,468,719,235

NOTES TO THE FINANCIAL STATEMENTS

		Notes	As at 31.12.2021 Rs	As at 31.12.2020 Rs.
8	**GRANT**			
	Balance at the beginning of the year		10,829,811	7,966,331
	Capital Expenditure from Policyholders' Protection Fund		(5,773,521)	5,773,521
	Less: Amortized during the year		-	(2,905,041)
	Balance at the end of the year		5,061,291	10,829,811

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.)

However, Capital Expenditure transferred from Policyholders' Protection was discontinued due to the surplus in the Commision Fund. Last year figures has been adjusted to reflect the current year presentation.

Motor Vehicle	25%	25%
Office Equipment - Others & EDP	25%	25%
Furniture Fixtures & Fittings	12.5%	12.5%
Training Equipments	25%	25%

		Notes	As at 31.12.2021 Rs	As at 31.12.2020 Rs.
9	**RETIREMENT BENEFIT OBLIGATIONS**			
	Balance at the beginning of the year		19,473,749	15,839,021
	Provision made during the year		3,634,057	3,925,559
	Actuarial (Gain)/ loss		496,209	(290,831)
	(-)Payment made during the year		(1,989,175)	-
	Balance at the end of the year		21,614,840	19,473,749
	Discount Rate		11%	6%
	Future Salary Increment Rate		9%	9%

9.1 SENSITIVITY OF ASSUMPTIONS USED

A one percentage change in the assumptions would have the following effects.

	Discount Rate	Future Salary Increment Rate
1% Increase	20,022,506	23,553,736
1% Decrease	23,426,500	19,889,539

An acturial valuation of the retirement gratuity obligation was carried out as at December 31, 2021 by aprofessional Actuary, Acturial Management Services (Pvt) Ltd. The valuation method used by the Actuary to value the liability is the "Projected Unit Credit Method (PUC)", a method recommended by the Sri Lanka Public Sector Accounting Standard SLPSAS 19 on "Employee Benefit

NOTES TO THE FINANCIAL STATEMENTS

		As at 31.12.2021 Rs	As at 31.12.2020 Rs.
10	**OTHER CURRENT LIABILITIES**		
	Accrued Expenses	**25,008,338**	25,591,998
	EPF Payable	**1,247,337**	1,258,891
	ETF Payable	**187,102**	188,834
	PAYE Payable	**35,068**	30,320
	Retention Payable	**36,228**	36,228
	Income Tax payable	**5,948,270**	6,776,668
	Refunds & Other payables	**3,329,621**	3,202,393
		35,791,964	37,085,332
	*Surplus transferred from Commision fund was discontinued from 2020 .		
11	**REVENUE FROM NON- EXCHANGE TRANSACTIONS**		
	Annual Fees from Insurance Companies	**257,764,270**	244,899,120
	Registration and Renewal Fees	**14,846,384**	14,497,295
		272,610,654	259,396,415
12	**INCOME FROM FSM PROJECT**		
	FSMP - DLI Grant	**-**	11,675,810
	FSMP - Non DLI Grant	**255,150**	668,591
		255,150	12,344,401
13	**REVENUE FROM EXCHANGE TRANSACTIONS**		
	Interest on Fixed Deposit	**5,514,050**	7,748,539
	Interest on Fund Management Account	**201,853**	228,338
	Interest on Savings Account	**41**	-
	Interest on Repos	**6,893,783**	4,807,377
		12,609,727	12,784,254
14	**Other Income**		
	Interest on Vehicle Loan	**274,395**	83,622
	Interest on Distress Loan	**149,012**	127,039
	Sundry Income	**1,890**	-
		425,296	210,661

NOTES TO THE FINANCIAL STATEMENTS

		As at 31.12.2021 Rs	As at 31.12.2020 Rs.
15	**Staff Costs**		
	Staff Salaries	**77,422,627**	69,948,812
	EPF 12%	**9,293,499**	8,365,679
	ETF 3%	**2,323,376**	2,091,420
	Chairman - Allowance	**1,200,000**	1,162,466
	Chairman - Fuel Allowance	**241,050**	238,887
	Commission Members - Sitting Allowance	**1,384,859**	865,972
	Interns Allowance	**242,000**	283,500
	Overtime	**527,240**	306,761
	Staff Medical Expenses	**2,773,703**	2,416,726
	Staff Medical Insurance	**2,328,894**	2,001,327
	Insurance Fire and Personal	**587,977**	379,922
	Staff Welfare	**4,459,324**	2,038,778
	Staff Training Local & Subscription	**921,188**	401,492
	Performance Based Incentives	**9,096,187**	8,438,186
	Advertising Recruitment	**732,740**	128,975
	Directors Telephone Residence	**786,390**	439,740
	Leave Encashment	**1,796,425**	1,673,310
	Vehicle Operating Lease Charges	**1,455,048**	1,455,048
	Directors Vehicle Allowance	**4,570,890**	3,166,986
	Directors Fuel Allowance	**1,356,590**	1,030,514
	Staff Gratuity*	**3,634,057**	3,925,559
		127,134,065	110,760,060

* Interest cost of gratuity which was classified under finance cost last year has been reclassified under staff cost

16	**PROFESSIONAL CHARGES**		
	Tax & gratuity valuation Fee	**320,576**	302,000
		320,576	302,000

NOTES TO THE FINANCIAL STATEMENTS

		As at 31.12.2021 Rs	As at 31.12.2020 Rs.
17	**OPERATIONAL EXPENSES**		
	Rent & Service Charge	**44,182,960**	41,537,311
	Parking Fees	**763,550**	761,000
	Telephone Expenses & Internet	**1,690,919**	1,329,925
	Electricity	**1,626,825**	1,602,200
	Office Upkeep	**618,023**	1,476,835
	Printing & Stationary	**2,764,004**	2,413,783
	Public Awareness	**1,814,843**	1,459,568
	Traveling - Local	**58,840**	112,381
	Office Equipment Maintenance EDP & Others	**2,103,839**	3,298,073
	International Membership of IAIS	**4,516,334**	4,124,500
	Advertising - Others	**355,255**	135,000
	Meeting Expenses	**290,520**	279,330
	Subscription Newspapers & Library Books	**164,694**	236,414
	Postage & Courier Charges	**62,438**	152,900
	Audit Fees-Auditor General	**504,000**	457,200
	Audit Fees-Internal	**1,262,200**	1,050,000
	Depreciation	**7,861,456**	5,480,041
	General Expenses	**112,778**	73,730
	Legal Expenses	**-**	64,000
	Investigation Expenses	**12,921**	1,850
	Supervision Expenses	**-**	6,020
	Vehicle Maintenance	**223,973**	215,300
	Vehicle Insurance	**96,464**	90,626
	Vehicle Running Charges	**259,272**	97,780
	Nation Building Tax	**-**	138,516
		71,346,108	66,594,283
18	**ADVERTISING FOR RECRUITMENT**	**253,150**	640,875
	Bank charges	**2,000**	-
		255,150	640,875
19	**FINANCE & OTHER EXPENSES**		
	Bank Charges	**54,613**	70,628
		54,613	70,628

NOTES TO THE FINANCIAL STATEMENTS

		Actual 2021 Rs.	Budget 2021 Rs.	Variance
20	**COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET**			
	Income			
	Annual Fees from Insurance Companies	**257,764,270**	**262,900,000**	**-2%**
	Registration and Renewal Fees	**14,846,384**	**14,100,000**	**5%**
	Less: Expenditure			
	Staff Costs	**127,134,065**	**146,750,000**	**13%**
	Professional & operational Charges	**71,666,684**	**97,465,000**	**26%**
	Finance and Others	**16,069,049**	**20,350,000**	**21%**

		As at 31.12.2021 Rs	
21	**TAXATION**		
	Current Income Tax		
	Current Income tax charge	16,443,952	
	Deferred Tax		
	Relating to origination and reversal of temporory differences	(429,516)	
	Income tax expense reported in the statement of Finacial Performance	**16,014,436**	
	A. Business Income		
	Profit before Tax	86,790,315	
	Add: Deductions not allowed		
	Accounting depreciation on PPE	7,861,456	
	Provision for retirement contributions (Gratuity)	3,634,057	
	Directors Telephone Residence	786,390	
	Less: Allowable Deductions		
	Capital allowances on depreciable assets	(3,771,616)	
	Gratuity paid	(1,989,175)	
	Less: Investment Income		
	Interest Income	(12,609,727)	
	Total Business Income		
	Tax payable @14%	80,701,699	11,298,238
	B. Investment Income		
	Tax payable @ 28%	12,609,727	3,530,724
	Current Year Tax		14,828,961
	Previous year Income tax under provision		1,614,991
	Total Tax		16,443,952

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.2021 Rs	As at 31.12.2020 Rs.
Defferred Tax		
Accelarated Depreciation for tax purposes		
Balance as at 1st January	**483,021**	633,974
Originating/(reversing) during the year	**1,415,028**	(150,953)
Balance as at 31st December	**1,898,049**	483,021
Deferred Tax provision as at the year end is made up as follows		
Deferred Tax Provision from temporary differences of		
- Property Plant and Equipment	**2,197,895**	991,882.78
- Gratuity	**(299,847)**	(508,861.92)
- Revaluation surplus		-
	1,898,048	483,021

22. FUND MANAGEMENT ACCOUNTS, LEDGER BALANCES & BANK BALANCES

IRCSL operates two Fund Management Account linked to our current account for the Commission and accordingly, over and above favorable balance of Rs. 1,000,000/- prevailed in the current account (in bank records) will automatically be transferred to Fund Management Account. 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 2021 are as follows.

Balance of Current Account	-	Rs. 373,073
Balance of Fund Management Account	-	Rs. 5,437,940
Total	-	Rs. 5,811,012

23. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2021.

24. CONTINGENT LIABILITIES & CONTINGENT ASSETS

There were no known contingent liabilities & Assets as at 31st December 2021.

25. EVENTS AFTER THE REPORTING PERIOD

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

NOTES TO THE FINANCIAL STATEMENTS

26. TAXATION

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

Description	2021. 12. 31	
A. Business Income		
Profit before Tax	86,294,106	
Add: Deductions not allowed		
Accounting depreciation on PPE	7,861,456	
Provision for retirement contributions (Gratuity)	4,130,266	
Directors Telephone Residence	786,390	
Less: Allowable Deductions		
Capital allowances on depreciable assets	(3,771,616)	
Gratuity paid	(1,989,175)	
Less: Investment Income		
Interest Income	(12,609,727)	
Total Business Income	**80,701,699**	
Tax payable @14%		11,298,237.87
B. Investment Income	**12,609,727**	
Tax payable @ 28%		3,530,724
		14,828,961
Previous year Income tax under provision		1,614,991
		16,443,952
Less: Tax Credits		
B/F Income tax		(39,000)
WHT		(1,208,606)
Self -Assessments paid		(7,633,085)
Balance Payable		**5,948,271**

27. 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).

NOTES TO THE FINANCIAL STATEMENTS

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.

World Bank has remitted followings to the Ministry of Finance.

(i) FSMP investment project financing

Strengthening Regulators' institutional capacity upgrading the legal and regulatory framework and Modernizing Financial market infrastructure

Date	Amount (USD)
14/01/2019	523,000
Payments	(48,352)
	474,648

(ii) Result Based Financing

Provision of support to finance the eligible expenditure programme against achieving Disbursement Linked Results.

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
12/02/2020	64,208.44

28. RELATED PARTY DISCLOSURES

Mr. Razik Zarook PC was appointed as the Chairman of the IRCSL with effect from 3rd January 2020

Mr. R.M.P Ratnayake was appointed as an EX-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 22nd January 2021.

Mrs. T.M.J.Y.G Fernando was appointed as an EX-officio member by virtue of her holding office as Deputy Governor to the Central Bank of Sri Lanka with effect from 1st January 2021

Mr. Sanjeewa Dissanayake was appointed as an EX-officio member by virtue of him holding office as Registrar of Companies to the Department of Registrar of Companies with effect from 8th July 2021

Mr. Haris Salpitikorala was appointed as a Member of the Commission with effect from 3rd January 2020

Mr. Raja Goonaratne was appointed as a Member of the Commission with effect 3rd January 2020.

Ms. Indra Baduge was appointed as a Member of the Commission with effect from 3rd January 2020.

The following Ex-officio Members of the Commission ceased to hold office as stated below.

Mr.P Algama who held office as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury ceased to be a member with effect from 22nd January 2021.

Mr.A.K.D.D.D. Arandara who held office as an EX-officio member by virtue of him holding office as Registrar of Companies to the Department of Registrar of Companies ceased to be a member with effect from 7th July 2021

NOTES TO THE FINANCIAL STATEMENTS

28.1 The following table depicts the relationships held by the Members of the Commission who held office during the year under review.

Name of the Member	Name of Related Institution	Relationship
Mr. Razik Zarook	Finance Commission BMICH	Member (1st January 2021 to 31st December 2021) Member (1st January 2021 to 31st December 2021)
Mr. R.M. P Rathnayake	Securities and Exchange Commission Bank of Ceylon (BOC) Local Loan & Development Fund (LLDF)	Director (1st January 2021 to 31st December 2021) Director (1st January 2021 to 31st December 2021) Chairman (1st January 2021 to 31st December 2021
Mr. Sanjeewa Dissanayaka	Securities and Exchange Commission Sri Lanka Accounting & Auditing Standards monitoring Board Accounting Standards Committee	Ex- Officio Member (8th July 2021 to December 2021) Ex- Officio Member (8th July 2021 to December 2021) Ex- Officio Member (8th July 2021 to December 2021)
Mrs. T.M.J.Y.G Fernando	Central Bank of Sri Lanka Credit Information Bureau of Sri Lanka(CRIB) Institute of Bankers of Sri Lanka (IBSL)	Deputy Governor (1st January 2021 to 31st December 2021) Chairperson (1st January 2021 to 31st December 2021) Chairperson (1st January 2021 to 31st December 2021)
Mr. Haris Salpitikorala	Nil	Nil
Mr. Raja Goonaratne	NMRA	Member (1st January 2021 to December 2021)
Ms. Indra Baduge	Nil	Nil

28. 2 Other than the following transactions in the ordinary course of business at market rates, no transactions were recorded with the abovementioned institutions during the year under review. The IRCSL maintains the following 2 Current Accounts and 3 savings accounts at Bank of Ceylon (BOC) and the bank balances are tabulated below;

Name of the Account	Account Number	Balance as at 31.12.21	Balance as at 31.12.2020
Bank of Ceylon	1877	Rs. 373,073	(Rs. 1,405,898)
Bank of Ceylon	74236358	Rs. 5,437,940	Rs. 5,014,430
Bank of Ceylon	83094438	Rs. 508,578	Rs.658,147
Bank of Ceylon	1886	Rs. 1,000,000	Rs. 1,000,000
Bank of Ceylon	74236394	Rs. 301,963	Rs. 149,396,035

NOTES TO THE FINANCIAL STATEMENTS

28. 3 The following investments were channeled through BOC during the year 2021.

Commission Fund Investment Type	Investments during the year (Rs.)	Balance as at 31.12.2021 (Rs.)
Repo	586Mn	95Mn
Fixed Deposits	265Mn	-

PPF nvestment Type	Investments during the year (Rs.)	Balance as at 31.12.2021 (Rs.)
Repo	Rs.696,900,000	-
Fixed Deposits	Rs.2,260,000,000	Rs.2,260,000,000

28.4 Other than the transactions in the ordinary course of business no other transactions were recorded by the Insurance Regulatory Commission of Sri Lanka, with the governing body may consist of elected or appointed representatives of the Ministry of Finance, Finance Minister and Secretary to the Treasury during the year.

28.5 Transactions with Key Management Persons (KMP)

As per the Sri Lanka public sector Accounting Standard – SLPSAS 14 on "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing, and controlling the activities of the entity.

28.5.1 Remuneration to Key Management Personnel (KMPs)

Members of the governing body	
Aggregate remuneration including transport cost (7 Members)	Rs. 2,656,685
Medical insurance Premium for 2 members	Rs. 103,546

Chief Executive and senior management group	
Aggregate remuneration for 6 persons	Rs. 25,183,970
Non cash benefits	Rs. 1,455,048
Medical insurance Premium for 6 persons	Rs. 285,820

29. Comparative Information

Based on the recommendations given by the Auditor General, the IRCSL initiated the application of deferred taxation as per requirements of LKAS 12 Income Taxes, previously IRCSL did not provide for temporary timing differences which amounts to a change in an accounting policy. As such, previous two years have been reinstated in order to comply with the requirements of SLPSAS 3 Accounting Policies, Change in Accounting Estimates and Errors.

APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2021.

No.	Name of the Insurance Company	Class of Insurance Business
1	AIA Insurance Lanka Ltd.	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 Life PLC	Long Term Insurance
6	Amana Takaful PLC	General Insurance
7	Arpico Insurance PLC	Long Term Insurance
8	Ceylinco General Insurance Limited	General Insurance
9	Ceylinco Life Insurance Limited	Long Term Insurance
10	Continental Insurance Lanka Ltd.	General Insurance
11	Cooperative Insurance Company Ltd.	General Insurance
12	Cooplife Insurance Limited	Long Term Insurance
13	Fairfirst Insurance Limited	General Insurance
14	HNB Assurance PLC	Long Term Insurance
15	HNB General Insurance Ltd.	General Insurance
16	Janashakthi Insurance PLC	Long Term Insurance
17	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
18	LOLC General Insurance Limited	General Insurance
19	LOLC Life Assurance Limited	Long Term Insurance
20	MBSL Insurance Company Limited **	Long Term Insurance and General Insurance
21	National Insurance Trust Fund	General Insurance
22	Orient Insurance Limited	General Insurance
23	People's Insurance PLC	General Insurance
24	Sanasa General Insurance Company Limited	General Insurance
25	Sanasa Life Insurance Company PLC	Long Term Insurance
26	Softlogic Life Insurance PLC	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.
** The company has confirmed they would cease underwriting new life insurance business w.e.f 01.06.2020

APPENDIX II

Insurance Brokering Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2021.

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.	Long Term and General Insurance
11	Asia Corp Insurance Brokers (Pvt) Ltd. [former JF Insurance Brokers (Pvt) Ltd]	General Insurance
12	Assetline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
13	Ax Insurance Brokers (Pvt) Ltd.	General Insurance
14	BIMA Lanka Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
15	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
16	Ceyexxe Insurance Brokers Ltd.	General Insurance
17	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General Insurance
18	Ceynergy Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
19	CF Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
20	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
21	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	D S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
23	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
24	Eagle DVRS Insurance and Reinsurance Brokers (Private) Limited	General Insurance
25	Eagle Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
26	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
27	Esna Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
28	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
29	Fairway Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
30	Find My Insurance & Reinsurance Brokers (Pvt) Ltd.	Long Term and General Insurance
31	Foremost Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
32	George Steuart Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
33	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance
34	Grand Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance

APPENDIX II

No.	Name of Broker	Class of business
35	Guardian Insurance Brokers (Pvt) Ltd.	General Insurance
36	Icon Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
37	IIRM Insurance Brokers (Pvt) Ltd. [former Finlay Insurance Brokers (Pvt) Ltd]	Long Term and General Insurance
38	InsureMe Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
39	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance
40	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
41	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance
42	M R U S Insurance Brokers (Pvt) Ltd	General Insurance
43	Maxwell Insurance Brokers (Private) Ltd.	Long Term and General Insurance
44	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
45	Mercantile Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Mutual Insurance Brokers (Pvt) Ltd	General Insurance
47	L M & A Insurance Brokers & Consultants (Pvt) Ltd	Long Term and General Insurance
48	My Insurance Brokers (Pvt) Ltd.	General Insurance
49	Nations Insurance Brokers Ltd.	Long Term and General Insurance
50	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
51	Prestige Insurance Brokers Ltd	Long Term and General Insurance
52	Procare Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
53	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
54	Priority Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
55	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance
56	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
57	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance
58	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
59	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
60	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
61	Serendib Insurance Brokers (Private) Ltd.	Long Term and General Insurance
62	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
63	Sungate Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
64	Trust Insurance Brokers (Pvt) Ltd.	General Insurance business
65	UN Insurance Brokers (Pvt) Ltd.	General Insurance
66	United Insurance Brokers (Pvt) Ltd.	General Insurance
67	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
68	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
69	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
70	Zenith Insurance Brokers (Pvt) Ltd	Long Term and General Insurance

APPENDIX III

Loss Adjusters Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2021.

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 Mudiyanselage 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 Mudiyanselage Herath Rajapakse	26th September 2019
15	Mr. Jasin Basthian Arachchige Ravinath Niroshana	26th September 2019
16	Mr. Keerthi Delwatta	26th September 2019
17	Entrust International (Pvt)Ltd	08th June 2020
18	Mr. Ali Mohideen Mohomad Khaleel	12th August 2020
19	Mr. Shelvin Maligaspe Koralage	12th August 2020
20	Mr. Sreenath Bandula Amarasekera	12th August 2020
21	Mr. Anura Mahinsaka Dedigama	12th August 2020
22	Mr. Mangala Keerthi Ashoka Kumara Dharmaratne	12th August 2020
23	Mr. Sithira Pandithasundara	12th August 2020
24	Mr. Hema Gotabaya Mahanama Liyanage	16th March 2021
25	Mr. Johann Amarathunga	08th February 2021
26	Mr. Mampe Vithanage Rupasena Perera	07th July 2021
27	Mr. Piyal Watudura	05th July 2021
28	Mr. Sugath Weerarathna	07th July 2021
29	Mr. Swarnekamal Swarnaraj	21st January 2021
30	Mr. Thanuja Higulage	06th December 2021

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) x100

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 an 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.

GLOSSARY

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 the risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Discontinued Operation

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

Earned Premiums

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

Endowments

Life insurance contract that only cover the individual's life in case of an unfortunate event, but also offers 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. The 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 is 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 death ratio to the entire population or to a particular age group. It is globally expressed in numbers of rates and set out in mortality tables.

GLOSSARY

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.

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

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.

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

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 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 1 January 2016. (Surplus created due to change in valuation method of policy liabilities from Net Premium Valuation to Gross Premium Valuation).

One off Surplus transfer

Transfer of surplus created due to the change in valuation method of policy liabilities from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) to shareholder fund.

Operating Profit

The profit generated by transacting general insurance business after taking into account the investment income, net capital gains and other income.

Operational Risk

The risk arising from the inadequacy or failure of internal systems, personnel, procedures or controls leads 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 is the legal holder of the policy for securing the contract with the insurer for the time being.

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

GLOSSARY

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 = [(credit risk capital charge + concentration risk capital charge + reinsurance risk capital charge + market risk capital charge)2+ liability risk capital charge2+ operational risk capital charge2]; and

(b) for long term insurance business:

RCR =max {(SVCC, [(credit risk capital charge + concentration risk capital charge + reinsurance risk capital charge + market risk capital charge)2+ liability risk capital charge2+ operational risk capital charge2]

Solvency Margin (Risk Based Capital)

The regulatory capital requirement set out for the determination of amount of unencumbered capital that an insurer must have an 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 Tire 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.

Underwriting Profit

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

GLOSSARY

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.

NOTES

GENERAL INFORMATION

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Legal Form

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

The Object and Responsibility of the Commission

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

Accounting Year

31 December

Auditors

The Auditor General

Bankers

Bank of Ceylon

Audit Committee

Mr. R. M. P. Rathanayaka
Mrs. Yvette Fernando
Mr. Haris Salpitikorala
Ms. Indra Baduge

INSURANCE
REGULATORY
COMMISSION OF
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