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INSURANCE REGULATORY COMMISSION OF SRI LANKA

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16th February 2018

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Chief Executive Officers of All Long Term Insurance Companies

Dear Madam/Sir,

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

The Board of the Insurance Regulatory Commission of Sri Lanka, at its 181st meeting, having considered the comments of the Insurance Association of Sri Lanka (IASL) on the above, has decided to issue the attached direction to all long term insurance companies.

This direction will be effective immediately.

Kindly acknowledge receipt of this letter.

Yours faithfully,

Damayanthi Fernando
DIRECTOR GENERAL
RA/GRN

Cc: Mr. Deepthi Lokuarachchi, President, IASL

THE INSURANCE REGULATORY COMMISSION OF SRI LANKA

PROCEDURES ON MANAGEMENT OF INSURANCE FUNDS - LONG TERM INSURANCE BUSINESS

1. Preamble

These procedures shall be called the 'Procedures on Management of Insurance Funds – Long term Insurance Business' and are effective immediately.

2. Objective

2.1 The objective of these procedures are to ensure proper attribution of assets and returns of assets, liabilities and expenses to the Long-term Insurance Business of a licensed Insurer through the appropriate segregation of insurance funds, proper attribution of assets and returns of assets, liabilities and expenses to insurance fund/s and withdrawals from insurance funds.

3. Scope

3.1 These procedures set out-

- 3.1.1 Requirements on the establishment and maintenance of insurance funds for long term insurance business.
- 3.1.2 Composition of an insurance fund, including requirements on withdrawals.
- 3.1.3 Specific requirements for assets.

4. Applicability of these Procedures

4.1 These procedures are applicable to all Long-term Insurance Companies (Life Insurers) registered in terms of the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act).

5. Separation of Insurance Funds

5.1 A licensed Life Insurer must establish and maintain separate insurance funds according to the following categories:

- 5.1.1 Traditional life policies participating in profits
- 5.1.2 Traditional life policies not participating in profits
- 5.1.3 Annuities participating in profits
- 5.1.4 Annuities not participating in profits
- 5.1.5 For each investment fund in respect of investment-linked insurance business
- 5.1.6 Universal Life policies

5.1.7 For any other policies where the benefits given to policyholders are linked to the performance / surplus / investment profit / insurance profit arising from the said policies

5.2 Notwithstanding paragraph 5.1, a licensed Life Insurer, with the prior written approval of the Insurance Regulatory Commission of Sri Lanka (Commission), may maintain one insurance fund for both its traditional life policies participating in profits and annuities participating in profits, and another insurance fund for both its traditional life policies not participating in profits and annuities not participating in profits.

5.3 A licensed Life Insurer shall maintain the shareholders fund distinct from funds mentioned in 5.1 and 5.2 above.

5.4 Where under exceptional circumstances, a licensed Life Insurer considers the basis of separation of insurance funds as set out in the paragraphs above to be inappropriate, the licensed Life Insurer must submit to the Commission for prior written approval, an alternative basis providing:

5.4.1 A justification why it considers the basis of separation of the insurance funds set out in the paragraphs above to be inappropriate.

5.4.2 A description of the approach that it proposes to adopt and reasons why the alternative basis is assessed to be more appropriate than that set out in the paragraphs above.

6. Composition of a Fund

Assets and Returns of Assets attributed to an Insurance Fund

6.1 A licensed Life Insurer must maintain the sufficient assets of each insurance fund separately by considering the specific requirements stated in item 7 hereof.

6.2 The value of an asset in each insurance fund must be determined in accordance with the applicable governing rules and regulations.

Liabilities attributed to an Insurance Fund

6.3 The liabilities of an insurance fund must be valued in accordance with the applicable governing rules and regulations.

Expenses attributed to an Insurance Fund

6.4 Expenses must be attributed to the insurance fund against which the expenses were incurred.

6.5 Expenses which cannot be clearly identified as relating to a particular insurance fund must be allocated among the insurance funds on an equitable basis for each type of expense. The allocation methodology must be consistently applied and should be reviewed and approved by the Board of Directors annually.

Withdrawals from an Insurance Fund

6.6 Any withdrawals from the insurance funds should be as per the requirements specified in the RII Act.

7. Specific requirements related to Assets

7.1 An asset of a licensed Life Insurer must be held in its corporate name and all documents evidencing its title or right to an asset must be in its corporate name.

7.2 As part of sound management of funds it is necessary to maintain strict segregation of investments between various insurance funds and shareholders' funds at a 'Scrip' level without making arbitrary transfer of investments from one fund to another.

7.3 Creation of separate custodial funds at insurance fund level is necessary to ensure appropriate fund accounting.

7.4 Transfer of assets/investment between insurance funds and/or between an insurance funds and shareholders' funds could be made only on market value, if available / fair value of the asset/investment with the approval of the Board of Directors. Such transfers should be submitted to the Commission for prior written approval except,

7.4.1 When allocating indirect expenses such as administration and finance costs in terms of item 6.5;

7.4.2 Year-end profit transfer following the Actuarial Valuation of the life fund.