



INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

DRIVEN FOR EXCELLENCE

Annual Report 2022

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DRIVEN FOR EXCELLENCE

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.



VISION

MISSION



HIGHLIGHTS OF THE YEAR

28

No. of Insurance
Companies

77

No. of Insurance Brokers

47,102

No. of Insurance Agents
represented the insurers

620

No. of Insurance Agents
registered with the
insurance brokers

CHAIRMAN'S MESSAGE



CHAIRMAN'S MESSAGE

In 2022, the insurance industry recorded positive growth both in terms of premium income, despite economic setback. The total gross written premium income of insurance industry has increased during the year demonstrating a subdued growth of 10.5% in comparison to previous year's overall premium growth of 12.1%.

The year 2022 will go down in the history of the Sri Lankan yearbook as the most challenging year marked by an intense socio-economic crisis and widely regarded as the most arduous & extremely volatile year in the Sri Lankan history after the country gained its independence. Despite unprecedented challenges, I present the Annual Report of the Insurance Regulatory Commission of Sri Lanka (the Commission) for the year 2022.

Challenges

As the economy spinned to its highest turmoil in year 2022, while gradually recovering from the aftermath of Covid-19, Sri Lanka faced several challenges that followed one after another due to series of unfavorable incidents. The entire Sri Lankan political and socio economic landscape underwent extraordinary turbulence with rapidly changing scenarios. The country's Gross Domestic Product (GDP) reported a contraction of 7.8%, which is the record lowest economic performance Sri Lanka has exhibited in post-independence era. Despite the government making several proactive measures to ensure the long term economic stability, the business environment consequently performed below expectations in 2022.

Adverse economic environment prevalent in the country affected the overall performance. The insurance industry too was subjected to numerous

challenges due to the macroeconomic pressures during 2022. The increase in cost of living and the decrease in disposable income influenced general public to minimize the spending on insurance products resulting in a significant drop in demand for insurance products. Similarly, the effects of rising inflation elevated the claims expenses, as well as operational and administrative expenses compelling insurance companies to increase the premium rates with a view to coping up with profitability targets. Such measures by the insurance companies have led to further erosion of the premium payment capacity of both existing and potential policyholders.

Performance Overview

In 2022, the insurance industry recorded positive growth both in terms of premium income, despite economic setback. The total gross written premium income of insurance industry has increased during the year demonstrating a subdued growth of 10.5% in comparison to previous year's overall premium growth of 12.1%. The growth rate in overall gross written premium income reported it's lowest in the last five (05) years and it was largely contributed by the inert progress in premium income of long term insurance business.

The subdued growth rate is a direct result of the significant drop in new long term insurance policies

CHAIRMAN'S MESSAGE

issued during 2022, brought about by the depletion of real income of households, which is the ultimate result of soaring inflation. However, the general insurance business demonstrated a significant improvement during 2022 by recording a growth rate of 11.9% in comparison to 3.5% growth rate reported in the previous year. The increase in the market prices of motor vehicles along with the correspondent increase in applicable premium rates elevated the premium income of motor insurance subclass to grow by 7.2% in 2022 after recording a negative premium growth consecutively during 2020 and 2021. All other sub classes of general insurance business, except health insurance, demonstrated a positive premium growth during the year, in addition to the motor insurance sub class.

The passive growth rate of total gross written premium income and the increase in gross domestic product at current market prices negatively impacted the insurance penetration rate and declined to 1.1% from 1.3% year-on-year. However, the protection gap in Sri Lanka is considerably wider and requires taking proactive steps such as creating awareness on the importance & benefits of insurance as a risk mitigation tool, development of innovative products based on the needs of the society, increasing the accessibility to and affordability of insurance services, improved customer service through technological advancements etc. in bridging the gap and thereby, enhancing the rate of insurance penetration. However, the negative implications arising out of aforementioned persistent macro-economic turbulences would further hamper the efforts to increase the insurance penetration in the country.

The insurance industry underwent a significant digital transformation during the year. Insurers embraced cutting-edge technologies to streamline their operations, enhance the customer experience, and optimize underwriting and claims processes. Furthermore, the insurance sector introduced innovative insurance products and expanded coverage options to cater to evolving customer needs and emerging risks. Specifically, new insurance products were designed to address risks associated with cybersecurity, climate change, and pandemics. Insurers also adjusted their operations

and offerings to tackle pandemic-related risks such as business interruptions, travel uncertainties, and healthcare coverage.

Strengthening the regulatory framework

The regulatory initiatives that the Commission undertook during the year 2022 are aimed at observing compliance in providing insurance services, as well as improving systems and controls of insurance companies. The Commission is of the view that the insurance industry is required to respond positively to the changing regulatory and economic environment, as well as to the current market trends and opportunities.

The Commission is actively engaged in fostering the relationship with the International Association of Insurance Supervisors (IAIS) and Asian Forum of Insurance Regulators (AFIR). The Commission pursues a robust regulatory and supervisory framework, which is compatible with the domestic market conditions and capabilities of the industry players, whilst facilitating the development of the insurance market, and promoting efficiency in services and market stability.

Looking ahead

There are growing opportunities for the insurance sector expansion and possibility of turning around along with the expected recovery from the economic crisis, though the rate of insurance penetration, as of date, is ominously lower than the regional countries and has depreciated further with the current contraction of GDP. A lower insurance penetration level indicates the opportunity and the potential for rapid development of the insurance sector with the correct business models, sustainable customer value propositions and adequate awareness creation on benefits of insurance. It is paramount that the life insurance businesses should offer need-based products with innovative customer value propositions.

The insurance industry needs to adopt new strategies to improve the penetration level that has been stagnant for many years. The Commission observed that the insurance companies tend to focus more on higher income groups while designing and selling insurance products to such

CHAIRMAN'S MESSAGE

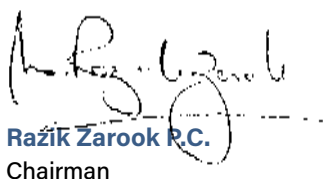
groups due to the complexity of the products and their prices. The insurance companies need to pay more attention in simplification of products, thereby making them cheaper to attract middle and lower income groups in the urban and rural areas.

Generally, the demand for insurance is dependent upon the level of disposable income of the consumers. Therefore, over the years, the low level of disposable income, coupled with the lack of awareness on the importance & benefits of insurance have been the deterrent factors in moving the insurance penetration level up. The economic forecast indicates that Sri Lanka is expected to move into 'high middle income level' bracket, which results in improving the disposable income, thereby enhancing the level of insurance penetration. The increase in disposable income will surely create a demand-driven insurance industry in the future. Therefore, insurers must proactively identify new risks as well as changes in existing risk profiles to cover such risks, leverage technology to improve customer experience, streamline processes and enhance efficiency and focus on quality products and services, innovation, and adaptation to changing market condition.

In Appreciation

In conclusion, on behalf of the Members of the Commission, I wish to convey my profound thanks to all industry stakeholders, including the Insurance Association of Sri Lanka (IASL), Sri Lanka Insurance Brokers' Association (SLIBA), Sri Lanka Insurance Institute (SLII) and Insurance Ombudsman for the tremendous support, cooperation and cordial relationship that they continue to maintain with the IRCSL.

I also wish to take this opportunity to thank the Director General, Directors, Assistant Directors and the Staff of the Commission for the commitment, dedication and resilience in executing decisions of the Commission.



Razik Zarook P.C.
Chairman

DIRECTOR GENERAL'S REVIEW



DIRECTOR GENERAL'S REVIEW

Even though the consequences of the macroeconomic turbulences have a direct impact on the growth of the sector, we are optimistic that the industry will turn around with the recovery of the economy.

Sri Lanka encountered numerous adversities during the year under review, with stresses impacting the macro-economic environment and extreme economic turmoil experienced by power cuts, shortage of basics, such as fuel, gas etc. and the soaring cost of living. However, the insurance industry was able to maintain modest growth, whilst enhancing policyholder confidence and protecting policyholder rights. Under such extreme circumstances, IRCSL forged its authority to focus on ensuring a robust and resilient insurance industry, amid at enhancing policyholder confidence while protecting policyholder rights. Safeguarding consumers remained a key priority over the year for IRCSL.

Performance of the Insurance Industry at a glance

The total gross written premium income of the industry increased to LKR 258,100 million in 2022 and demonstrated a subdued growth of 10.5% in comparison to previous year's overall premium growth of 12.1%. Insurance penetration declined to 1.1% from 1.3% year-over-year mainly as a result of subdued total premium growth. Demand for insurance would become obviously low in the priority list of the public experiencing the high cost of living, high taxes and resultant decline in income levels with little or no disposable income towards insurance. Even though the consequences of the macroeconomic turbulences have a direct impact

on the growth of the sector, we are optimistic that the industry will turn around with the recovery of the economy. The Insurance Industry must take proactive measures such as spreading awareness about the benefits of insurance, mainly on disaster risk insurance covers, increasing the accessibility and affordability of insurance products, developing innovative products, developing the micro insurance sector, developing agricultural based insurance products, improving customer service through technological advancements etc. with the expansion of the economy to increase penetration in the country.

Regardless of the formidable challenges that unfolded in the post-pandemic era of the year 2022, the long-term insurance industry sustained a moderate growth of 9.4% with an overall gross written premium of LKR 136,271 million in comparison to 21.0% growth reported in last year. In terms of premium income, the general insurance industry demonstrated a significant improvement by posting an 11.9% growth rate with an overall premium income of LKR 121,829 million surpassing the 3.5% growth reported in last year.

Performance of Long-Term Insurance Sector

The social and economic challenges that persisted throughout the year have imposed tremendous stress on the long-term insurance industry, thus witnessing a slowdown in gross written premiums

DIRECTOR GENERAL'S REVIEW

in 2022 compared to rebounding growth in gross written premiums in year 2021. The growth rate of the long-term insurance industry fell to single digit recording the lowest growth rate in the life insurance segment over the last five years. Life insurance market penetration recorded at 0.6%, which is low compared to the regional peers. A lower life insurance penetration rate shows the potential for development with the right business models, customer value propositions, and awareness.

The total sum assured amounted to LKR 7,197,378 million in 2022 and grew by 14.8% compared to LKR 6,270,175 million recorded in 2021. Nevertheless, the number of policies in force recorded a substantial negative growth of 4.1% in 2022, compared to the growth of 6.3% reported in 2021. The total number of policies in force scaled down to 4,139,420 as of the end, compared to 4,317,695 recorded in the year 2021. Continuing the previous year's tendency, new life policies issued exhibited a significant drop of 28.5% amounting to 637,912. This demarcates the severe economic downturn that prevailed throughout the year, which pressurized and undermined the penetration of the insurance sector. The number of life insurance policies in force as a percentage of the total population and the number of life insurance policies in force as a percentage of the labor force, decreased to 18.7% and to 48.4% respectively when compared to 2021.

There was a notable increase in claims incurred in terms of value during the year 2022, which amounted to LKR 61,642 million. The growth rate in claims incurred is recorded at 34.1%, which is the highest growth rate recorded for the past five years. The increase emanated basically from maturity benefits, surrenders, and others. The number of insurance claims reported also recorded a modest increase of 11.1%, escalating to 605,485 claims, when compared to 544,834 claims for last year. The increase was visible in each category except surrender claims. Maturity benefits saw a rapid growth of 28.7% in terms of value, accounting for LKR 28,897 million by occupying a significant share of 46.9% of the total claims incurred. Health claims occupy the biggest portion of the 'other' category which is the ultimate reason for the substantial increase reported during the year 2022. Continuing the rising trend, the number of claims recorded under the 'other' category showed the highest growth rate of 32.3% year on year. On the

other hand, surrenders, comprised of a share of 20.0% of total claims incurred, increasing to LKR 12,357 million, posting a notable growth rate of 51.2%. However, conversely, the number of claims reported under surrenders declined by 31.2% year over year.

During the year, premium ceded to reinsurers substantially increased by 31.5% reaching LKR 6,610 million. This is basically due to escalated exchange rates in Sri Lanka. The overall retention ratio of long-term insurance business dropped by 0.9% to 95.1% year on year.

Regarding the capital adequacy, the Total Available Capital (TAC) of insurers accumulated up to LKR 308,181 million recording a marginal growth of 9.4% against the previous year. All life insurers except for one insurer complied with the minimum TAC of LKR 500 million as of 31st December 2022. The average Capital Adequacy Ratio (CAR) recorded was 303%, which declined by 85.0% due to higher interest rates prevailed during the year 2022. All long-term insurance companies had satisfied the minimum CAR requirement as of 31st December 2022 except one insurer.

Performance of General Insurance Sector

Despite the challenges faced, the general insurance industry exhibited resilience and achieved noteworthy expansion in the year 2022 and presented a remarkable improvement recording a growth rate of 11.9%, and premium income of LKR 121,829 million, which resulted in the highest Gross Written Premium attained in the past five years. The overall premium income of the general insurance sector witnessed an upward trajectory, and all segments in the general insurance business, except for health insurance, made significant contributions to the overall progress, reflecting its ability to adapt in a dynamic market environment.

The general insurance industry, which heavily relies on motor insurance business, faced significant challenges due to import restrictions imposed on motor vehicles. This decision created a significant setback for an industry that is heavily reliant on motor premiums as a major source of revenue. However, the restriction pushed the demand for motor vehicles thus increasing the values of motor vehicles exponentially. This resulted in the motor insurance industry exhibiting an impressive growth

DIRECTOR GENERAL'S REVIEW

of 7.2% in 2022, which was a remarkable turnaround from the negative growth observed in the previous two years.

The cumulative count of insurance policies that contributed to the GWP across the subcategories stood at 6,423,297. This reflected a decrease of 196,933 policies compared to the previous year. Despite observing fluctuations in the total number of policies contributing to the GWP over the past five years, the year 2022 marked the lowest count of total policies, reflecting the adverse economic conditions that prevailed. Continuing with the previous trend, the motor subclass continued to dominate, with third-party insurance policies totaling 3,331,282 and comprehensive policies totaling 2,362,254. While motor policies accounted for 88.6% of the total number of policies, with a cumulative count of 5,693,536, a significant reduction of 263,501 motor policies was observed compared to the preceding year. This decrease can be attributed to a notable decline of 309,562 in motor comprehensive policies. However, this trend can be explained by the growing popularity of Motor 3rd party policies, which offer lower premium incomes compared to comprehensive policies. The dependency on leasing business among certain insurance companies, combined with limited growth in the leasing industry, has indirectly affected the motor class of the insurance industry too. While fire and marine classes experienced a marginal insignificant decline in policies, health and miscellaneous classes, as well as motor third-party policies, showed a modest increase compared to the year 2021.

In 2022, the general insurance industry witnessed a significant increase in total net claims, reaching LKR 60,172 million (excluding SRCC & T). This indicates a substantial surge of 24.7% compared to the amount of LKR 48,239 million reported in 2021. Among the various segments, motor insurance and health insurance accounted for the highest net claims incurred from the total. As a consequence of the civil riots and protests that occurred during the middle of the year, the SRCC & T segment recorded the highest net claims in 2022 amounting to LKR 1,320 million. The claims of the general insurance sector have witnessed a surge due to multiple factors such as, increase in costs for repairs and replacements resulting from high inflationary conditions, unforeseen riot claims arising from

protests have added to the financial burden faced by insurers, the recent lift of pandemic restrictions has resulted in an upswing in mobility, leading to a rise in accidents and subsequent insurance claims. The net claims ratio (excluding SRCC & T) for the year 2022 stood at 67.9% as a result of high net claims ratio of motor 58.7% and health 107.1% classes.

Demonstrating a gradual increase for the past few years, in the year 2022, the total reinsurance premium, which signifies the premiums remitted to reinsurers, amounted to LKR 23,733 million. Notably, the general insurance sector achieved its highest reinsurance premium value in the past five years during 2022, experiencing a 13.1% increase compared to the previous year, 2021. The total retained premium by insurers reached LKR 98,097 million, representing a significant increase of LKR 10,177 compared to 2021. This growth in retention can be attributed to the increased retention of premiums in the motor, fire, and miscellaneous classes, collectively contributing to the overall rise in the total retained premium of the general insurance sector. The overall retention ratio of the general insurance sector experienced a slight decline, decreasing to 80.5% in the year 2022 compared to the previous year's figure of 80.7%. It is noteworthy that the retention ratio has exhibited a gradual decrease since the year 2020.

The TAC of general insurers amounted to LKR 81,754 million and posted an enriched growth of 9.1% against the previous year and recorded an increased trend during the last five years. However, except for one insurer all the general insurance companies reported TAC above the minimum requirement of LKR 500 million for the year 2022. The CAR, which evaluates the adequacy of TAC to support the Risk-Based Capital required, was 206.6% on average at the end of 2022, down from 251.2% in 2021. Except for one insurer, all of the insurers have reported CAR above the enforcement level of 160% as required in the IRCSL's Enforcement Strategy on RBC. The CAR reported by the general segment of NITF was 430%.

Reinsurance Business

The reinsurance business of National Insurance Trust Fund consists of the mandatory cession of premiums by general insurance companies, relating to not less than 30% of the total liability resulting

DIRECTOR GENERAL'S REVIEW

from every reinsurance arrangement. Accordingly, the NITF acts as the 'National Reinsurer' to all primary insurance companies and plays a significant role in the insurance industry in Sri Lanka.

In year 2022, the reinsurance premium income of NITF accounted for LKR 3,107 million, exhibiting a decrease of 12.4% compared to LKR 3,549 million recorded in 2021, which reflects decreased participation to treaty reinsurance arrangements by NITF and the overall premium retention levels of general insurers substantially improving during the year.

In 2022, the net retrocession premiums ceded to reinsurers by NITF amounted to LKR 515 million, whereas it was to LKR 1,120 million in 2021. The foreign exchange crisis prevailed in the country had curtailed the retrocession premium remittance to respective reinsurers and eventually resulted in limiting the period of cover obtained for retrocession arrangement.

Claims incurred by NITF pertaining to reinsurance business amounted to LKR 2,461 million recording a slight increase of 3.5% in comparison to LKR 2,379 million reported in the preceding year. The overall claims exposure of general insurance sector experienced an upsurge during 2022 and consequently it has influenced the reinsurance claims presented to the NITF to increase. In terms of profitability, the reinsurance business of NITF displayed a commendable recovery which was mainly supported by foreign exchange gains from US dollar denominated financial investments and the overall increase in investment income.

Similar to previous years, the overall asset composition of the reinsurance business of NITF was dominated by financial investments, premium receivables and reinsurance receivables, and exhibited a notable increase from LKR 5,533 million to LKR 8,182 million. This increase was largely driven by financial investments which amounted to LKR 3,577 million. Government securities make up the entire financial investment portfolio of the NITF's reinsurance business, which saw a remarkable increase during the year, with investments in treasury bills and bonds nearly doubling. Furthermore, a rapid increase in the value of the US dollar significantly enhanced the rupee value of Sri Lanka Development Bonds issued in foreign currencies. Nevertheless,

only 62% of the reinsurance liability is covered by permitted investments as of 31st December 2022.

Performance of Insurance Brokers

Insurance brokering companies have made a considerable contribution to the Gross Written Premium of both long-term insurance business and general insurance business. As insurance intermediaries, these companies collectively generated a Gross Written Premium of LKR 38,852 million, which includes contributions from long-term insurance business and general insurance business of LKR 4,013 million and LKR 34,839 million respectively.

The total Gross Written Premium generated through the insurance brokering business recorded an increase of 28.28% in 2022 compared to LKR 30,286 million generated in 2021. A noticeable increase in the GWP of long-term insurance business was depicted at 121.45%.

In their role as intermediaries, insurance brokering companies have made a considerable contribution to the generation of a significant Gross Written Premium in the general insurance business.

In 2022, thirty-eight insurance brokering companies made more than LKR 100 million each in Gross Written Premium. Together, these companies generated a total of LKR 37,103 million in GWP. The remaining thirty-six insurance brokering companies generated LKR 1,750 million.

Furthermore, insurance brokering companies have expanded their services as intermediaries in re-insurance brokering. As a result, a few brokering companies garnered substantial premiums and commissions in 2022, totaling LKR 2,414 million compared to LKR 1,409 million in 2021.

Profitability of Insurance Industry

The profitability of the insurance industry showed a moderate growth of 16.4% by reporting LKR 53,990 million in the year 2022. Despite the growth reported in the preceding year, the profitability of long-term insurance business declined from LKR 27,360 million to LKR 24,836 million in 2022. Recovering from the reduced profitability exhibited in last year, the general insurance business demonstrated a remarkable year-over-year profit growth of 43.2% in 2022 which was

DIRECTOR GENERAL'S REVIEW

largely influenced by promising expansion in overall premium income and noteworthy foreign exchange gains reported by several general insurers which emerged from foreign currency denominated investments.

Outlook

The regulatory framework for the insurance industry in Sri Lanka is crystallized by a strong focus on protecting policyholders in a way that is safe, stable, and beneficial to policyholders and promoting the growth and development of the industry. Future regulatory reforms and initiatives will strive to further strengthen the regulatory framework whilst encouraging industry innovation and digitization.

While it remains difficult to predict how the situation will evolve given the uncertainties surrounding the economy, we, at IRCSL are optimistic about the recovery of the economy with potential improvements in the overall economy, including enhanced foreign currency reserves, improved liquidity, as well as higher inward remittances and tourism incomes, Sri Lanka could look forward to positive years ahead, paving the way for future growth and development. Therefore, the insurance industry must seize opportunities that will allow to sustain growth whilst reviewing business models to stay viable and facilitate the insurance market's long-term growth. Insurers will need to adopt a customer centric approach and offer innovative and flexible products that meet the evolving needs of customers. With the increased use of technology, insurers will need to embrace digital transformation and develop strong online presence to remain competitive. Furthermore, insurers will need to focus on improving customer experience through efficient claims processing and personalized service delivery.

Looking forward to the years ahead, IRCSL will continue to focus on the following key initiatives in line with international best practices:

- Reforms to Insurance Regulatory Act with wider powers in line with Insurance Core Principles of the International Association of Insurance Supervisors
- Reforms on Risk Based Capital framework in line with developing trends.

- Reforms on claims management requirements to ensure that consumers are treated fairly and timely.
- Reforms on digital transformation.
- Promote consumer education through awareness campaigns to flourish and inspire confidence among the public.
- Initiate a robust market conduct supervisory framework which will require insurance companies and intermediaries to treat customers fairly and in a timely manner.
- Focus on enhanced supervision on Anti Money Laundering and Countering of Finance Terrorism requirements.
- Promote Inclusive Insurance and contribute to Sustainable Development Goals.

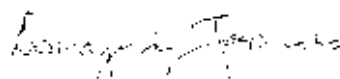
Key Regulatory Initiatives

In 2022, there were several regulatory reforms and initiatives aimed at strengthening the regulatory framework of the insurance industry, which are described in detail in the General Review of this report.

In Appreciation

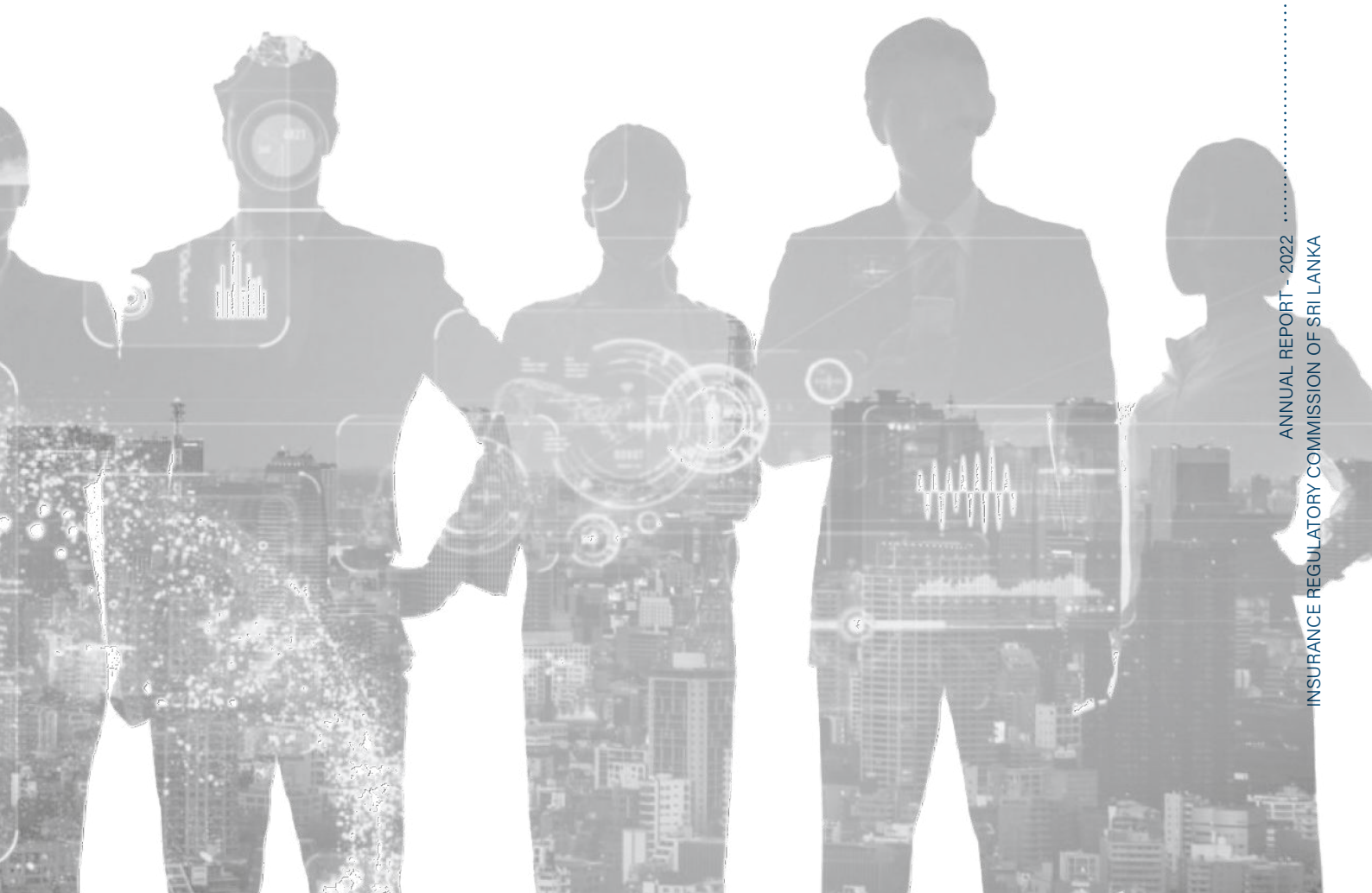
I am very grateful for the invaluable, constant guidance and support received from our Chairman and the Commission Members. They have been a pillar of ever-present support to the team. I wish to take this opportunity to thank and appreciate all the hard work performed and the commitment demonstrated by the senior management and the entire team in adding value to all stakeholders.

I also take this opportunity to thank the insurance industry associations and other stakeholders for their unstinted support during these challenging times and look forward to work together with the insurance industry to address the challenges facing the industry and ensure that concerns of consumers are better addressed in relation to insurance claims payment, particularly through effective communication and transparency to build positive perception towards the insurance industry.



Damayanthi Fernando
Director General





MEMBERS OF THE COMMISSION



01. Mr. Razik Zarook P. C
Chairman

02. Mr. A. K. Seneviratne

03. Mr. Sanjeewa Dissanayake



04. Mrs. T M J Y P Fernando
06. Mr. Raja Goonaratne

05. Mr. Haris Salpitikorala
07. 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.

He joined the Sri Lanka Administrative Service in 1995. Upon completion of his in-service training year he was appointed as an Assistant Director to the Department of Fiscal Policy of the Ministry of Finance in 1996. In 2006 he was assigned to the Department of National Budget of the same Ministry as a Director. In 2015 he was appointed as the Director General of the Department of Fiscal Policy. Since January 2018 Mr Seneviratne was the Director General of the Department of National Budget. He was then appointed as a Deputy Secretary of the Treasury in February 2018, and he worked in that capacity till November 2020.

He has then been serving as an Additional Secretary of the Higher Education division of the Ministry of Education. He has again been appointed as a Deputy Secretary of Treasury from August 2022.

Mr Seneviratne has also served as a Board Director in many state-owned enterprises.

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.

02

Mr. A. K. Seneviratne

Mr Ananda Kithsiri Seneviratne is a special grade officer of the Sri Lanka Administrative Service (SLAS).

Mr Seneviratne holds an Honours Bachelor's Degree specialising in Chemistry from University of Kelaniya. He has obtained a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka and Masters in Business Administration from University of Colombo.

PROFILES OF MEMBERS OF THE COMMISSION

04 Mrs. T M J Y P Fernando

Mrs. T M J Y P Fernando has over 30 years of service in the Central Bank in the areas of regulation and supervision of banks and non-bank financial institutions, foreign exchange management, currency management and payments and settlements systems. During this period, Mrs. Fernando has served as the Director of Bank Supervision and the Controller of Exchange and has played a vital role in contributing to the financial system stability by providing leadership to implement a strong regulatory framework for banks in line with international standards and best practices.

Currently, Mrs. Fernando oversees the departments of Bank Supervision, Non-bank Supervision, Payments & Settlements, Currency, Foreign Exchange, Finance, Regional Development and Employees' Provident Fund and serves as the Chairperson of the Financial System Stability Committee, Steering Committee on Implementation of the Road Map for Sustainable Finance in Sri Lanka and the National Payments Council. Mrs. Fernando also functions as the Chairperson of the Institute of Bankers of Sri Lanka and the Credit Information Bureau of Sri Lanka, a member of the Insurance Regulatory Commission of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, and the Management Board of Api Wenuwen Api Fund of the Ministry of Defence.

Mrs. Fernando has represented the Central Bank as a Director of the National Gem and Jewellery Authority, Golden Key Credit Card Company Limited, GK Hospitals Limited, Jetwing Symphony Limited and as a member of the Committee to review the code of corporate governance - Institute of Chartered Accountants of Sri Lanka, Sub-committee on Investment for negotiation of Free Trade Agreements and Southeast Asian Central Banks (SEACEN) advisory committee on Training.

She holds a Master of Financial Economics degree from the University of Colombo and a Bachelor of Commerce 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 Relations)

08 Mrs. Chamari Heenatigala (Assistant Director Investigation)

09 Mr. Dirrel Fernando (Assistant Director Information Technology)

10 Miss. Malithi Ambalangodage (Assistant Director Legal & Enforcement)

11 Mrs. Lasanthi Thothahewa (Assistant Director Finance & Administration)

STAFF MEMBERS



Mrs. Shyamalie Attanayake



Mrs. Upendra Seneviratne



Mrs. Decika Rathnayake



Mrs. Pavithra Punchihewa



Mrs. Thilini Wakista



Mr. Anushka Dilan Bandara



Miss. Paramie Munasinghe



Miss. Upeksha Liyange



Mr. Nisal Karunaratne



Mrs. Thushari Wijegunawardana



Mrs. Kokila Siriwardana



Mr. Charitha Wickramasinghe



Mrs. Nilanka Walisundara



Mrs. Sachithra Ushani



Mrs. Natasha Keerthisinghe



Mr. Nuwan Sudarshana



Mrs. Hasanthi Nadeesha



Mr. Ethirraj Srikanthan

STAFF MEMBERS



Mrs. Sujeewa Ranasinghe



Mrs. D W S S Supulee



Mrs. Chandima Kamburugamuwa



Mr. D.S.K. Senadeera



Mr. Nalin Thalagala



Mr. Chaminda Lal Kumara



Mr. Malin Perera - Intern



Miss. A. W. Sewwandi - Intern



Miss. Imasha Waduge - Intern



Mrs. Malhari Wickramasingh



Miss. Thisali Sahara



Mrs. Veena Senevirathne



Mr. M. B. Wijeratne - Intern







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GENERAL REVIEW

Administration of the Act and Regulatory Reforms

Legislation

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

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

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

Subordinate Legislation

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

Regulatory Reforms

Directions issued during the year under Section 96A of the Act

1. Direction # 01 of 2022 - Restriction on providing codes and restriction on changing codes

The Commission has issued this Direction to the industry restricting insurance companies from providing codes to persons other than insurance agents and insurance brokers, and prohibiting the long-term insurance companies from changing existing codes without the written consent of the insurance agent or broker unless the policyholder wishes to do such change on reasonable grounds, which is informed to the insurance company in writing. This Direction came into effect from 26th January 2022 and repealed the Direction # 02 of 2021 issued on this subject.

2. Direction # 02 of 2022 - Corporate Governance Framework for Insurers (Revision of Direction # 17 of 2020)

The Direction was amended to revise the age limit of directors of insurance companies up to the age limit of 75 years i.e. if an insurer wants to continue the services of a director beyond the age of 70 years, they may continue to appoint such director on yearly basis provided they comply with the provisions of Companies Act, Articles of Association and passing a fresh resolution to that effect, until the age 75. This amendment came into effect from 03rd February 2022.

3. Direction # 02 of 2022 (revised) - Corporate Governance Framework for Insurers

The Direction amended to revise the transitional provision in respect of director who is over 75 years to continue to serve as a director till June 30th 2022, and shall be deemed to have vacated office on June 30, 2022. This amendment came into effect from 25th February 2022.

4. Direction # 03 of 2022 - Cooling off period, guaranteed and non-guaranteed benefits and applicable schedules of a long term insurance policy

The above Direction was issued to the industry requiring the insurance companies carrying on long term insurance business to disclose the clauses of cooling off period, guaranteed and non-guaranteed benefits and applicable schedules of a long term insurance policy in its insurance products, quotations and in the policy schedules/covers. In view of above Direction, Direction # 8 of 2016 issued in respect of cooling off period came into effect from 01st April 2016 was repealed. The Above said Direction came into effect from 01st October 2022.

Circulars issued during the year

1. Circular # 01 of 2022 - Prohibition of providing different quotations (reduction of premium) to same policyholder for the same insurance cover

The above Circular was issued to the industry prohibiting insurers from providing revised quotations reducing the premium after having accepted a quotation from a broker and/or an agent (with the policyholder consent) to same insured for the same insurance cover. This Circular came into effect from 26th January 2022.

GENERAL REVIEW

2. Clarification on Circular # 01 of 2021 - Actuarial Certificate referred to in paragraph E(1)(a)

The above Circular was issued to the industry in order to clarify that the Actuarial Certificate issued under Circular # 01 of 2021 shall be issued by the Actuary appointed in terms of Section 46 read with the definition of the 'Actuary' included in Section 114(1) of the Regulation of Insurance Industry Act No. 43 of 2000. This clarification on the said Circular was issued on 6th October 2022.

3. Clarification on Circular # 40 - Health insurance covers underwritten by insurers who carry on long term insurance business

The above was issued to the industry in order to provide clarification on Circular # 40 of 2019 regarding the permanent health insurance policies (stand-alone health covers) underwritten by long term insurers. This clarification on the said Circular was issued on 10th November 2022.

Determination made during the year

Amendments to Determination # 12 of 2022

The above Determination was issued to the industry requiring them to submit the Quarterly Returns in the revised formats within thirty days after the end of each quarter. This amendment came into effect from 06th October 2022.

Guidelines on Advertisements

Guidelines were issued to all insurers, brokering companies and agents, which required them to comply with same when they publish advertisements. These guidelines came into effect from 01st July 2022.

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.

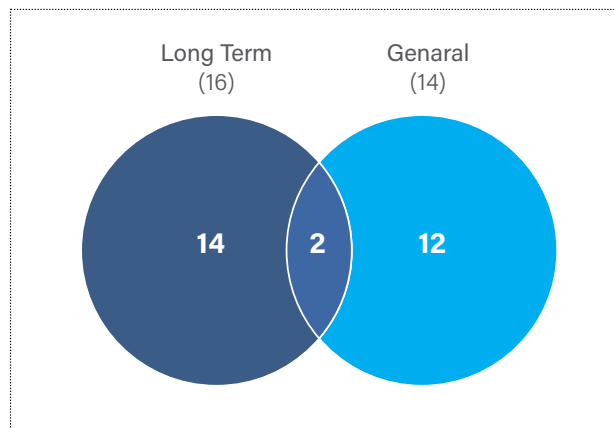
In terms of Section 13 of the Act, any person who desires to engage in insurance business in Sri Lanka,

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.

Twenty Eight (28) companies were in operation as insurers as at the end of the year, with the new registration granted to Continental Insurance Life Lanka Limited. Further, the license of AIG Insurance Limited to carry on general insurance business has been cancelled with effect from 04th April 2022. 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 28 companies in operation, 2 companies were composite insurers, 14 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

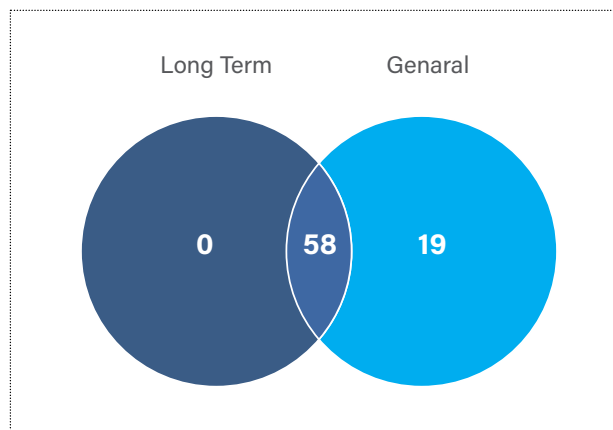
An insurance broker is a company incorporated under the Companies Act, No. 7 of 2007 and registered under the Act to carry on insurance brokering business. Insurance Brokers function as intermediaries for the placing of insurance business for or on behalf of an insurer, a policyholder or a proposer for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

GENERAL REVIEW

At the end of the year, there were 77 companies registered as insurance brokers. Out of the said companies, 58 companies were registered in both long term and general insurance brokering business while 19 companies were registered only in general insurance brokering business.

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

Chart 2 - Classes of Insurance Brokering Business carried on by Insurance Brokers



Insurance Agents

Insurance Agents are persons registered with an Insurer or an Insurance Broker registered under the Act and who in consideration of commission solicits or procures insurance business for such insurer or insurance broker. Qualifications for registration as an Insurance Agent have been specified by the Commission.

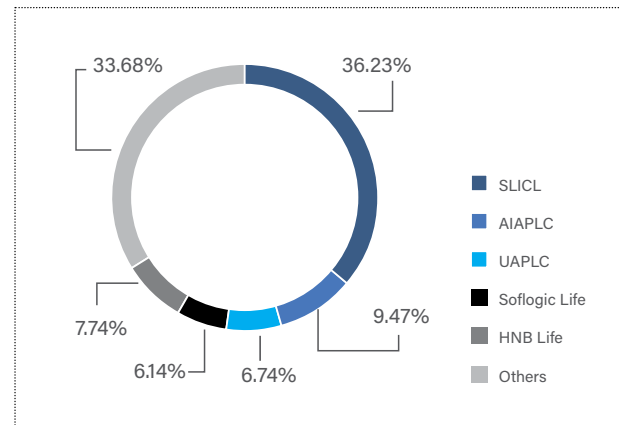
As per Section 34 of the Act, Insurance Agents are an important distribution channel through which insurers procure insurance business.

As per information given by Insurers, the total number of individuals recruited as Insurance Agents during the year was approximately 15,850, which is a 3.28 % decrease from the previous year (16,387).

The total number of individual insurance agents representing insurers as at the end of year was approximately, 47,102, a 7.21% increase from the previous year (43,934).

Chart 3 depicts individual Insurance Agents registered with Insurance Companies.

Chart 3 - Total Agents as at 31.12.2022



The total number of insurance agents representing insurance brokering companies as at the end of year was approximately 620.

Loss adjusters

29 persons were in operation as Loss Adjusters as at the end of the year.

The Loss Adjuster Registration Rules were published in Extraordinary Gazette No. 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 in Section 89A (2) of the Act for the registration requirement for the Loss Adjusters.

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.

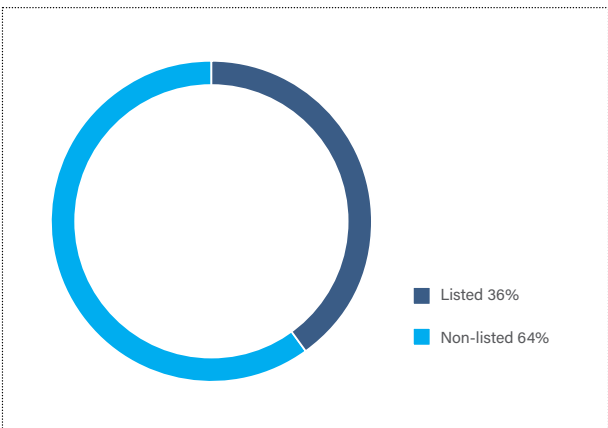
GENERAL REVIEW

Company Status and Changes in Capital

Of the insurers registered with the Commission, 10 companies were listed on the Colombo Stock Exchange as at 31st December 2022, 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, Sanasa Life Insurance Company PLC and Cooperative Insurance Company PLC.

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

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



The Amendment Act, No. 3 of 2011 requires insurers to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act. 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 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. 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.

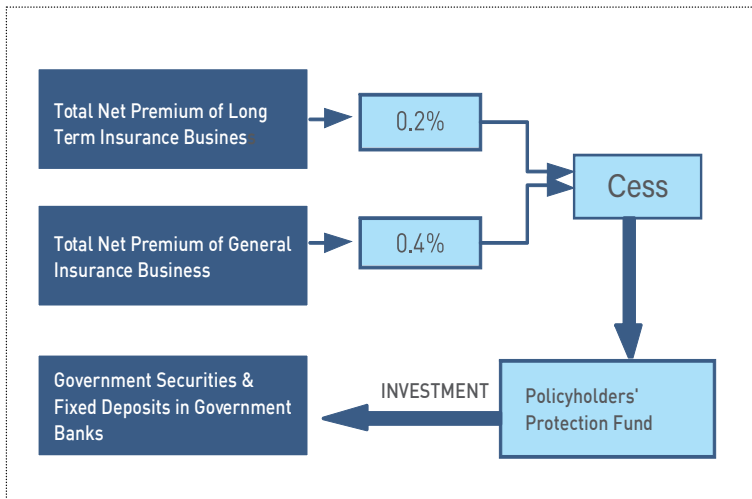
This Fund may be utilized, for the general protection of policyholders and for any other specific purposes, in so far as it would be for the benefit of the policyholders and potential policyholders -

- 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.

GENERAL REVIEW

Chart 5 - Cess and the Policyholders' Protection Fund



Insurance Tariff

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

Exemptions to the application of the Act

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

National Insurance Trust Fund (NITF)

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

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

The Act, as amended by Act No. 27 of 2007, requires every insurer who reinsures, to reinsure with the NITF a percentage, not exceeding 50%, as shall be determined by the Minister by Order published in the Gazette, of the liability sought to be reinsured. In terms of

Gazette Notification No. 1791/4, dated 31st December 2012, every insurer is required, with effect from 1st January 2013, to reinsure 30%, on the total liability arising out of every general re-insurance policy, with the NITF, excluding long-term reinsurance 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.

GENERAL REVIEW

Insurance Association of Sri Lanka (IASL)

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

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

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

Sri Lanka Insurance Brokers' Association (SLIBA)

The Sri Lanka Insurance Brokers' Association (SLIBA) represents insurance brokers registered with IRCSL and has been set up for the interest of the Insurance Brokers.

Sri Lanka Insurance Institute (SLII)

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

SLII is affiliated to the Chartered Insurance Institute of London and administers the examinations of professional bodies such as the Chartered Insurance Institute in London, Insurance Institute in India and the Institute of Actuaries of India. The Institute conducts various programmes in relation to Insurance education including short term diploma courses 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 online examinations with remote invigilation.

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.

INDUSTRY PERFORMANCE REVIEW

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

1. Tables and Charts depicted in this report are based on the statistics provided by the Insurance Companies and Insurance Brokering Companies.
2. Janashakthi General Insurance Ltd. was acquired by Allianz Insurance Lanka Ltd. in year 2018 and amalgamated with effect from 28th September 2018 and known as "Allianz Insurance Lanka Ltd."
3. Softlogic Life Insurance PLC was known as Asian Alliance Insurance PLC prior to 2016.
4. Asian Alliance General Insurance Limited was acquired by Fairfax Asia Limited in year 2015 and known as "Fairfirst Insurance Limited".
5. Union General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017 and known as "Fairfirst Insurance Limited".
6. Seemasahitha Sanasa Rakshana Samagama has segregated its long term insurance business and general insurance business with effect from 01st July 2019. Accordingly, "Sanasa Life Insurance Company PLC" and "Sanasa General Insurance Company Ltd." continue to carry on long term and general insurance businesses respectively.
7. Data submitted by NITF with regard to the Risk Based Capital had not been considered in order to maintain the comparability since NITF handles both reinsurance and insurance business.
8. 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'.
9. 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.
10. Differences as compared with previously published figures are due to subsequent revisions.
11. Values indicated within parenthesis are negative values.
12. The following symbols have been used throughout: -
 - (a) = Reinstated and Audited figures
 - (b) = Provisional figures
 - = nil

INDUSTRY PERFORMANCE REVIEW

Sri Lankan Insurance Market

Twenty-eight insurance companies are currently functioning in Sri Lanka which include fourteen long term insurers, twelve general insurers and two composite insurers. During 2022 one long term insurance company entered the market after obtaining the license to carry-on long-term insurance business in Sri Lanka. In terms of ownership, six insurance companies operated with major foreign shareholdings. Ten insurers are listed on the Colombo Stock Exchange.

Adverse economic environment prevailed in the country affected the overall financial sector in Sri Lanka in many ways. Similarly, the insurance industry was subjected to numerous challenging conditions edged on by the macroeconomic pressures during 2022. The mounting cost of living and contracted disposable income influenced the public to lower their spending on insurance products and accordingly the demand for insurance services narrowed. Similarly, the consequent results of inflation elevated the claim expenses, operational and administrative expenses of insurer's compelling insurance companies to increase the premium rates to cope with the profitability targets. This has further eroded the premium payment capacity of both existing and potential policyholders. Although tight monetary policy and resultant high interest rate environment positively affected the investment income of insurers, it has produced substantial mark-to-market losses for many insurance companies during 2022. The outlook will be more challenging for the insurance industry considering the impacts of ongoing economic instability and constantly evolving insurance market setting.

As illustrated in Table 1 and Chart 1, the total gross written premium income of insurance industry increased to LKR 258,100 million in 2022 yet demonstrated a subdued growth of 10.5% in comparison to previous year's overall premium growth of 12.1%. The hindrance observed in overall premium growth was largely contributed by the passive progress in premium income of long-term insurance business as it displayed the lowest premium growth rate reported in the last five years. Rising interest rates hampered the loan granting and adversely affected the premium growth of loan protection insurance covers. Depleted real income of households due to soaring inflation

has resulted in a significant drop in new long term insurance policies issued during the year, ultimately impacting the subdued premium growth.

In terms of premium income, the general insurance business demonstrated a significant improvement during the year by posting an 11.9% growth rate in comparison to the 3.5% growth reported in the last year. While overall premium income of general insurance business reached to LKR 121,829 million, the major share of the reported premium income was attributed to motor class. Increase in premium rates together with the mounting motor vehicle prices mainly pushed the premium income of motor class to grow by 7.2% in 2022 after consecutive two years of negative premium growth. In addition to motor insurance, all other sub classes of general insurance business except for health insurance demonstrated positive premium expansion during the year. Reinsurance premium income demonstrates the reinsurance premium ceded by general insurance companies to NITF and the same has decreased to LKR 3,107 million from LKR 3,549 million in 2022 mainly because of decreased participation to treaty reinsurance arrangements by NITF.

Insurance penetration declined to 1.1% from 1.3% year-over-year mainly because of subdued total premium growth and relative increase in gross domestic product at current market price. Nevertheless, the protection gap is considerably wide in the country which requires proactive measures such as spreading awareness about the benefits of insurance, increasing the accessibility and affordability of insurance services, development of innovative products, improved customer service through technological advancements etc. to bridge the gap and enhance the penetration level. Yet, the implications of current macro-economic turbulences would hamper the path to grow insurance penetration in the country. However, the amount of insurance premium per person exhibited positive movement from LKR 10,540 to LKR 11,636 during the year on account of comparatively stable population growth in the country in 2022.

INDUSTRY PERFORMANCE REVIEW

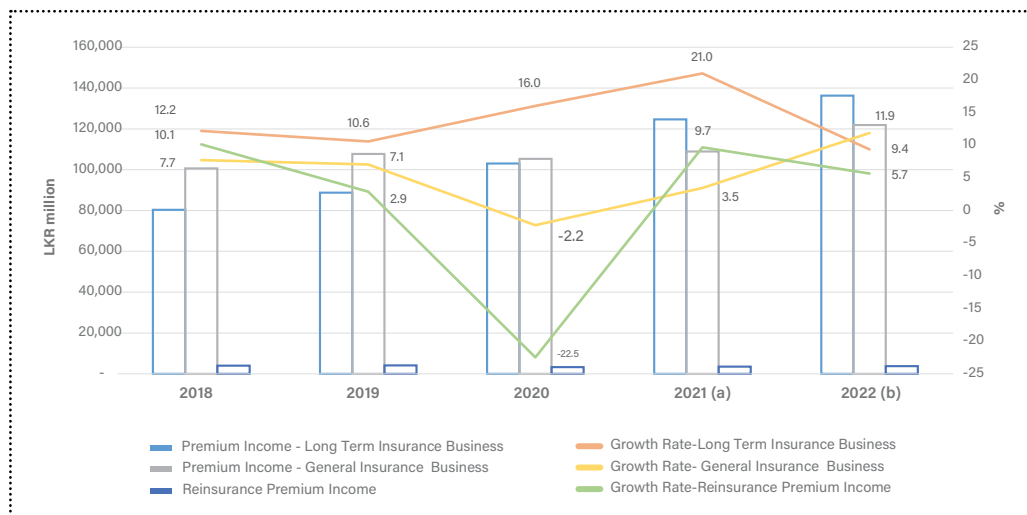
Table 1
Premium Income and Penetration

Item	Insurance Business	2018	2019	2020	2021(a)	2022(b)	Trend
Premium Income (LKR million)	Long Term Insurance Business	80,294.0	88,787.0	103,000.0	124,616.0	136,271.0	
	General Insurance Business	100,586.1	107,684.7	105,265.0	108,905.2	121,829.4	
	Total Premium Income- Insurance Business	180,880.1	196,471.8	208,265.0	233,521.2	258,100.4	
Growth Rate in Premium Income (%)	Long Term Insurance Business	12.2	10.6	16.0	21.0	9.4	
	General Insurance Business	7.7	7.1	-2.3	3.5	11.9	
	Growth Rate in Total Premium Income -Insurance Business (%)	9.7	8.6	6.0	12.1	10.5	
Penetration % (Premium Income of Insurance Business as a % of GDP)	Long Term Insurance Business	0.6	0.6	0.7	0.7	0.6	
	General Insurance Business	0.7	0.7	0.7	0.6	0.5	
	Penetration % (Total Premium of Insurance Business as a % of GDP)	1.3	1.3	1.4	1.3	1.1	
Reinsurance Premium Income (LKR million)		4,056.4	4,173.7	3,235.5	3,548.8	3,107.3	
Insurance Density - (Total Premium Income - Insurance Business/ population) LKR.		8,347.0	9,011.2	9,501.6	10,539.9	11,636.1	
Gross Domestic Product at current market price (LKR. billions)*		15,352	15,911	15,672	17,600	24,148	
GDP Growth Rate % *		2.3	-0.2	-4.6	3.5	-7.8	
Population '000 (Mid Year) *		21,670	21,803	21,919	22,156	22,181	

* Source: Central Bank of Sri Lanka and Department of Census and Statistics. Gross Domestic Product at current market price updated from 2018 onwards based on the Annual Report of Central Bank of Sri Lanka 2022.

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

Chart 1
Premium Income and Growth Rate of the Insurance Industry



INDUSTRY PERFORMANCE REVIEW

Total Assets of Insurance Companies

Table 2 outlines the overall asset position of the insurance industry and the progress of same over the last five years. As illustrated, the value of total assets reached LKR 962,299 million by the end of year 2022 reporting a year-over-year growth of 8.2%. Total assets grew in parallel to business growth but at a comparatively reduced rate compared to the preceding years. This was largely because of the depleted asset values of insures in the face of the high interest rate environment that prevailed in the year.

Long term insurance business accounted for LKR 671,611 million worth of assets, representing the major contribution to assets of insurance industry. Subdued business growth and significant mark-to-market losses in financial investments depressed the growth of long-term insurance assets to 6.2% in 2022, making it the lowest growth rate reported in the last five years. However, general insurance business managed to maintain favorable progress in total asset portfolio, marking a 12% growth in 2022. This was largely backed

by the increased financial investments, particularly the government debt securities due to significant high yield rates offered during the year. After two years of repeated contraction, total assets of reinsurance business of NITF displayed a significant turnaround by recording LKR 9,182 million assets in 2022 which is an increase of LKR 3,649 million in comparison to preceding year (2021: LKR 5,533 million). The financial investment portfolio of the reinsurance business of NITF entirely consists of government securities and demonstrated a notable increase during the year, where investments in treasury bills and bonds almost doubled. Furthermore, the rupee value of the foreign currency denominated Sri Lanka Development Bonds substantially increased owing to the rapid appreciation of US dollar.

In terms of the composition, Financial Investments represented nearly 80% of the overall assets of insurance industry and out of same, Government Securities, Corporate Debts and Deposits remained as the leading asset types.

Table 2

Total Assets of Insurance Companies

Item	Insurance Business	2018	2019	2020	2021(a)	2022(b)	Trend
Total Assets (LKR millions)	Long Term Insurance	430,759.0	485,121.0	562,706.0	632,687.1	671,610.8	
	General Insurance	196,005.0	205,130.0	227,639.5	251,417.5	281,506.1	
	Reinsurance	3,683.0	6,690.0	6,065.8	5,532.9	9,182.4	
	Industry Total	630,463.0	696,958.0	796,411.3	889,637.5	962,299.2	
Growth Rate of Assets (%)	Long Term Insurance	9.9	12.6	16.0	12.4	6.2	
	General Insurance	5.6	4.7	11.0	10.4	12.0	
	Reinsurance	-12.5	81.6	-9.3	-8.8	66.0	
	Industry Growth	8.4	10.6	14.3	11.7	8.2	

Distribution of Total Assets of Major Financial Sectors

Sri Lankan financial sector exhibited a commendable expansion in overall asset volume by reporting 17.5% growth in 2022, despite the country was voyaging through one of the deepest economic recessions in the history. As displayed in Table 3, the improvement

in the overall asset base was predominantly driven by the Banking Sector and followed by Contractual Savings Institutions. However, the assets of Specialized Financial Institutions contracted by 11% in 2022 primarily on account of shrinkage in leasing portfolio due to continual restriction on motor vehicle imports and reduced demand driven by high leasing rates.

INDUSTRY PERFORMANCE REVIEW

Banking Sector continued its dominance in the overall asset composition of the financial sector in Sri Lanka by holding 74% of total assets in 2022 (2021: 74.7%). It comprised of 24 Licensed Commercial Banks and 6 Licensed Specialized Banks in 2022 and was able to preserve the stability of the sector irrespective of the constant challenges arising from declining credit quality, severe pressure on liquidity, low level of profitability and weakening capital levels. Accordingly, the asset base of the banking sector expanded by 20.4% reaching LKR 23.9 trillion mark. Despite the deceleration of loans and advances growth due to tight monetary policy, the investments portfolio grown at a notable pace.

Other deposit taking financial institutions, comprised of Licensed Finance Companies, Co-operative Rural Banks and Thrift and Credit Co-operative Societies, managed to maintain a moderate growth of 11.2% in total asset base during 2022 despite subdued growth in leasing facilities due to continuation of vehicle import restrictions. The overall growth in asset base

was largely supported by acceleration in pawning/gold loans coupled with the enhanced investment portfolio of the sector. The assets of specialized financial institutions reported a decline during the year mainly because of the contraction in the asset base of unit trusts due to a change in investor preferences.

Contributing for the second largest share of total assets in major financial sectors, the other Contractual Savings Institutions reported LKR 5.3 trillion worth of assets as of the end 2022. Employees' Provident Fund (EPF), Employees' Trust Fund (ETF) and other approved Pension and Provident funds were included in the sector and the expansion in assets during the year was a result of the combined effect of the net contributions of EPF and ETF members, and the income generated through investments of the funds. (Source: Central Bank of Sri Lanka - Annual Report 2022). Driven by the passive growth in assets of insurance sector during the year, the overall contribution made by insurance companies to the assets of major financial sectors declined from 3.2% to 3%.

Table 3
Distribution of Total Assets of Major Financial Sectors

Financial Sectors	2018		2019		2020		2021 (a)		2022 (b)	
	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%
Banking Sector	13,711.4	72.2	14,442.1	71.9	17,087.9	72.9	19,872.5	74.7	23,926.9	74.0
Other Deposit Taking Financial Institutions	1,603.2	8.4	1,553.2	7.7	1,536.5	6.6	1,646.2	6.1	1,830.9	5.7
Specialized Financial Institutions	241.1	1.3	286.7	1.4	386.5	1.6	369.4	1.4	328.9	1.0
Contractual Savings Institutions	2,807.4	14.8	3,097.9	15.4	3,635.9	15.5	4,758.2	14.5	5,292.3	16.4
Insurance Companies*	630.4	3.3	696.9	3.5	796.4	3.4	889.6	3.2	962.3	3.0
Total	18,993.5	100.0	20,076.8	100.0	23,443.2	100.0	27,535.9	100.0	32,341.3	100.0

Source: Central Bank of Sri Lanka Annual Report - 2022

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

Profitability of Insurance Industry

As illustrated in Table 4, the profitability of insurance industry in Sri Lanka unveiled a moderate growth of 16.4% by reporting LKR 53,990 million profitability for the year 2022. This was supported by enhanced performance of general insurance business and rebounded profitability of reinsurance business of NITF.

Despite the growth reported in the preceding year, the profitability of long-term insurance business declined from LKR 27,360 million to LKR 24,836 million in 2022. All long-term insurers except two, achieved favorable profitability results for the year amidst the hectic socio-economic environment in the country. However, profits were notably less than the preceding year

INDUSTRY PERFORMANCE REVIEW

primarily owing to weak GWP growth and substantial mark-to-market losses induced by a high interest rate environment. Consequently, the earnings of long-term insurance business as a percentage of the average assets have fallen to 3.8% in 2022 as depicted in Chart 2.1.

Recovering from the reduced profitability exhibited in last year, the general insurance business demonstrated a remarkable year-over-year profit growth of 43.2% in 2022 which was largely influenced by promising expansion in overall premium income and noteworthy

foreign exchange gains reported by several general insurers which emerged from foreign currency denominated investments. Correspondingly, the return on assets of general insurance companies displayed a surge from 8.2% to 10.5% in 2022 as depicted in Chart 2.2.

The reinsurance business of NITF displayed a commendable recovery in terms of profitability which was again mainly supported by foreign exchange gains from US dollar denominated financial investments and the overall increase in investment income.

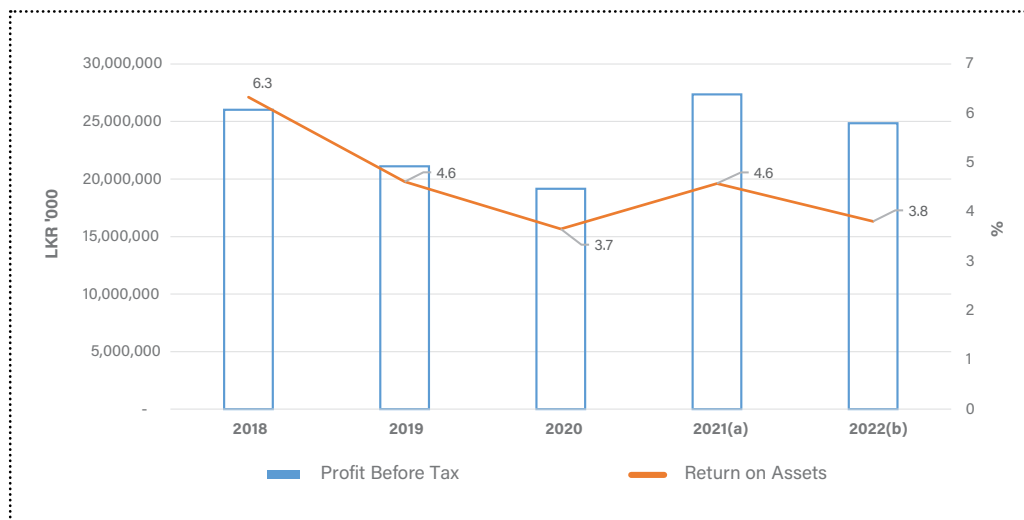
Table 4
Profitability of Insurance Industry

Insurance Business	2018	2019	2020	2021(a)	2022(b)	Trend
Long Term Insurance Business (LKR '000)	26,026,617.7	21,119,627.1	19,143,355.1	27,360,476.5	24,836,062.1	
General Insurance Business (LKR '000)*	11,736,739.2	11,317,738.3	23,360,482.0	19,548,731.8	27,992,365.3	
Reinsurance Business (LKR '000)**	1,342,480.5	(662,401.9)	1,230,410.0	(525,548.0)	1,161,827.0	
Total (LKR '000)	39,105,837.4	31,774,963.5	43,734,247.1	46,383,660.3	53,990,254.4	
Growth (%)	-17.8	-18.7	37.6	6.1	16.4	

*Includes SRCC business and general NITF business.

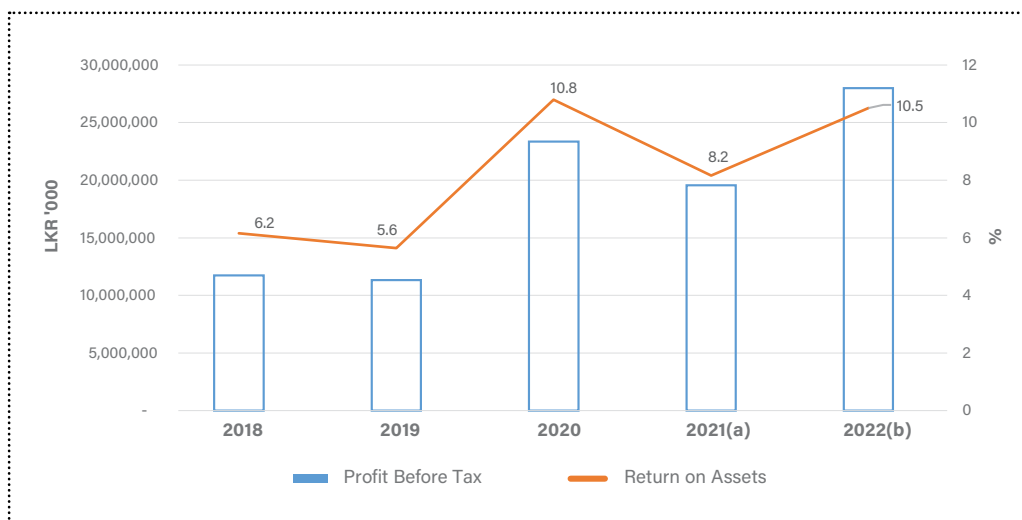
**Includes the exclusive NITF Reinsurance business.

Chart 2.1
Profitability and Return on Assets - Long Term Insurance Business



INDUSTRY PERFORMANCE REVIEW

Chart 2.2
Profitability and Return on Assets - General Insurance Business



Shareholders' Funds of Insurers

Movements in the shareholders' funds of insurance companies for the preceding five years have been exhibited in Table 5. Accordingly, the total shareholders' funds of insurers reached LKR 272,986 million as of the end of year 2022, displaying a passive growth of 2.4% compared to previous year (2021: 12.5% growth). Substantial mark-to-market losses generated from financial investments during the year had an adverse impact on the total reserves of insurers, particularly affecting the long-term insurance companies. However, the increased profitability of general insurance companies has counterbalanced the overall impact on shareholders' funds.

The overall stated capital of insurance companies expanded during the year by 7.1% mainly because of two long-term insurers increasing their share capital to strengthen the capital and solvency position. Further, the share capital issue of the newly registered long-term insurer also contributed to expansion in overall stated capital of the industry. Total other reserves which comprised of retained earnings, revaluation reserves, and other general reserves, displayed a marginal increase of 1.5% mainly because of subdued profits of long-term insurance business and the mark-to-market losses arisen from financial investments. One-off surplus is maintained under the 'Restricted Regulatory Reserve' which amounted to LKR 16,248 million.

Table 5

Total Shareholders' Funds of Insurance Industry

Insurance Business Category		2018 (LKR '000)	2019 (LKR '000)	2020 (LKR '000)	2021(a) (LKR '000)	2022(b) (LKR '000)	Trend
Long Term	Stated Capital	13,649,754.8	14,354,342.6	14,504,345.0	14,793,860.6	18,014,843.5	
	Total Other Reserves	56,640,512.4	67,894,168.4	78,871,012.7	85,583,931.5	83,752,294.2	
	One Off Surplus	16,150,089.4	16,150,089.7	16,150,088.7	16,150,089.0	16,150,089.4	
	Total Shareholders' Funds	86,440,356.5	98,398,600.7	109,525,446.4	116,527,881.1	117,917,227.0	

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Insurance Business Category		2018 (LKR '000)	2019 (LKR '000)	2020 (LKR '000)	2021(a) (LKR '000)	2022(b) (LKR '000)	Trend
General	Stated Capital	20,700,820.3	20,911,875.1	20,911,875.0	22,194,434.0	22,194,434.0	
	Total Other Reserves	26,790,621.4	27,086,660.7	42,274,886.0	51,695,239.4	55,319,136.4	
	Total Shareholders' Funds	47,491,441.7	47,998,535.9	63,186,761.0	73,889,673.4	77,513,570.4	
Composite Insurance Companies	Stated Capital	7,080,021.9	8,280,021.9	8,280,022.0	8,280,022.0	8,280,022.0	
	Total Other Reserves	54,396,837.2	55,298,972.5	55,880,435.0	67,835,937.5	69,177,395.7	
	One Off Surplus	133,667.6	98,236.6	98,237.0	98,237.0	98,236.6	
	Total Shareholders' Funds	61,610,526.8	63,677,231.0	64,258,694.0	76,214,196.5	77,555,654.3	
Total Shareholders' Funds (Long term + General + Composite)		195,542,325.0	210,074,367.6	236,970,901.4	266,631,751.0	272,986,451.0	

Analyses of Branches, Employees and Agents of Insurance Companies

Table 6 and Chart 3 demonstrate the provincial-wise dispersal of branches, employees and agents of the insurance industry in Sri Lanka for years 2021 and 2022. Many insurers have expanded their branch network during the year 2022 covering all nine provinces and accordingly the total number of branches increased to 2,046 from 1,896. Like previous years, most of the branches were in Western Province, followed by Southern Province and North Western Province. By the end of 2022 there were 1,014 long term insurance branches, 844 general insurance branches and 188 composite branches in the country.

The overall workforce employed at insurance companies almost remained unchanged totaling 20,057

by end 2022. Despite new recruitments made during the year, certain insurance companies have taken strategic decisions to layoff of employees for economic reasons. Further, rapid migration of workforce in the country also had an impact for number of employees in insurance sector.

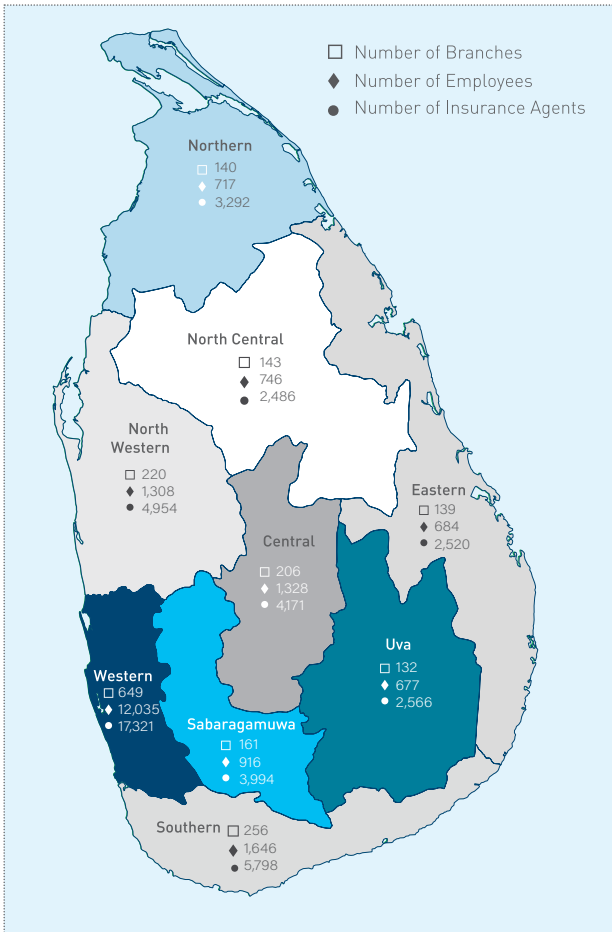
The agency force employed at insurance companies improved to 47,102 by end 2022 and out of them 56% were represented by long term insurers, 7.8% by general insurers and 36.2% by composite insurance companies. Corresponding to the expansion of the branch network, the agency force of many insurers has also increased with the recruitment of new agents during the year. Nevertheless, there were terminations of agents mainly due to poor performance, resignations and financial misappropriations.

Table 6
Number of Branches, Employees and Agents as at 31st December 2021 and 2022

Province	No of Branches		No. of Employees		No. of Agents	
	2021	2022	2021	2022	2021	2022
Central Province	197	206	1,327	1,328	3,705	4,171
Eastern Province	130	139	665	684	2,401	2,520
North Central Province	134	143	736	746	2,472	2,486
North Western Province	207	220	1,221	1,308	4,414	4,954
Northern Province	130	140	689	717	3,513	3,292
Sabaragamuwa Province	145	161	907	916	3,527	3,994
Southern Province	238	256	1,599	1,646	5,162	5,798
Uva Province	117	132	742	677	2,087	2,566
Western Province	598	649	12,146	12,035	16,539	17,321
Total	1,896	2,046	20,032	20,057	43,820	47,102

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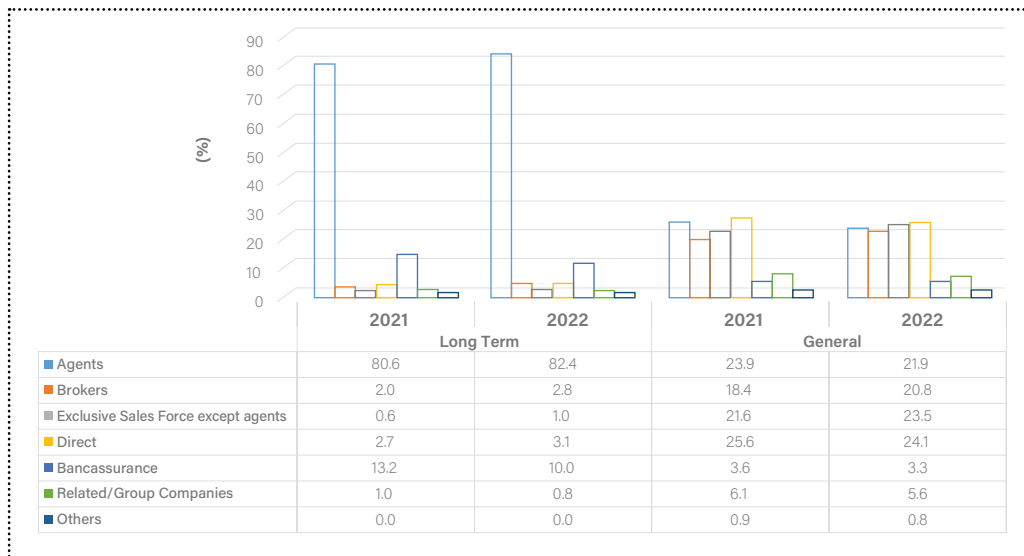
Chart 3
Number of Branches, Employees and Agents as at 31st December 2022



Distribution Channels of Insurance Companies

Over the preceding years there had been several developments in insurance channel diversification as customized, innovative, and technology-based selling methods were becoming highly popular among the insurance companies and customers. Accordingly, insurance premium generated through internet, social media and mobile applications (included in 'Direct' category) demonstrated a promising growth. Similar to prior years, the long-term insurance policies were primarily sold through the agency network which accounted for 82.4% of overall premium distribution in 2022. The contribution of bancassurance channel for insurance premium generation has declined in 2022 mainly because of rapid decrease in issue of loan protection insurance covers due to high interest rate environment and resultant drop in loan disbursements during the year. Brokers' presence in both long-term insurance business and general insurance business enhanced during the year in correspondence to the enlargement of insurance brokering industry in the country during the recent years. GWP of general insurance business were primarily catered through direct channel, exclusive sales force, agents and brokers whose individual contributions exceeded over 20% in 2022. Direct channel claimed the highest involvement of 24.1% which mainly comprised of premium collected from walking customers, internet including social media and government insurance schemes implemented through NITF.

Chart 4
Distribution Channels of Insurance companies



INDUSTRY PERFORMANCE REVIEW

Reinsurance Business

The reinsurance business of National Insurance Trust Fund consists of the mandatory cession of premiums by general insurance companies, relating to not less than 30% of their total liability resulting from every reinsurance arrangement. This compulsory requirement came to effect with the Government Gazette Notification No. 1791/4 of 31 December 2012, allowing NITF to act as the 'National Reinsurer' to all primary insurance companies in Sri Lanka.

In year 2022, the reinsurance premium income of NITF accounted for LKR 3,107 million, exhibiting a decrease of 12.4% compared to LKR 3,549 million recorded in 2021, which was mainly induced by decreased participation to treaty reinsurance arrangements by NITF. In addition, the overall premium retention levels of general insurers substantially improved during the year, which also had an adverse impact on reinsurance premium income of NITF.

In 2022, the net exposure of retrocession premiums ceded to reinsurers by NITF amounted to LKR 515 million, whereas it was to LKR 1,120 million in 2021. The foreign exchange crisis prevailed in the country had curtailed the retrocession premium remittance to respective reinsurers and eventually resulted in limiting the period of cover obtained for retrocession arrangement.

Claims incurred by NITF pertaining to reinsurance business amounted to LKR 2,461 million in 2022 by exposing a slight increase of 3.5% in comparison to LKR 2,379 million reported in preceding year. The overall claims exposure of general insurance sector experienced an upsurge during 2022 and consequently it has influenced the reinsurance claims presented to the NITF to increase. In terms of profitability, the reinsurance business of NITF displayed a commendable recovery which was mainly supported by foreign exchange gains from US dollar denominated financial investments and the overall increase in investment income.

Similar to previous years, the overall asset composition of the reinsurance business of NITF was dominated by financial investments, premium receivables and reinsurance receivables, and exhibited a notable increase from LKR 5,533 million to LKR 8,182 million

by the end 2022. This increase was largely driven by financial investments which amounted to LKR 3,577 million. Government securities make up the entire financial investment portfolio of the NITF's reinsurance business, which saw a remarkable increase during the year, with investments in treasury bills and bonds nearly doubling. Furthermore, a rapid increase in the value of the US dollar significantly enhanced the rupee value of Sri Lanka Development Bonds issued in foreign currencies. Nevertheless, only 62% of the reinsurance liability has been covered by permitted investments as of 31st December 2022.

Insurance brokering companies

Insurance brokering companies serve as intermediaries, assisting customers in obtaining appropriate insurance policies tailored to their individual requirements. They can specialize in a specific type of insurance or offer guidance on various insurance options. While performing many of the same functions as insurance agents, they differ from agents in that they act in the interest of policyholders. In accordance with Section 82 of the Regulation of Insurance Industry Act, No.43 of 2000, insurance brokers sell policies from one or multiple insurance companies they represent.

At the end of 2022, there were a total of 77 insurance brokering companies operating in the market. However, three of these companies failed to submit their annual report data within the timeframe set by the Insurance Regulatory Commission of Sri Lanka (IRC SL). As a result, all calculations and analysis were conducted using the data submitted by the 74 insurance brokering companies. These companies collectively generated a Gross Written Premium (GWP) of LKR 38,852 million, which was higher than compared to the previous year's GWP of LKR 30,286 million. This GWP consisted of two components: premium income generated through long-term insurance business and general insurance business. The long-term insurance business contributed to LKR 4,013 million (2021: LKR 1,812 million), while the general insurance business contributed to LKR 34,839 million (2021: LKR 28,474 million).

When considering the overall GWP, the general insurance business accounted for 89.7% of the total, while the long-term insurance business represented 10.3% of the total GWP.

INDUSTRY PERFORMANCE REVIEW

The total GWP generated through the insurance brokering business recorded an increase of 28.3% in 2022 compared to LKR 30,286 million generated in 2021. However, there was a noticeable increase in the GWP of long-term insurance business, which is 121.5% during the year, mainly due to the increased demand for life insurance policies with the pandemic situation in the country.

In their role as intermediaries, insurance brokering companies have made a considerable contribution to the generation of a significant Gross Written Premium (GWP) in the general insurance business (LKR 121,829 million), which includes premiums for SRCC and T (Strike, Riot, Civil Commotion, & Terrorism) coverage. However, as in previous years, their impact on the long-term insurance segment in 2022 remained minimal. According to data provided by the brokering companies, they generated only 2.9% of the total GWP amounting to LKR 136,271 million for the long-term insurance segment,

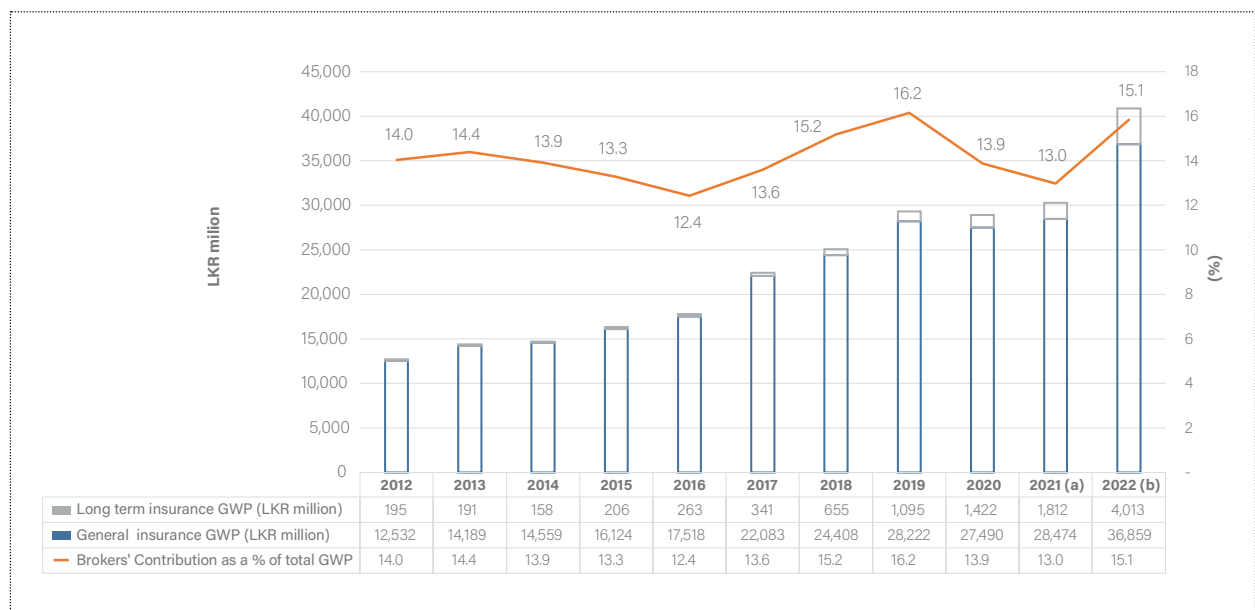
In 2022, thirty-eight insurance broker companies made more than LKR 100 million each in Gross Written Premium (GWP). Together, these companies generated a total of LKR 39,124 million in GWP. The remaining thirty-six insurance broker companies generated LKR 1,748 million, as shown in Table 7.

Furthermore, insurance brokering companies have expanded their services as intermediaries in re-insurance brokering. As a result, a few brokering companies garnered substantial premiums and commissions in 2022, totaling LKR 2,414 million (compared to LKR 1,409 million in 2021).

Chart 05 illustrates the Gross Written Premium (GWP) contribution attributed to insurance brokers. A comparison between 2021 and 2022 reveals noticeable enhancements in GWP for both the long-term and general segments. In terms of percentage, the share of GWP contributed by insurance brokers to the overall total was 13% in 2021, which exhibited an increase to 15.1% in the year 2022.

Chart 5

Gross Written Premium generated through Insurance Brokering Companies from 2012 to 2022



INDUSTRY PERFORMANCE REVIEW

Table 7
Gross Written Premium generated through Insurance Brokering Companies

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	A.M. W. Insurance Brokers (Pvt) Limited	-	-	340,527	0.98	340,527	0.88
2	ADZ Insurance Brokers (Pvt) Limited	73,349	1.83	1,945,787	5.59	2,019,136	5.20
3	Aitken Spence Insurance Brokers (Pvt) Ltd.	-	-	1,335,424	3.83	1,335,424	3.44
4	Alfinco Insurance Brokers (Pvt) Limited	1,729	0.04	1,256,725	3.61	1,258,454	3.24
5	Allion Insurance Brokers (Pvt) Ltd.	27,772	0.69	81,402	0.23	109,174	0.28
6	Aseki Insurance Brokers (Pvt) Ltd.	18,589	0.46	2,285,828	6.56	2,304,417	5.93
7	Assetline Insurance Brokers Limited	40,807	1.02	1,897,216	5.45	1,938,023	4.99
8	BIMA Insurance Brokers (Pvt) Ltd	290,957	7.25	624,613	1.79	915,570	2.36
9	Brilliance Insurance Brokers (Pvt) Limited	58,155	1.45	74,242	0.21	132,397	0.34
10	Ceylan Insurance Brokers (Pvt) Ltd.	-	-	109,255	0.31	109,255	0.28
11	Ceynergy Insurance Brokers (Pvt) Ltd.	103,294	2.57	189,751	0.54	293,045	0.75
12	CF Insurance Brokers (Pvt) Limited	228	0.01	2,103,409	6.04	2,103,637	5.41
13	Charenco Insurance Brokers (pvt) Ltd	-	-	120,888	0.35	120,888	0.31
14	Colombore Insurance Brokers (Pvt) Ltd.	18,806	0.47	466,789	1.34	485,595	1.25
15	Commercial Insurance Brokers (Pvt) Ltd.	48,631	1.21	1,116,714	3.21	1,165,345	3.00
16	Delmege Insurance Brokers (Pvt) Limited	203,788	5.08	1,985,989	5.70	2,189,777	5.64
17	Equity Insurance (Pvt) Limited	-	-	163,891	0.47	163,891	0.42
18	Essajee Carimjee Insurance Brokers (Pvt) Limited	24,333	0.61	791,976	2.27	816,309	2.10
19	Foremost insurance Brokers (Pvt) Ltd.	8,293	0.21	116,657	0.33	124,950	0.32
20	George Steuart Insurance Brokers (Pvt) Limited	45,240	1.13	2,499,856	7.18	2,545,096	6.55
21	Global Insurance Brokers and Services (Pvt) Ltd.	15,661	0.39	114,505	0.33	130,166	0.34
22	IIRM Lanka Insurance Brokers (Private) Limited	847,914	21.13	2,335,062	6.70	3,182,976	8.19
23	InsureMe Insurance Brokers (Pvt) Ltd.	390,663	9.74	1,615,626	4.64	2,006,289	5.16
24	JB Boda Insurance Brokers (Pvt) Ltd.	-	-	224,749	0.65	224,749	0.58
25	Life & General Ins. Brokers Ceylon (Pvt) Ltd.	108,133	2.69	387,143	1.11	495,277	1.27
26	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	30,086	0.75	1,042,958	2.99	1,073,044	2.76
27	Mercantile Insurance Brokers (Pvt) Ltd.	66,349	1.65	644,244	1.85	710,593	1.83
28	Nations Insurance Brokers Limited	126,058	3.14	1,420,842	4.08	1,546,900	3.98
29	Priority Insurance Brokers (Pvt) Ltd	254,753	6.35	186,470	0.54	441,223	1.14
30	Procure Insurance Brokers (Pvt) Limited	115,491	2.88	482,403	1.38	597,894	1.54
31	Protection & Assurance Ins. Brokers (Pvt) Ltd.	91,247	2.27	749,550	2.15	840,797	2.16
32	Reliance Insurance Brokers (Pvt) Ltd.	111,129	2.77	1,077,485	3.09	1,188,614	3.06
33	Senaratne Insurance Brokers (Pvt) Ltd	84,576	2.11	1,615,227	4.64	1,699,803	4.38
34	Senkadagala Insurance Brokers (Private) Ltd.	-	-	848,016	2.43	848,016	2.18
35	Strategic Insurance Brokers (Pvt) Limited	55,218	1.38	171,331	0.49	226,549	0.58
36	Veracity Insurance Brokers (Private) Limited	169,344	4.22	9,029	0.03	178,373	0.46
37	Volanka Insurance Services (Pvt) Limited	342,354	8.53	187,982	0.54	530,336	1.37
38	Zenith Insurance Brokers (Pvt) Limited	98,491	2.45	611,547	1.76	710,038	1.83
	Others (36)	141,170	3.52	1,608,387	4.62	1,749,557	4.50
	Grand Total	4,012,609	100	34,839,494	100	38,852,103	100

REVIEW OF OPERATIONS

SUPERVISORY REVIEW

IRCSL's supervision division is responsible for the prudential supervision of the insurance industry by applying requirements and supervisory procedures consistently to ensure a fair, safe, and stable insurance market and, thereby, effective protection of policyholders.

Risk-based supervisory activities of IRCSL mainly comprise of off-site monitoring activities such as reviews of statutory returns and compliance status of rules and regulations, risk ratings of insurance companies, computation of early warning ratios, etc., and on-site inspection activities. Further, the division prepares statistical reports for various purposes.

Furthermore, the division initiates corrective measures to combat Money Laundering and Terrorist Financing by reviewing the risk rating tools, conducting AML/CFT on-site with the collaboration of the Financial Intelligence Unit of the Central Bank of Sri Lanka, etc.

Off-site Monitoring of Insurance Companies

1. Review of Statutory Returns

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

In accordance with Determinations 14 and 15, as amended on 31st December 2021, all registered insurance companies are required to furnish their annual statutory returns and audited financial statements to IRCSL within four months following the end of the respective financial year. Long-term insurance companies are required to submit actuarial reports and abstracts along with their annual statutory returns.

IRCSL monitors the timely submission of returns and examines for accuracy and compliance with the relevant rules and regulations as applicable. Insurance companies are advised to rectify the deviations observed from statutory requirements, within stipulated deadlines. Follow-up actions are taken where necessary. In addition, certain matters observed during the review of returns are addressed at the onsite inspections conducted.

b) Assessment of Internal Controls, Governance and Risk Management of Insurance Companies

Insurance companies are required to submit their Risk Assessment Report (RAR) to IRCSL

each year, as a part of their annual returns.

Through submission of RARs, IRCSL obtains certain qualitative information about insurance companies such as the information pertaining to organizational structure and ownership, business profile, senior management, functions such as marketing and distribution, claims management, risk management, etc. This information is used for the purpose of understanding and assessing the governance, internal controls, and risk management frameworks of insurance companies.

c) Reinsurance/ Risk Transfer Programs

In accordance with the terms and conditions to be complied with by insurers in terms of section 31 (1) of the RII Act, insurers are required to submit a report on the reinsurance/ risk transfer program for the year 2022, on or before the 31st January 2022 and reinsurance treaty arrangements along with relevant certifications on or before 15th March 2022 to IRCSL. Except for three insurers, all other insurance companies have submitted their treaty reinsurance arrangements within the deadline. Further, all insurers are required to submit their facultative reinsurance arrangements on a quarterly basis. IRCSL reviewed the said arrangements and the observed deviations were communicated to relevant insurers to take corrective actions where necessary.

SUPERVISORY REVIEW

d) Quarterly Returns

Insurance companies were earlier required to submit their Quarterly Returns to IRCSL within forty-five days from the end of each quarter as per the provisions of Determination 12. During the year, IRCSL amended Determination 12, altering the time period of submission of quarterly returns from forty-five days to thirty days from the end of each quarter, which became applicable with effect from the quarter ended 30th September 2022. However, after considering the request received from the Insurance Association of Sri Lanka (IASL), IRCSL permitted the revised submission deadline to be effective from the quarter ended 31st December 2022 onwards.

Quarterly returns submitted during the year 2022 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 liabilities, 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 the given time limits.

In order to evaluate the quarterly performance of each insurer, IRCSL analyzed the premium income, underwriting profit, and net profit for both long-term and general insurance companies. Further, the division computes early warning ratios of insurance companies on a quarterly basis based on the quarterly returns submitted to IRCSL. These ratios include premium stability, claim ratio, expense ratio, retention, combined ratio, underwriting results, return on assets, return on equity and profitability, etc. The division monitors and compares the movement of these ratios company-wise as well as at the industry level and material variances are further evaluated with quarterly returns and communicated to insurers along with other observations of quarterly returns.

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 2022, one company has been directed to submit Statutory Returns, Financial Statements, RBC status, etc. on a monthly basis based on the non-compliances reported from time to time.

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 IRCSL 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. IRCSL monitors compliance with the said provisions on a monthly, quarterly, and annual basis, based on the returns and relevant supporting documents submitted.

Non-compliances or deviations observed are communicated to relevant companies to rectify within stipulated timelines.

SUPERVISORY REVIEW

b) Other Investments as per Determination 1

Every insurer is required 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. IRCSL reviews the investment details of Technical Reserve and Long-Term Insurance Fund on a monthly, quarterly, and annual basis, based on the returns submitted in order to ensure compliance with Determination 1.

During the year, IRCSL observed non-compliances and deviations with the requirements of Determination 1 of three insurers. Accordingly, the relevant companies were informed to do necessary rectifications to comply with Determination 1 with immediate effect. Two companies have subsequently complied with Determination 1, while the other company is still in the process of taking relevant corrective actions.

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

When there is a risk of an insurer failing to maintain the minimum capital adequacy requirements as stipulated in the Solvency Margin (Risk Based Capital) Rules, IRCSL intervenes and takes corrective actions by requiring such insurer 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 taken to resolve problems. This will enable IRCSL to commence supervisory intervention before a significant deterioration of financial conditions or solvency concerns lead to a crisis situation. During the year, three companies reported CAR between 120% and 160% and accordingly, they were required to comply with requirements under the Enforcement Strategy. Further, the CAR of many long-term insurance companies declined in the mid of 2022 mainly as a result of the impacts of increased interest rates.

On-site Supervision of Insurance Companies

1. Onsite Inspections

During 2022, the division has conducted one onsite inspection with the purpose of evaluating

the performance, procedures, and controls relating to focused areas of the insurance company such as investments, operations, financial condition, enterprise risk management, governance, etc. Key findings observed during the onsite inspection were communicated to the insurer, along with recommendations from IRCSL for areas that needed improvement.

Statistical Reporting and Other Activities

1. Industry Handbook 2021

The division has prepared the industry handbook (e-book) for the year 2021 based on the audited financial statements and statistics submitted to IRCSL. Accordingly, the industry handbook contains statistics pertaining to the industry and company-wise balance sheets, income statements, concentration of assets, etc. The same was published on the IRCSL website.

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

In 2022, IRCSL submitted the following information to the Central Bank of Sri Lanka (CBSL) according to their request.

- Financial information relating to the performance of the insurance industry on a quarterly basis to the Macro-Prudential Surveillance Department of CBSL based on the information and statistics collated from the Quarterly Returns.
- Insurance industry information on an annual basis for the Insurance Industry Appendix of the CBSL Annual Report.
- Provincial data on premium income, claims paid, and other revenue, in order to fulfill the information requirement of Provincial GDP Estimates prepared by CBSL.
- Information relating to the exposure of insurance companies on government securities as of 31st March 2022 and 30th September 2022.
- Information on insurance entities recognized as subsidiaries and associates of Bank of

SUPERVISORY REVIEW

Ceylon and People's Bank for the CBSL Consolidated Supervision.

3. Submission of Progress report to the Ministry of Finance

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

4. 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 level of risk as an early warning mechanism. The risk profiling was carried out separately for long-term and general insurance companies based on quantitative and qualitative criteria set and relevant data gathered from risk assessment summary, solvency returns, and onsite inspections, etc., Main financial criteria considered include capital, assets, profitability, market share, etc. and compliance perspective includes compliance with solvency requirements, reinsurance terms & conditions, Determination 1, and delay in submissions etc. Further, the governance and risk management perspective has also been considered for risk profiling which deals with the organizational structure, Board of Directors and Board sub-committees, internal controls, risk management, etc.

Accordingly, insurance companies are categorized as "High", "Medium" & "Low" risk companies based on the scoring. The division uses the 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.

5. New Registration of an Insurer

IRCSL granted a new license to Continental Insurance Life Lanka Limited as an insurer to carry

on long-term insurance business with effect from 29th July 2022.

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

a) Onsite Inspection

IRCSL in collaboration with the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka conducted three AML onsite inspections in terms of Section 15(1) (e) read with Section 18 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), to assess whether the customer due diligence processes of the insurance companies are 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.

b) Risk Tool

In terms of the provisions of the FTRA, IRCSL in collaboration with the FIU of Central Bank has continued assessing the money laundering vulnerabilities of all long-term insurance companies and developed a risk tool to ascertain the AML/CFT risk.

Accordingly, IRCSL has circulated a questionnaire among long-term insurance companies for the purpose of collecting a wide range of information related to each company, such as products, customers, PEPs, distribution channels, corporate governance, policies & procedures, risk management, employee due diligence, compliance, internal controls, etc. for the period from 1st October 2021 to 30th September 2022. Based on the information, IRCSL has updated the risk tool to ascertain the AML/CFT risk of long-term insurance companies.

c) Awareness Sessions on AML/CFT Obligations

In 2022, IRCSL in collaboration with the FIU of the Central Bank of Sri Lanka has conducted two virtual awareness sessions for all long-term insurance companies regarding the AML/CFT compliance obligations. The target audience of these virtual awareness sessions were the

SUPERVISORY REVIEW

Directors, Compliance Officers, and Senior Managers of long-term insurance companies.

7. Dividend Distributions

IRCSL received dividend declaration requests from insurers as per the provisions of the Direction No. 01 of 2021 dated 10th March 2021 and its subsequent amendment dated 30th August 2021. Accordingly, insurers are required to meet the terms and conditions prescribed in Direction No. 01 of 2021 when declaring dividends, which include a confirmation from the Board of Directors of the respective insurance company that it has considered all the terms and conditions stipulated in the said Direction. IRCSL reviewed the dividend declaration requests separately in terms of the requirements of Direction No. 01 of 2021 along with other relevant financial and solvency conditions of the company prior to providing the consent.

8. Interim Actions to Mitigate Against the Possible Detrimental Impact on Capital Adequacy Ratio Due to Current Interest Rate Shocks

In order to assess the concerns raised by IASL regarding the possible impact of prevalent interest rate shocks on the Capital Adequacy Ratios of insurers, IRCSL collated RBC computations from insurers according to the different scenarios given. Based on the analysis of collated RBC information, IRCSL's conclusion was communicated to the IASL.

9. Peer Review Process on Insurance Core Principle (ICP) 9 and Insurance Core Principle (ICP) 10 of International Association of Insurance Supervisors (IAIS)

During the year, IRCSL has performed the self-assessment and peer review on supervisory and enforcement measures relating to the ICP 9 and ICP 10 which were part of the assessment strategy designed by IAIS to support its members with the implementation of the supervisory standards. The main objective of this was to identify the nature and extent of any weakness or gaps in supervisory and regulatory frameworks and to provide information on the level of current supervisory capacity and the extent of future supervisory development.

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 of 25th February 2010 and its subsequent amendments.

During 2022, the majority of insurance brokering companies submitted their quarterly returns within the deadline. IRCSL reviewed the quarterly returns submitted by the companies in order to assess their financial position, performance, and compliance with 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 Section 86 (2) of the RII Act. IRCSL reviewed the AFSs 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 2023. IRCSL analyzed AFS 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 from proposed parties to obtain licenses to act as insurance brokering companies. The division 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

One new registration was granted to an insurer by the Commission during the year. Accordingly, the number of registered insurers for the year is 28.

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 2022. 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 to an insurer in terms of Section 57 of the Act to reverse back the written-back unclaimed benefits and to record it as a liability in the balance sheet under "Unclaimed Benefits".
2. The Commission has issued a Direction to an insurer in terms of Section 57 of the Act to cancel a previously issued direction to the same company in year 2021 and to direct the company to prevent their Principal Officer to function as the Principal Officer, Chief Executive Officer or director in any insurance company or any insurance broker registered under the Act for a period of two years.

Warnings

1. The Commission decided to warn the Principal Officer of an insurer for violating Direction #18 by writing back un-presented claim cheques in the year 2019. In terms of Direction # 18, dated 22nd February 2019, all insurers carrying on long-term insurance business are prohibited from transferring unclaimed benefits to shareholders, with effect from the financial year ended 31st December 2018.
2. The Commission decided to warn the Chief Financial Officer of an insurer for neglecting his duties as the Chief Financial Officer by allowing/approving payments of dividend which was prohibited by the Commission.

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

The Commission received four new business proposals during the year from persons who are interested in being registered as insurance brokers. The Commission granted name approvals to one person to incorporate a company during the year. The Commission also granted registration to six 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 70 insurance brokering companies, seeking renewal of registration for year 2023 were received by the Commission during the year, and renewal of registration was granted to 69 out of the said 70 companies in view of them fulfilling necessary requirements under the Act. The renewal of registration was not granted to one company due to not rectifying the financial inaccuracies of quarterly returns submitted as informed, before 31st December 2022

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.

REGULATORY REVIEW

Enforcement Action

Insurance Brokering Companies

Warnings

Two warnings were issued to the Principal Officer of one brokering company for failing to submit the regulatory returns including Audited Financial Statements and Quarterly Returns within the stipulated period of time.

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 three persons as loss adjusters during the year. The Commission also accepted annual payment from twenty-six persons to function 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 the 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 No. 02 of 2022 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.
3. The Commission has provided a clarification to Circular No. 01 of 2021 dated 23rd March 2021 regarding the Actuarial Certificate referred to in paragraph (E) (1) (a). Accordingly, such certificate shall be issued by the Actuary appointed in terms Section 46 read with the definition "Actuary" included in Section 114 (1) of the Act.
4. Having received a complaint against the Principal Officer of one insurance broker, the Commission conducted an onsite inspection to examine the matter. In view of the findings and observations, said insurance broker was required to take several measures to rectify the matter.
5. Having reviewed the 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.

INVESTIGATORY REVIEW

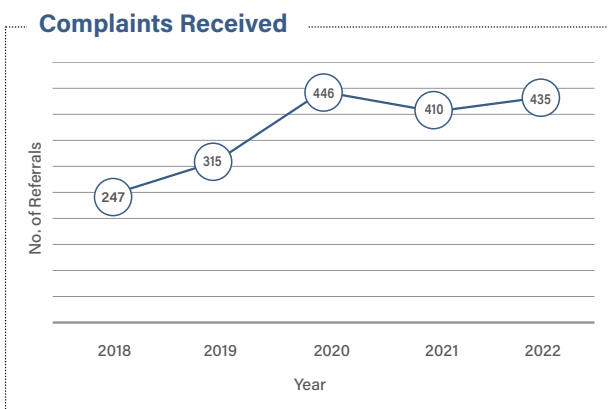
The investigation division, with a view of fulfilling the objective of safeguarding the interests of policyholders investigates and resolves disputes between insurers and claimants, which are referred to the Commission. The division would also investigate into complaints pertaining to conduct of any insurer, broker or an agent to establish whether such conduct contravenes any provision of the Regulation of Insurance Industry Act No. 43 of 2000 or any rules and regulations made thereunder.

The division, when inquiring into complaints referred to the Commission, will ensure the right to be heard is provided to all parties concerned. The division when inquiring into claim disputes will require the insurers to establish the basis for its decisions with evidence to substantiate the said decisions. Third party verifications and expert opinions are also obtained and considered by the Commission in arriving at decisions as and when required.

Synopsis of Total Referrals

435 matters were referred to the Commission and **398** matters (which includes matters brought forward from the previous year) were settled or closed during the period under review. The Commission upon its intervention settled 97 matters in favour of the claimants amounting to approximately Rs. 40 million.

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



The Division received a total of 1853 during the past five (5) year period. The number of matters referred to the Commission in the period under review (435) has slightly increased compared to the previous year (410). The financial issues faced by the insured public due to the economic issues faced by the country and the

sudden volatility in the market value of vehicle prices due to import restrictions may have contributed to the increase in the number of disputes during the year.

Chart 2: Month wise analysis of referrals during the year 2022

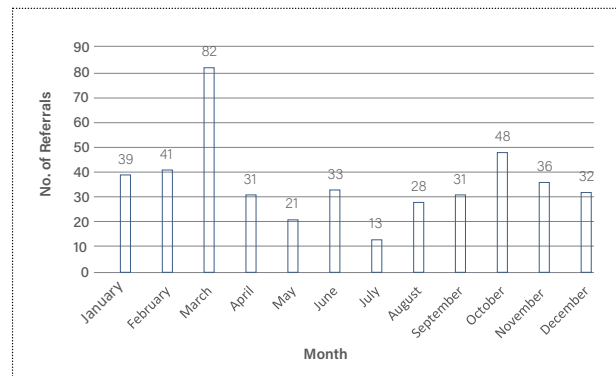


Chart 2 depicts the month-wise analysis of complaints received, indicates the month of March as the month where the greatest number of (82) complaints were received while the lowest number of complaints were received in the month of July (13).

Chart 3 - Classification of total matters referred to in the year 2022

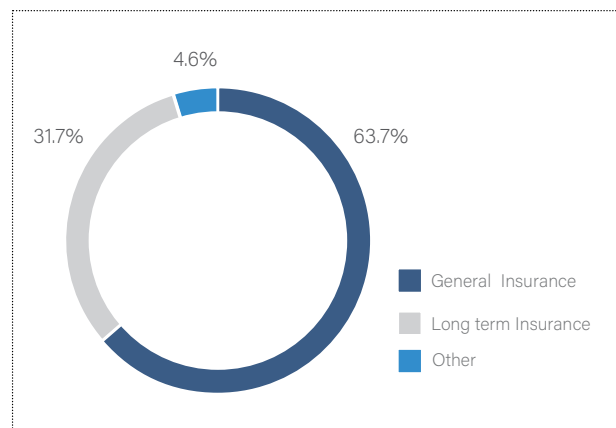


Chart 3 depicts the total matters referred to Commission during the year 2022. The majority of referrals, i.e. 277 (63.7%) were with respect to general insurance business and 138 (31.7%) referrals were relating to long-term insurance business. The balance 20 (4.6%) referrals cannot be categorized into a specific line of business. When compared to previous year under review, the percentage of referrals with respect to general insurance business has decreased from 72.9% (in 2021) to 63.7%, and the percentage of referrals

INVESTIGATORY REVIEW

with respect to the long-term insurance business has increased considerably from 19.75% (in 2021) to 31.7%. The proportion of other referrals has also decreased from 7.32% (in 2021) to 4.6%.

Analysis of Referrals on General Insurance Business

An issue-wise analysis of matters referred to the Commission on general insurance business is given in Table 1.

Table 1 – Referrals on general insurance business: issue wise

Issue	#	%
Claim disputes	256	92.42
<i>Non-acceptance of liability</i>	102	39.84
<i>Dissatisfied with the claim offered/paid</i>	28	10.94
<i>Delays in settling claims</i>	126	49.22
Other complaints	21	7.58
TOTAL	277	100.00

As shown in Table 1, out of the total referrals (277) under the general insurance business, 256 (92.42%) were claims disputes while the balance 21 referrals (7.58%) 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 in relation to non-acceptance of liability (39.84%) revealed that the main causes for repudiation of motor insurance claims were due to 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

Analysis of Referrals on Long Term Insurance Business

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

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

Issue	#	%
Claims disputes	41	29.71
<i>Non-acceptance of liability</i>	30	73.17
<i>Maturity and surrender benefits</i>	01	2.44
<i>Dissatisfied with the claims offered</i>	10	24.39
Other complaints	97	70.29
<i>Request to refund/cancellation or revival</i>	43	44.33
<i>Provision of information</i>	14	14.43
<i>Payment/misappropriation of premia</i>	15	15.47
<i>Other</i>	25	25.77
TOTAL	138	100.00

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.

Dealy in claim settlements was the other main reason for referrals (49.22%) under the claim disputes. It was observed that most of the delays have occurred due to conducting further investigations into claims. In addition, delays on the part of the insured or the repairers in furnishing required information and documents to finalize the claims were also observed. The balance 28 (10.93%) 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.

INVESTIGATORY REVIEW

As per Table 2, the total referrals (138) related to the long-term insurance business consists of (29.71%) of claim disputes and (70.29%) of other complaints.

The main cause (73.17%) for claims disputes was relating to non-acceptance of liability. The main reason for such disputes is the lack of comprehension of the policy wording and the inadequacy of explanations provided by insurers. Most of the disputes were resolved by providing required clarifications to policyholders, in writing and at the discussions conducted at the Commission.

Another 24.39% of claim disputes were related to dissatisfaction with the claims offered. The claim repudiations have been based on non-disclosure or misrepresentation of material facts by the insured at the commencement or revival of the policy. The fundamental legal principle relating to insurance contracts, *uberrimae fidei* (utmost good faith) acts vice versa on both parties of the insurance 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 applicable to an insurance contract 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 breach of *uberrimae fidei* principle by the insured.

In some instances, it was observed that the reason for non-disclosure and misrepresentation of facts by proposers has been due to the lack of knowledge of the relevant insurance principles and of the obligation to disclose material information. The Commission was able to assist only in a 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 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. The majority of disputes (7.25%) were

where the claimants were dissatisfied with the claim amounts, the cause for those disputes was identified as lack of clarifications or explanations provided by insurers at the time of communicating their offers to claimants.

The majority (44.33%) of the other complaints referred to the Commission were under requests to refund/ cancel or revival of policies. Matters in relation to requests to cancel the policies and obtain refund of premiums could not be assisted, as the policyholders do not have 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 time 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

20 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

The creation of awareness is considered a key element affecting the protection of the interests of policyholders and the growth of the insurance industry. The primary stakeholders in the insurance business, both present and potential policyholders, must be equipped with knowledge in order to facilitate protecting their interests and making sound decisions when entering into an insurance contract.

Our strategy for enhancing insurance literacy is based on the rationale that raising awareness to empower the public with useful insurance knowledge, improving responsibility for managing overall risk exposure, and the existence of the insurance regulator to resort to in the event of a dispute relating to insurance coverage/claim.

The year 2022 has been a challenging year to conduct the scheduled awareness programmes and activities. Recognizing the disruptions caused by the prevalent political and economic situation of the country, the Commission quickly adapted to focus more on easily accessible methods of communicating with the public via print, electronic, and social media. As the world continues to change due to the disruptions that have been caused by the COVID-19 pandemic, more and more people are choosing to remain connected via digital platforms. Therefore, the Commission placed more emphasis on using digital channels to reach out to large populations during the period under review.

The Commission strives to protect the interests of current and potential policyholders by increasing policyholders' knowledge of their rights and duties regarding insurance coverage, knowledge of insurance, the insurance industry and its most recent developments, choosing appropriate insurance products, grievance redress mechanisms available to policyholders etc. The Commission used a variety of communication methods to reach the target audience in order to achieve this goal. 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 Releases

Following press releases were published.

- a. "Insurance Industry Performance – Quarter 03, 2021" in January 2022.
- b. "Termination of Selling Insurance Policies Using Mobile and Fixed Line Networks" in January 2022.
- c. "Purchasing Insurance Covers (INSURANCE POLICIES) in Connection with Banks, Finance Companies and Leasing Companies" in February 2022.
- d. "Insurance Industry Performance – Quarter 04, 2021" in April 2022.
- e. "Insurance Industry Performance – Quarter 01, 2022" in July 2022.
- f. "Policyholder complaints handling procedures disclosed through IRCSL website" in August 2022.
- g. "Insurance Industry Performance – Quarter 02, 2022" in October 2022.

Awareness through Digital Media

E-Newsletter

The Commission published two editions of the newsletter containing information such as policyholder rights and obligations, important insurance tips, industry statistics, industry related topics and new directions and circulars with a focus on policyholders, potential policyholders and insurance practitioners. The first edition of the E-newsletter was circulated among more than 500,000 email recipients and both editions were published on the IRCSL website and social media pages during the year.

Awareness through SMS

The Commission conducted the short messages (SMS) campaign, covering insurance related topics, insurance tips & policyholders' rights and duties under the name tag of "IRCSL". These SMS were delivered to a customer base of more than 1900 persons via the selected mobile network operator during the period under review.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

Facebook page and LinkedIn page

During the period under review, the Commission has prepared and published Facebook and LinkedIn posts on various aspects of insurance, policyholders' rights & duties and insurance industry statistics and reached 3500 followers in (Facebook), and 2400 followers in (LinkedIn) with a view of educating the public.

YouTube

04 animated posts, based on the role of the regulator, policyholders' rights & obligations and awareness on other matters related to insurance awareness, were uploaded to the YouTube channel.

Based on a circular issued by the Ministry of Finance, certain awareness activities could not be executed as planned via mass communication media including print media. Hence, such activities were executed internally with the available resources. The press advertisements and press notices were such activities. As the advertisements could not be published in the newspapers, press advertisements on 'Rights & Duties of Insurance Policyholders' in Sinhala and Tamil languages were uploaded to the IRCSL website. The press notice on the 'List of Insurance Companies, Brokering Companies and Loss Adjusters 2022' was also published in the website. The video commercial prepared to be telecasted on TV and animated posts prepared based on the messages planned to be broadcasted on radio, were also uploaded to the IRCSL YouTube channel.

Ensuring policyholder protection through regular monitoring of advertisements and products

The advertising guideline, which sets minimum standards for all material and information related to advertising an insurance product, was in effect as of July 1, 2022, and consequently, the Commission evaluated product-related marketing material of insurance companies and insurance brokering companies. In addition, new life and general insurance products were reviewed and observations were raised with a view to promoting fair, honest and transparent practices with regard to insurance products.

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

(A) Re-conducting the research on Confidence Level

The University of Colombo (UoC) has commenced the survey on confidence level in insurance to ascertain the public perception and confidence in insurance and identify issues that needs to be addressed to improve public confidence. The UoC has submitted the draft final report on the survey and the Commission aims to address the issues identified, in order to improve public confidence on insurance.

(B) Market Research

The Commission has planned to conduct a market research to identify the existing policyholders' attitude, perception and understanding about the benefits, policy conditions, exclusions, quality of the services offered by the insurers, distribution channels, processes of complaints handling and settling insurance claims by the insurance companies, with a view to facilitating further development of the insurance industry. The Commission is in the process of completing the background work to select an institution to carry out the survey.

Providing professional input for stakeholders and other related parties on request

Upon invitation, the officers of the Commission participated in various discussions and seminars in order to provide professional inputs.

- Ministry of Health - participated in the discussion on "data sharing to improve the quality of road traffic accidents"
- Ministry of Fisheries – represented in a committee to setup/design a pension scheme for the fisheries community.
- Sri Jayewardenepura Hospital - conducted an awareness programme regarding health insurance and reimbursement process for Doctors, Staff Officers and Management Assistants.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

- Ministry of Defence - represented at the Sector Validation workshop of the NDCs-Loss and damage sector.

Financial Sector Modernization Project (FSMP)

The Commission prepared a guideline for the product framework on general insurance policies with a view to improving the transparency and completeness of the information given in the general insurance policy documents. The suggestions of the industry were incorporated to the framework and intend to be released to the industry in 2023.

Other Activities

- Contents of policyholders' complaints procedure of insurance companies have been reviewed and arrangements have been made to display web links of customer complaints handling procedures of all insurance companies in the IRCSL website in order to provide easy access to the policyholders to make a complaints to the respective insurance company.

- Arrangements have been made to collect and analyse claims details of life insurance and general insurance businesses and the life insurance claims statistics was published in the second edition of e-newsletter.
- Proposal forms of motor insurance policies have been reviewed in order to streamline the information collected via proposal forms and a report has been submitted to the Technical Subcommittee of the Commission.

Other Engagements

Responses to Public Queries

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

YEAR AT A GLANCE

Press Releases & Other Publication



MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

E - Newsletter



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IMPORTANCE OF POLICYHOLDER RIGHTS & DUTIES

It is vital that policyholders are aware of their rights and duties to avoid difficulties and dissatisfaction throughout the insurance process. A smart policyholder needs to be aware of their rights regarding policy benefits and conditions. Knowing their rights and fulfilling their duties will ensure satisfactory insurance coverage and give the policyholder peace of mind at the time of claiming under the policy. The IRCSL, in this newsletter, mainly focuses on creating awareness on important facts that will help create informed policyholders.

MARKET DEVELOPMENT AND EXTERNAL RELATIONS (MDER) REVIEW

Social Media



ADMINISTRATIVE REVIEW

Staff

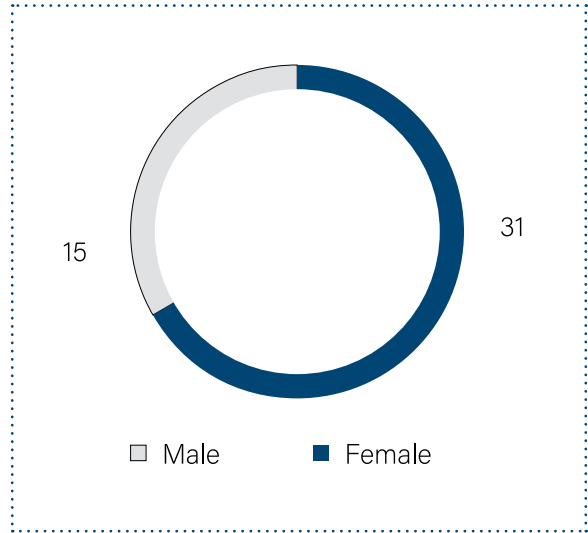
The success of an organization largely depends on the expertise of people involved in its functions. As such, we believe that the human resource is the backbone of the success strategy of the Commission.

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

The Commission took several key initiatives during the year under review to strengthen human resources through timely recruitment of required professionals. To meet such initiatives, Assistant Director was recruited to the permanent cadre during the year under review. Total staff strength of the Commission stood at 46 as at 31st December 2022.

Gender Profile of Employees

Out of 46 employees, 31 of them are females constituting 67%.



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
46	11	04	07	04	08	01

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. Staff were provided with in-person and online training opportunities during the year, including international webinars.

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. The Welfare Society of the Commission conducted an annual get-together for the staff members.

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 rapid increase in the interest rates in 2022, the overall interest income was increased. Chart 1 depicts the Cess collection and investment income for the years 2018 to 2022. In spite of economic instability, the Cess income had recorded an increase.

Chart 1

Cess Income and Investment Income for the period 2018 - 2022

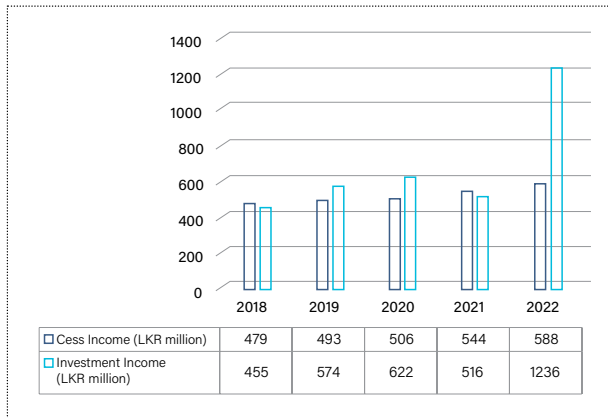


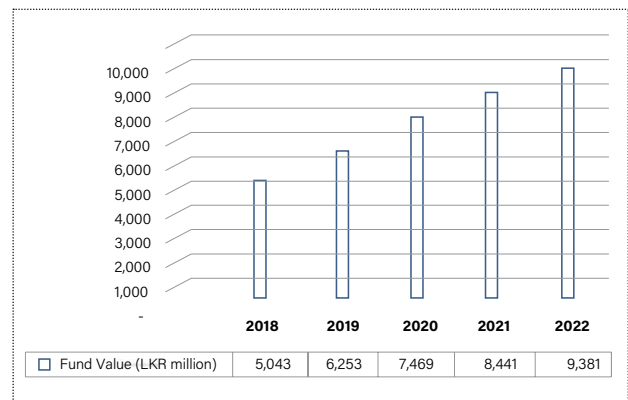
Chart 1 illustrates the growth of the Cess income over the last five years. Due to the impact of favorable market conditions, investment income has shown a significant

increase from 2018 to 2020 but the interest rate dropped significantly in 2021 and continued to be low for a major part of the year 2021. Investment income has shown a rapid increase from July to December in 2022, because the interest rate increased rapidly in 2022 and continued to be high for a major part of the year 2022.

The 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 2

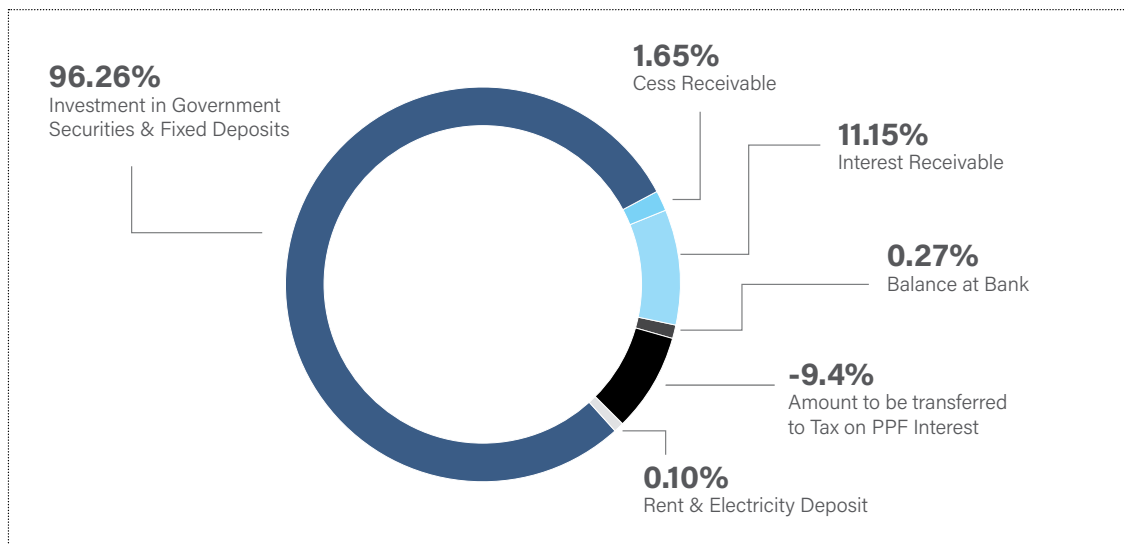
Policyholders' Protection Fund Values for the period 2018 - 2022



The composition of assets of the PPF as at 31st December 2022 is depicted below:

Chart 3

Assets Composition of Policyholders' Protection Fund as at 31st December 2022



FINANCIAL REVIEW

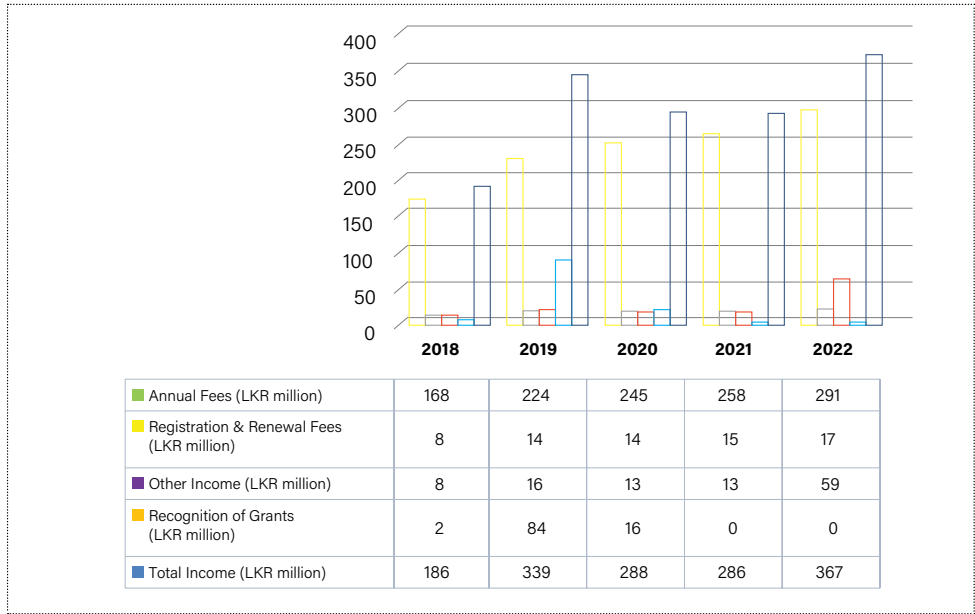
Income of the Commission

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

Chart 4 depicts the breakup of overall income received for the period 2018 to 2022.

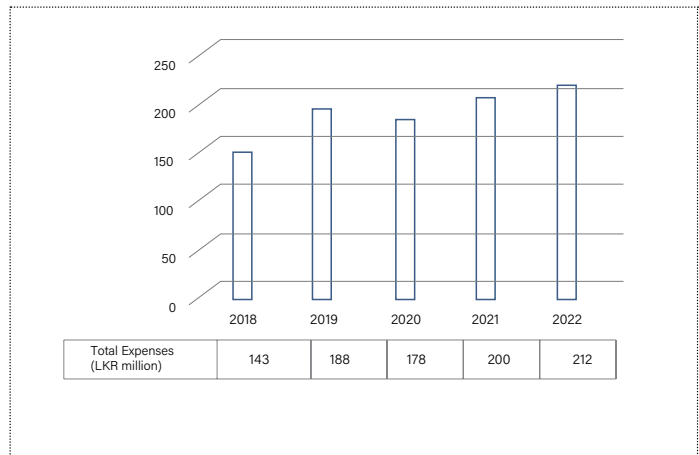
Chart 4
Income of the Commission for the period of 2018 - 2022



Expenses of the Commission

Chart 5 below depicts the total expenses of the Commission for the period 2018 to 2022.

Chart 5
Total Expenses of the Commission for the period 2018 - 2022



CORPORATE GOVERNANCE

The Commission is committed to high standards of corporate governance, which it considers are critical to the institution's integrity and to maintaining stakeholders' trust in the organization. The Commission ensures that there is a culture of good governance which is reflected in its work ethos, its values and sanction a robust framework of accountability and transparency that is continuously improved.

Corporate Governance Framework

The Commission employs a dynamic internal and external corporate governance framework with a strong set of policies, procedures, and an efficient mechanism focused on protecting stakeholder interests by ensuring independency and transparency at all levels in the backdrop of regulation from external benchmarks and impact from internal benchmarks.

The Commission

The commitment of the Commission to Corporate Governance is an integral element for the achievement of the Strategic Plan in an efficient and effective manner to ensure the continued satisfaction of the stakeholders.

As the drivers of Corporate Governance, all members of the Commission pay significant caution and allocate time to attend the meetings and provide independent judgment on matters relating to strategy, performance, risk management, governance and business conduct.

Composition of the Commission

The Commission comprises seven (7) qualified professionals with experience and skills in diversified

areas including insurance, law, accounting and finance, business administration, management consulting, marketing, IT and human resource management. Out of the seven members of the Commission, three members are ex-officio members, namely the Deputy Secretary to the Treasury, the Deputy Governor of the Central Bank and the Registrar of Companies. Thus, the capability to compete in a dynamic business environment is guaranteed by a well-balanced Commission.

Commission Sub Committees

Commission has delegated certain of its functions to subcommittees comprised of members of the Commission, who are appointed thereto after careful evaluation on their qualifications and experience on the relevant subject matter falling under the purview of the subcommittees. This enables the Commission to allocate adequate time to matters within its sphere. Each committee is responsible for fulfilling the duties entrusted to it in accordance with its respective mandate, and make recommendations to the Commission. Thus, Committees are responsible to add value and transparency to the Commission. The Committees report to the Commission on the activities of the respective committee at Commission meetings and are accountable for the effective functioning of the Committees.

Following Commission sub-committees have functioned during the year

- Audit Committee
- Technical Sub Committee
- HR Management and Recruitment Sub Committee

The following table shows the attendance of the Commission and at Committee meetings:

Name of the Commission member	Board Meeting	Audit Committee	Technical Sub Committee	HR Management and Recruitment Sub Committee
1. Mr. Razik Zarook	15/15	-	-	-
2. Mr. R.M.P.Rathnayake-(Member up to 01/03/2022)	05/05	01/01	01/01	-
3. Mr. A.K.Senevirathna (w.e.f. 26/08/2022)	03/04	03/03	-	-
4. Mrs. T.M.J.Y.P Fernando	15/15	04/04	12/12	-
5. Mr. Sanjeewa Dissanayake	11/15	-	-	04/04
6. Mr. Haris Salpitikorala	14/15	04/04	12/12	04/04
7. Mr. Raja Goonaratne	14/15	-	07/12	04/04
8. Ms. Indra Baduge	13/15	01/01	11/12	-

Role of the Director General

The Director General (DG) is the Chief Executive Officer of IRCSL holding the responsibility of managing day-to-day operations with the support of the Senior Management. The DG, subject to the general direction and control of the Commission, is charged with the direction of the affairs and transaction of all the business of the Commission in the exercise, discharge and performance of its powers, functions and duties, and administration and control of the staff of the Commission.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has performed its duties independently and objectively in accordance with its charter approved by the Commission. The charter is in line with the Guidelines on Corporate Governance for State Owned Entities issued by the Department of Public Enterprises and in line with current business priorities approved by the Commission. The Audit Committee advocates a strong culture of governance, integrity, ethics, accountability and transparency for a long-term sustainable operation of the regulator.

The Audit Committee comprised four Commission members until 11.03.2022. Thereafter it comprised three Commission Members as required by the treasury guidelines. The members possess combined skills and expertise in finance, accounting, economics and business. The Deputy Secretary to the Treasury is the Chairman of the Audit Committee.

Details of the composition of the Committee are given below:

Name	Position in Audit Committee	Period of service	Position in IRCSL Commission
Mr. R. M. P. Rathnayake	Chairman	01.01.2022 to 01.03.2022	Ex-officio member
Mr. Saman Fernando	Chairman	11.03.2022 to 15.08.2022	Ex-officio member
Mr. A. K. Senevirathna	Chairman	26.08.2022 to 31.12.2022	Ex-officio member
Mrs. T. M. J. Y. P Fernando	Member	01.01.2022 to 31.12.2022	Ex-officio member
Mr. Haris Salpitiakorala	Member	01.01.2022 to 31.12.2022	Member
Ms. Indra Baduge	Member	01.01.2022 to 11.03.2022	Member

Profiles of the members can be found in pages 18 to 19 of the Annual Report 2022.

In 2022, the Audit Committee convened a total of four (04) meetings, with attendance by all members.

The Audit Committee's main activities during the year 2022 are summarized below:

1. Review of Financial Reports:

The Audit Committee reviewed significant information in the quarterly and annual financial statements of the Insurance Regulatory Commission of Sri Lanka, prepared in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) which are based on the International Public Sector Accounting Standards (IPSAS) with the Management and External Auditor. The Audit Committee discussed with the External Auditor on the accuracy and completeness of the financial statements, significant adjustments that affected the financial statements, adequacy and suitability of accounting methods, evaluation of internal controls, accuracy and adequacy of information disclosure in accordance with relevant financial reporting standards for the benefits of the users of the financial statements.

As advised by the External Auditors, two sets of financial statements prepared for the Commission Fund and Policyholders Protection Fund were amalgamated, and consolidated financial statements were presented according to the 2nd Audit Committee meeting.

2. Review of Internal Control System and Compliance function:

Review of Internal Audit report for the year 2020

The Audit Committee reviewed the Internal Audit report for the year 2020 at its 2nd meeting. This report was presented by Bakertilly Edirisinghe & Company. The report was recommended for approval of the Commission by the Committee.

Review of Detailed Management Audit Report 2020

During the 3rd Audit Committee meeting, the Detailed Management Audit Report 2020 of the Auditor General was taken for discussion with comments for the same.

REPORT OF THE AUDIT COMMITTEE

3. Review of Draft Budget, Draft Strategic Plan and Action Plan and Draft Procurement Plan:

- Budget revision for the year 2022 was reviewed by the Audit Committee due to high inflation and currency devaluation.
- During the 4th Audit Committee meeting, the Draft Budget, Draft Strategic Plan 2023-27, Action Plan, Draft Procurement Plan and delegation of financial authority for the year 2023 were reviewed and submitted for the approval of the Commission.

4. Review of Related Party Transactions:

The Audit Committee regularly reviewed the related party transactions.

5. Review the status of Consultant Actuary deliverables appointed through Financial Sector Modernization Project (FSMP):

During the 1st Audit Committee meeting, members reviewed the status of the Actuarial assignment that was presented for discussion of the Audit Committee.

The Audit Committee was of the opinion that the financial statements had been prepared in conformity with financial reporting standards related party transactions were at arm's length with normal business conditions, risk management, and internal control and internal audit systems were adequate and effective, and that laws and regulations relating to the operations were fully complied with.

For and on behalf of the Audit Committee of the Insurance Regulatory Commission of Sri Lanka



Mr. A. K. Senevirathne
Chairman of the Audit Committee
September 14, 2023



AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

INF/B/05/IRCSL/AR/2022

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

1st August 2023

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 2022 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 2022 comprising the statement of financial position as at 31 December 2022 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 2022 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.



AUDITOR GENERAL'S REPORT

1.3 Other information included in the Commission's 2022 Annual Report.

The other information comprises the information included in the Commission's 2022 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 2022 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.

AUDITOR GENERAL'S REPORT

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 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.

AUDITOR GENERAL'S REPORT

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;

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;

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;

<u>Reference to law/ direction</u>	<u>Description</u>
(a.) Inland Revenue Act No. 24 of 2017	The Commission is liable to pay income tax for surplus of the Policy- Holder's Protection Fund. However, the commission had not paid income tax since 2018. Therefore, Inland Revenue Department had charged a penalty and the interest over non-payment of income tax for the Year of Assessments

AUDITOR GENERAL'S REPORT

of 2018/19 to 2022/23. The total tax liability as of 31 December 2022 was Rs. 909,009,476.

- (b.) Guideline 2.2.2 (a.) (i.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The Chairman shall ensure that proper proceedings are followed during the meetings of the Commission. However, the audit has not been provided a documented policy for proceedings of the meetings in terms of the paragraph 4 (3) and first schedule to the Regulation of Insurance Industry Act No. 43 of 2000.
- (c.) Guideline 2.2.2 (b) (vi.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The Commission must enter into a performance contract with the Director General (DG) which is a reflection of the Strategic Plan, against which the DG's performances must be evaluated annually and the incentives including bonuses must be decided. However, the Commission had not entered into a performance agreement with the DG. Further, it was observed that, annual performance appraisal of the DG had not been carried out by the Commission. Instead, it had been carried out by the Chairman alone and paid performance incentive for the year under review. This may lead to poor division of responsibilities and accountability between two powerful positions in the commission.
- (d.) Guideline 2.4 of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The members of the Commission should individually declare their relationship, annually to the Secretary to the Board using the format given in the Annexure II to the guideline. However, such a declaration had not been declared by the members of the Commission for the year under review.
- (e.) Guideline 2.6 of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The board secretary is mainly responsible for guiding the board on the discharge of its responsibilities and should ensure that all procedures are followed in compliance with statutory requirements and industry best practices and must possess the required qualifications stipulated in the guideline. Further, any employee already engaged in another function, should not be appointed as Board

AUDITOR GENERAL'S REPORT

Secretary and Board Secretary shall function as the Secretary to Board sub-committees. However, there is no qualified secretary for the Commission. At present, the Director Investigation is functioning as Secretary to the Commission and Assistant Director – Legal is the Secretary to the Audit Committee in addition to their permanent responsibilities in contrary to the guideline.

- (f.) Guideline 4.2(d.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The Chief Internal Auditor (CIA) of the Line Ministry could serve as observer of the Audit Committee. However, the CIA of the line ministry had not been invited to the Audit Committees for the year 2022.
- (g.) Guideline 4.2(h.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The Audit Committee (AC) should meet at least once in three months. However, it was observed that the Commission had not conducted Audit Committees on regular basis throughout the year under review. This was occurred mainly due to non-availability of a Board Secretary to the Commission with required qualifications in terms of the Section 2.6 of the Guideline.
- (h.) Section 7 of the Chapter XXIV of the Establishment Code of the Government of the Democratic Socialist Republic of Sri Lanka
- Although the provisions had 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 an employee from the commission funds during the year under review at the interest rate of 4.2 percent and 9 percent respectively for Rs. 600,000 each tranche.
- (i.) Article 40 of the National Audit Act No.19 of 2018
- Every auditee entity shall have its own Internal Auditor, who is to perform an internal audit duly appointed by the governing body of such auditee entity. Where an Internal Auditor has not been appointed under subsection (1), such appointment shall be made within a period not exceeding two years from the date of operation of this Act.

AUDITOR GENERAL'S REPORT

However, an internal auditor had not been appointed by the Commission for the year under review.

- (j.) Management Services Circular No. 03/2018 dated 18 July 2018 and Section 3 of the Operational Manual for State Owned Enterprises
- The Circulars 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) Managers/Assistant Managers and one (01) Secretary positions had been filled without the approval of the Department of Management Services, General Treasury.

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.) As per 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 per cent more compared to the previous year. Further, all employees had earned 100 per cent marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.

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. 47,178,758 has been paid in the year 2022 (2021 – Rs. 44,631,663) as lease rent of the building. It was observed that the lease rent had been increased by 6 per cent when compared to the previous year. The commission had rented in 8741 square feet and had incurred Rs. 351 and Rs. 78 per square feet as rent and service charge respectively. Further, the percentage of the lease rent of the building represented 22 per cent of the total expenditure or 13 per cent of the total income for the year 2022.

AUDITOR GENERAL'S REPORT

- (b.) The Commission is supposed to be an entity, which needs to be closely dealing with public in performing its role as per 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, it was observed that their website and all the information (except policyholder complaints page) only in English language. Therefore, the Commission had not complied with the official language policy of the Chapter IV of the Constitution of the Democratic Socialist Republic of Sri Lanka. Therefore, it seems that, it may very difficult for the vulnerable groups such as differently abled, IT illiterate persons and persons who has language issues to get the services of the Commission.

2.3 Other Matters

- (a.) 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. 5,999,664 as a membership fee for the year 2022. The information had been requested during the audit in the year 2021 to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.
- (b.) 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 2021 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.

(c.) Financial Sector Modernization Project

- (i.) 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.
- (ii.) 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


AUDITOR GENERAL'S REPORT

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 and finally had to abandoned the project.

- (iii.) 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 was observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.
- (iv.) 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 was available that those reports had been discussed with relevant parties who are responsible for commenting, developing and making policies as regulator.
- (v.) According to the work plan Consultant actuary's task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, it was observed that the Commission had not facilitated them to coordinate among those consultants.
- (vi.) 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.

AUDITOR GENERAL'S REPORT

- (vii.) 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 per cent 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.
- (viii.) The salaries of the commission had increased between 12.98 per cent to 59.73 per cent 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 and the Good Governance Guideline. The treasury representative who appointed to the board during this period had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.
- (ix.) The commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. The commission spent funds of Rs. 6.3 million for the year 2022 (2021 – Rs. 6.2 million) 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 by charging a contribution of Rs.1000 per employee per month. It was observed that the commission has spent the funds of the commission of Rs. 132,038 per employee for the year 2022 for the medical insurance cover.


W.P.C. Wickramaratne
Auditor General

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka									
2.	Report on Other Legal and Regulatory Requirements										
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)	<p>Inland Revenue Act No. 24 of 2017</p> <p>The Commission is liable to pay income tax for surplus of the Policy- Holder's Protection Fund. However, the commission had not paid income tax since 2018. Therefore, Inland Revenue Department had charged a penalty and the interest over non-payment of income tax for the Year of Assessments of 2018/19 to 2022/23. The total tax liability as of 31 December 2022 was Rs. 909,009,476.</p>	<p>The IRCSL was categorized under Section 7 of the Inland Revenue Act, No. 10 of 2006 and profit and income, other than profit and income from dividend or interest was exempted from Income Tax. However, with the introduction of Inland Revenue Act, No. 24 of 2017, the said exemption was removed. Considering the above fact and impact on same, IRCSL had discussions with the Ministry of Finance and with the IRD.</p> <p>The IRCSL has received the following assessments on the 19/01/2023 and 17/02/2023 to pay tax on interest income of the PPF with penalty and interest.</p> <table border="1"> <thead> <tr> <th>Year of Assessment</th> <th>Penalty</th> <th>Interest</th> </tr> </thead> <tbody> <tr> <td>2018/19</td> <td>25,752,129</td> <td>79,187,797</td> </tr> <tr> <td>2019/20</td> <td>36,757,586</td> <td>74,434,113</td> </tr> </tbody> </table> <p>Tax provision has been made in the accounts as per the tax assessment issued by the IRD. Penalty and interest are to be recognized once the IRD confirms on waiver of the same.</p>	Year of Assessment	Penalty	Interest	2018/19	25,752,129	79,187,797	2019/20	36,757,586	74,434,113
Year of Assessment	Penalty	Interest									
2018/19	25,752,129	79,187,797									
2019/20	36,757,586	74,434,113									
(b)	<p>Guideline 2.2.2 (a.) (i.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021.</p> <p>The Chairman shall ensure that proper proceedings are followed during the meetings of the Commission. However, the audit has not been provided a documented policy for proceedings of the meetings in terms of the paragraph 4 (3) and first schedule to the Regulation of Insurance Industry Act No. 43 of 2000.</p>	<p>As per the Schedule to the Regulations of Insurance Industry Act, No. 43 of 2000 required provisions are followed.</p> <p>The Chairman ensures proper proceedings are followed during the meetings of the Commission as per the said Schedule. Commission meetings are held regularly at least once a month, members who cannot attend meetings physically are given access to join virtually, the meeting agenda and papers to be discussed are sent in advance via Boardpac.</p> <p>Further a procedure manual for submission of papers and taking of minutes has been approved by the Commission at its 223rd meeting 16.08.2022 and is being implemented.</p>									

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
(c)	<p>Guideline 2.2.2 (b) (vi.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021</p> <p>The Commission must enter into a performance contract with the Director General (DG) which is a reflection of the Strategic Plan, against which the DG's performances must be evaluated annually and the incentives including bonuses must be decided. However, the Commission had not entered into a performance agreement with the DG. Further, it was observed that, annual performance appraisal of the DG had not been carried out by the Commission. Instead, it had been carried out by the Chairman alone and paid performance incentive for the year under review. This may lead to poor division of responsibilities and accountability between two powerful positions in the commission.</p>	<p>The guideline was issued in November 2021, therefore the Commission commenced its initiatives to develop the Strategic Plan during year 2022 and was successful to implement the Strategic Plan from year 2023.</p> <p>As per the guideline, the performance contract with the DG, which should be a reflection of the Strategic Plan should be entered into. Based on the approved Strategic Plan, the draft KPIs for year 2023 have been developed to be discussed at the 2nd Audit Committee meeting prior to finalization at the Commission. The Audit Committee informed to forward the same to the Commission for review.</p> <p>Therefore, for the year 2022, the KPIs were set having discussed with Chairman and hence, the evaluation was also carried out by the Chairman, being the immediate supervisor of DG. This is applicable to all other employees as well.</p> <p>The performance incentive for the year 2022 was based on the Commission approved Performance Incentive Scheme applicable to all employees of IRCSL and further the performance rating of each employee was disclosed to the Commission when seeking approval for the payment of the performance incentive. The payment of the performance incentive granted to DG, disclosed therein, is based on the Commission approved Performance Incentive Scheme.</p>
(d)	<p>Guideline 2.4 of the Guidelines on Corporate Governance for State Owned Enterprises 2021</p> <p>The members of the Commission should individually declare their relationship, annually to the Secretary to the Board using the format given in the Annexure II to the guideline. However, such a declaration had not been declared by the members of the Commission for the year under review.</p>	<p>Noted. The annual declaration of the members of the Commission for the year 2023 was obtained during the 236th Commission meeting held on 17/07/2023.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
(e)	<p>Guideline 2.6 of the Guidelines on Corporate Governance for State Owned Enterprises 2021</p> <p>The board secretary is mainly responsible for guiding the board on the discharge of its responsibilities and should ensure that all procedures are followed in compliance with statutory requirements and industry best practices and must possess the required qualifications stipulated in the guideline. Further, any employee already engaged in another function, should not be appointed as Board Secretary and Board Secretary shall function as the Secretary to Board sub-committees. However, there is no qualified secretary for the Commission. At present, the Director Investigation is functioning as Secretary to the Commission and Assistant Director – Legal is the Secretary to the Audit Committee in addition to their permanent responsibilities in contrary to the guideline.</p>	<p>In order to appoint a Board Secretary as per guidelines, Commission approval was obtained at its 229th meeting held on 23/03/2023. Subsequently, based on IRCSL request a Department Consultant Procurement Committee (CPCD) has been appointed by Ministry of Finance, Economic Stabilization and National Policies on 18/04/2023. As approved by the Commission, Request for Proposals (RFP) has been sent for approval of the CPCD members and it has been planned to complete the procurement process by end of August 2023.</p>
(f)	<p>Guideline 4.2(d.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021</p> <p>The Chief Internal Auditor (CIA) of the Line Ministry could serve as observer of the Audit Committee. However, the CIA of the line ministry had not been invited to the Audit Committees for the year 2022.</p>	<p>At present External Auditor serves as an observer. Therefore, such circumstances have not arisen.</p>
(g)	<p>Guideline 4.2(d.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021</p> <p>The Audit Committee (AC) should meet at least once in three months. However, it was observed that the Commission had not conducted Audit Committees on regular basis throughout the year under review. This was occurred mainly due to non-availability of a Board Secretary to the Commission with required qualifications in terms of the Section 2.6 of the Guideline.</p>	<p>During the year under review, four audit committee meetings have been held. As mentioned above, the Board Secretary will be appointed after finalization of relevant documents.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
(h)	<p>Section 7 of the Chapter XXIV of the Establishment Code of the Government of the Democratic Socialist Republic of Sri Lanka</p> <p>Although the provisions had 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 an employee from the commission funds during the year under review at the interest rate of 4.2 percent and 9 percent respectively for Rs. 600,000 each tranche.</p>	<p>As per the provisions of the Commission approved administration manual, vehicle loans can be given to the staff members who do not receive a vehicle allowance and who are confirmed in the post to purchase a vehicle.</p> <p>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.</p> <p>It should be also noted that section 10 of the Act empowers the Commission 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.</p> <p>This had been discussed in the 4th Audit Committee held on 6th December 2022 and the Committee expressed its view that the Establishment Code does not apply to the IRCSL, due to the fact that it is having a board approved Administration Manual, which has been forwarded to the Treasury for approval. It was also brought it to the notice of the Committee that according to the present good governance guidelines, the Treasury will not approve such manuals, and the institutions need to follow the good governance guidelines in formulating their manuals. Since IRCSL provides vehicle loans as a part of staff welfare, there was no such requirement to obtain loans through banks and if loans are obtained through the banks, it will have an additional burden to the employee due to higher interest rates</p>
(i)	<p>Article 40 of the National Audit Act No.19 of 2018</p> <p>Every auditee entity shall have its own Internal Auditor, who is to perform an internal audit duly appointed by the governing body of such auditee entity. Where an Internal Auditor has not been appointed under subsection (1), such appointment shall be made within a period not exceeding two years from the date of operation of this Act. However, an internal auditor had not been appointed by the Commission for the year under review.</p>	<p>The procurement process is in progress for selection of an internal auditor for year 2023 – 2025 as decided by the Commission.</p>

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Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
(j)	<p>Management Services Circular No.03/2018 dated 18 July 2018 and Section 3 of the Operational Manual for State Owned Enterprises</p> <p>The Circulars 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) Managers/Assistant Managers and one (01) Secretary positions had been filled without the approval of the Department of Management Services, General Treasury.</p>	<p>The Commission has obtained approval from the Ministry of Finance for 57 positions. All new recruitments into IRCSL are with the approval of the Ministry of Finance.</p> <p>Employees to the promotional grades, which has no effect to the total cadre has been written to the Ministry of Finance in terms of PED 01/2021 on 5th July 2023.</p>
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.	<p>The existing performance appraisal system has been implemented after scrutinizing various performance appraisal systems and covered many aspects with regard to the performance of an employee.</p> <p>We have submitted the performance-based incentive scheme implemented by the Commission to the Ministry of Finance throughout the years. IRCSL has shared the performance incentive scheme and all amendments made thereto to the Ministry of Finance from time to time. However, acted in terms of PED 01/2021 with the new PA system which was submitted to the Ministry on 31.03.2023</p>
(b)	As per 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 per cent more compared to the previous year. Further, all employees had earned 100 per cent marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.	The Commission at its 195 th meeting granted the approval to pay a maximum of 1.5 months' gross salary as performance-based incentive for the staff of the IRCSL after having evaluated their performance for the period. Based on the Commission decision payments have been made.

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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. 47,178,758 has been paid in the year 2022 (2021 - Rs. 44,631,663) as lease rent of the building. It was observed that the lease rent had been increased by 6 per cent when compared to the previous year. The commission had rented in 8741 square feet and had incurred Rs. 351 and Rs. 78 per square feet as rent and service charge respectively. Further, the percentage of the lease rent of the building represented 22 per cent of the total expenditure or 13 per cent of the total income for the year 2022.	<p>When IRCSL was established in the year 2001, it had no premises of its own. Hence it had rented out office premises at the World Trade Centre (WTC). From 2001 to 2005, IRCSL was at the premises of the Securities and Exchange Commission of Sri Lanka (SEC) on the 11th floor WTC and shifted to a part of the 7th floor WTC in year 2005. As the space on the 7th floor was not sufficient, in the year 2007 the IRCSL moved to the 11th floor WTC, which was vacant at that time as the SEC had shifted to 28th & 29th floors at the WTC, which they occupy even currently. Further, the following government organizations are also occupying the WTC premises:</p> <ul style="list-style-type: none"> • State Ministry of Rural and School Sports Infrastructure Improvement • State Ministry of Rattan, Brass, Pottery, Furniture & Rural Industrial Promotion • Board of Investments of Sri Lanka • Ministry of Justice • State Ministry of Aviation & Export Zones Development <p>The current lease agreement was signed with Overseas Realty (Ceylon) PLC (ORCP) for five years effective from 01st October 2019 for 8,741 sq.ft. of the entire 11th floor. In addition to base rent, a service charge is also required to be paid to ORCP for the provision of uninterrupted water supply to the floor, maintenance of male and female washrooms and common area of the floor, 24/7 common security service, removal of garbage, uninterrupted power supply, fire alarm, sprinklers, separate fire exit and drill programs, service lift, window blinds, maintenance of health standards and replacement of lights whenever necessary (outgoings)</p>

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		<p>In recent past, several locations were searched for relocating of the premises. However, the infrastructure facilities of those buildings are required to be provided by us which involves a huge cost. Government owned buildings such as Central Bank of Sri Lanka, Mehewara Piyasa and Urban Development Authority were also inquired for an office premises. However, they have informed us that currently they do not have any space for rent. It is hereby informed that this matter regarding the office building was mentioned in a previous audit report and discussed and finalized at a COPE Committee as well.</p>
(b)	<p>The Commission is supposed to be an entity, which needs to be closely dealing with public in performing its role as per 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, it was observed that their website and all the information (except policyholder complaints page) only in English language. Therefore, the Commission had not complied with the official language policy of the Chapter IV of the Constitution of the Democratic Socialist Republic of Sri Lanka. Therefore, it seems that, it may very difficult for the vulnerable groups such as differently abled, IT illiterate persons and persons who has language issues to get the services of the Commission.</p>	<p>The current location which the IRC SL is located is a convenient place to reach the general public. Further, numerous steps have been taken by the World Trade Centre to serve disables enter into premises such as slopped pathway to the building to reach by a wheelchair, trained security personnel to handle wheel chair from basement to relevant floor, floors marked in the lifts have been provided floor number in braille system. We wish to inform that the premises that we looked for rent has not been equipped with basic requirements to cater for disable persons (smaller lifts which cannot put wheel chairs, no slopped pathways etc.).</p> <p>Steps are underway to translate the contents of the IRC SL website in English to Sinhala and Tamil. It is planned out on a phased out basis. The officials of IRC SL serve general public with their convenient language (Sinhala, Tamil or English) when they visit the office for official purposes.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
2.3	Other Matters	
(a)	<p>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. 5,999,664 as a membership fee for the year 2022. The information had been requested during the audit in the year 2021 to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.</p>	<p>ICPs reflect global insurance standards on supervisory aspect of insurance, and they are guidelines, which could be adopted by any insurance regulator voluntarily.</p> <p>ICPs are comprehensive and lengthy texts and as such a careful study to be carried out before deciding as to how and to what extent relevant ICPs are to be incorporated into RII Act and /or its subordinate legislation.</p> <p>A gap analysis (annex) has been carried out by the World Bank against the current insurance legislation of Sri Lanka. Additionally, IAIS peer review processes were made on selected ICPs carried out in 2013 (ICPs.1 &2) (annex) and 2022(ICPs 9 &10) (annex) for which IRCSL participated.</p> <p>The RII Act amendment requires detailed study of ICPs and other gaps in the existing law which is stated in our strategic plan we well.</p> <p>Further, IRCSL is represented in the Committee set up by the Ministry of Justice to revise the RII Act with international standards.</p> <p>Therefore, a detailed study is in progress as to what ICPs had been already incorporated into the RII Act and its subordinate legislation and what are the ICPs to be incorporated into the RII Act and its subordinate legislation.</p>
(b)	<p>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 2021 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.</p>	<p>The IRCSL has two funds namely, the <u>Commission Fund</u> and the <u>Policy Holders Protection Fund</u>. Both funds are established in terms of 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.</p> <p>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. Therefore, the purpose of establishment of the PPF is different to that of the Fund of the Commission.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
		<p>At the 153rd and 160th Commission meetings it was decided, to transfer a surplus in a particular year to the PPF by eliminating any surplus in Commission's account and to transfer back to cover the Board's expenses in succeeding years when required, subject to 20% of annual interest income of the PPF. Also fund transfers from PPF to cover capital expenses will be done as previously practiced. However, the above position was changed in the year 2020.</p> <p>This had been discussed at the 1st Audit Committee held on 20.04.2023 and the Committee has recommended the followings:</p> <ol style="list-style-type: none"> 1. Continue with two segregated funds (Commission and PPF) and retain surplus of the Commission Fund as Accumulated Fund; 2. Continue the Maximum transferable percentage at 20% of annual interest income of the PPF to cover Board's expenses (recurrent and capital) if necessary.
(c)	Financial Sector Modernization Project	
(i.)	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.	<p>The letter referred to initiated as the Chairman, NITF at project review meetings held between World Bank, CPCU mentioned that the NITF board has decided not to segregate its insurance and reinsurance businesses and therefore they do not wish to seek technical assistance or funding from World Bank for same.</p> <p>IRCSL's responsibility in relation to the DLI arises only once NITF submits its proposal to segregate. 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 as per their policy decision. Further, the project has been cancelled now.</p> <p>USD 0.5 Mn allocated for this.</p>
(ii.)	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 and finally had to abandoned the project.	IRCSL only hired two consultants under the project, being Actuarial and HR. The consultancies had inter-relationship with each other as informed to us and to the extent such discussions were required. The HR Expertise had discussions with Actuarial Expertise, since both served the IRCSL at the same period.

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<p>(iii.) 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 was observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.</p>	<p>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 for IRCSL to comment on same.</p> <p>The evaluation report had been submitted to various other parties outside the IRCSL without the report being submitted to the IRCSL Commission for views. 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 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.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

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(iv.)	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 was available that those reports had been discussed with relevant parties who are responsible for commenting, developing and making policies as regulator.	<p>The status report for activities paid to the Consultant is attached for information.</p> <p>Recommendations made in all accepted reports will be made use of when IRCSL hires an Actuary as such reports are the property of IRCSL.</p>
(v.)	According to the work plan Consultant actuary's task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, it was observed that the Commission had not facilitated them to coordinate among those consultants.	<p>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:</p> <ul style="list-style-type: none"> 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. <p>However, due to reasons beyond the control, IRCSL did not procure Consultant Insurance and Consultant IT to facilitate such consultants to coordinate among other consultants. The HR Consultant had discussions with Actuarial Expertise, since both served the IRCSL at a same period.</p>
(vi.)	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.	Please refer response (v) above.

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report	Responses of Insurance Regulatory Commission of Sri Lanka
<p>(vii.) 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 per cent 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.</p>	<p>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.</p> <p>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 & above staff should have appropriate qualifications.</p> <p>Section 10 of the Regulation of Insurance Industry Act, No. 43 of 2000 states that:</p> <p><u>"The Commission may appoint such officers as it considers necessary for the efficient discharge of its functions and the officers so appointed shall be remunerated in such manner and at such rates and shall be subject to such conditions of service as may be determined by the Commission."</u> In view of the statutory authority, IRCSL can be categorized as an institution listed in Annex A of PED 01/2021. Accordingly, the Commission will write to Ministry of Finance in terms of PED 01/2021.</p>

MATTERS RAISED BY THE AUDITOR GENERAL AND THE RESPONSES MADE BY THE COMMISSION FOR 2022

Auditor General's Report		Responses of Insurance Regulatory Commission of Sri Lanka
(viii.)	The salaries of the commission had increased between 12.98 to 59.73 per cent 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 and the Good Governance Guideline. The treasury representative who appointed to the board during this period had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.	Please refer to response (vii) above.
(ix.)	The commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. The commission spent funds of Rs. 6.3 million for the year 2022 (2021 – Rs. 6.2 million) 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 by charging a contribution of Rs.1000 per employee per month. It was observed that the commission has spent the funds of the commission of Rs. 132,038 per employee for the year 2022 for the medical insurance cover.	<p>From the inception of the Commission, the IRCSL has provided insurance covers for the employees. This is part of the employee remuneration package and stated in the letters of appointment. Procurement procedures have been followed in all instances.</p> <p>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.</p> <p>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 for IRCSL to obtain same.</p>

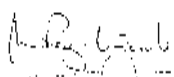
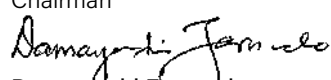
STATEMENT OF FINANCIAL POSITION


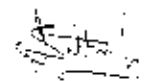
AS AT 31ST DECEMBER 2022

	Notes	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant and Equipment	1	27,301,799	23,827,365
Fixed and Refundable Deposits (PPF)	2	9,593,949	445,593,949
Other non Current Assets	3	12,540,714	9,639,737
Total Non Current Assets		49,436,462	479,061,051
CURRENT ASSETS			
Inventories	4	535,914	598,430
Policyholders' Protection Fund- Investments & Others	2	9,371,226,885	7,995,830,615
Other Current Assets	5	38,597,160	12,448,937
Investments in Fixed Deposits		228,000,000	-
Investments in Government Securities -Repo		103,000,000	220,000,000
Deferred Tax Asset	21	7,137,274	-
Cash and Cash Equivalents	6	13,542,583	6,320,185
Total Current Assets		9,762,039,816	8,235,198,168
TOTAL ASSETS		9,811,476,278	8,714,259,219
RESERVES AND LIABILITIES			
RESERVES & FUNDS			
Policyholders' Protection Fund	7	9,380,820,835	8,441,424,564
Revaluation Reserve		32,439,194	28,593,684
Accumulated fund		282,996,422	162,942,114
Grant Received from Ministry of Finance		-	552,384
Total Reserves & Funds		9,696,256,451	8,633,512,746
LIABILITIES			
NON CURRENT LIABILITIES			
Grant	8	5,061,291	5,061,291
Deferred Tax Liability	21	4,672,066	1,898,049
Retirement Benefit Obligation	9	23,790,913	21,614,840
Total Non Current Liabilities		33,524,270	28,574,180
CURRENT LIABILITIES			
Receipt in Advance		17,685,781	16,380,329
Other Current Liabilities	10	64,009,776	35,791,964
Total Current Liabilities		81,695,557	52,172,293
TOTAL RESERVES & LIABILITIES		9,811,476,278	8,714,259,219

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 96 to 116.


 Razik Zarook
 Chairman

 Damayanthi Fernando
 Director General


 Member

 Sathiesh Kumar
 Director - Finance & Administration

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31ST DECEMBER 2022

	Notes	Year Ended 31.12.2022 Rs.	Year Ended 31.12.2021 Rs.
REVENUE			
REVENUE FROM NON- EXCHANGE TRANSACTIONS			
Annual Fees & Renewal Fees	11	307,905,835	272,610,654
Income from FSMP	12	750	255,150
REVENUE FROM EXCHANGE TRANSACTIONS			
Interest Income	13	58,821,625	12,609,727
Other Income	14	532,554	425,296
TOTAL INCOME		367,260,764	285,900,827
EXPENDITURE			
Staff Costs	15	(127,680,340)	(127,134,065)
Professional Charges	16	(227,120)	(320,576)
Operational Expenses	17	(83,834,958)	(71,346,108)
FSMP Expenses	18	(750)	(255,150)
Finance and Others	19	(297,028)	(54,613)
TOTAL EXPENDITURE		(212,040,196)	(199,110,512)
Net Surplus /(Deficit) Before Tax		155,220,568	86,790,315
Taxation	21	(37,981,891)	(16,014,436)
Net Surplus /(Deficit) After Tax		117,238,677	70,775,879
Surplus Transferred to Accumulated Fund		120,054,308	70,279,670
Actuarial Loss /(Gain) on Retirement Benefit Obligation	9	(2,815,631)	496,209
Net Surplus for the Year		122,869,939	69,783,461

The accounting policies and notes appearing on pages from 96 to 116 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2022

	Revaluation Reserves	Accumulated Surpluses/ (Deficits) Rs.	Total Rs.
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)
Reversal 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	17,206,630
Balance at 1st January 2021	17,689,652	92,731,913	17,206,631
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
Balance at 1st January 2022	28,593,684	162,942,114	191,535,798
Net Surplus for the Year 2022	-	122,869,939	122,869,939
Gain on property revaluation	3,845,510	-	3,845,510
Actuarial Loss/ (Gain)	-	(2,815,631)	(2,815,631)
Balance at 31st December 2022	32,439,194	282,996,422	315,435,615

Revaluation reserve represents the surplus/deficit arising on the valuation of Motor Vehicles, Furniture and fittings, Office Equipment 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 2022

	Notes	Year Ended 31.12.2022 Rs.	Year Ended 31.12.2021 Rs.
Cash Flow from Operating Activities			
Surplus/(deficit) for the Period		155,220,568	86,790,315
Provision for Depreciation	1	8,320,725	7,861,456
Provision for Retirement Benefit	9	5,438,479	3,634,057
Payment made- Retirement Benefit	9	(446,775)	(1,989,175)
Interest Income	13	(58,821,625)	(12,609,727)
Net Increase before Working Capital Changes		109,711,372	83,686,926
Change of Working Capital			
(Increase)/Decrease in Inventories	4	62,516	(75,870)
(Increase)/Decrease of Receivables	5	(29,049,200)	(1,127,676)
Increase/(Decrease) of Receipt in Advance		1,305,451	2,240,252
Increase/(Decrease) of Creditors and Accruals	10	(1,129,065)	(464,970)
Cash Flow used in Operating Activities		(28,810,294)	571,736
Income Tax paid	21	(12,998,271)	(16,063,744)
Net Cash Flows from Operating Activities		67,902,805	68,194,918
Cash Flow from/(used in) Investing Activities			
Investment in Government Securities		117,000,000	(110,000,000)
Investment in Fixed Deposits		(228,000,000)	35,000,000
Interest Income		58,821,625	11,638,186
Purchase of Property Plant and Equipments	1	(7,949,650)	(3,025,000)
Net Cash used in Investing Activities		(60,128,025)	(66,386,814)
Cash Flow from Financing Activities			
Grant Received from Ministry of Finance		(552,384)	244,849
Net Cash Flows from Financing Activities		(552,384)	244,849
Net Increase/(Decrease) in Cash and Cash Equivalents		7,222,397	2,052,952
Cash and Cash Equivalents at the beginning of the year		6,320,185	4,267,233
Cash and Cash Equivalents at the end of the year		13,542,582	6,320,185
Cash at Bank and in Hand			
Balance at Fund Management Account	6 & 22	13,550,961	5,437,940
Bank of Ceylon FSMP Account		-	508,578
Bank of Ceylon 1877		-	373,073
Savings - NSB		614	595
		13,551,575	6,320,185
Bank of Ceylon Negative Balance *			
Bank of Ceylon 1877 - as per Ledger		(8,993)	-
		13,542,582	6,320,185

The accounting policies and notes appearing on pages 96 to 116 form an integral part of the Financial Statements.

POLICYHOLDERS' PROTECTION FUND STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2022

Notes	Year Ended 31.12.2022 Rs.	Year Ended 31.12.2021 Rs.
Cash Flow from Operating Activities		
Net Increase of Policyholders' Protection Fund	939,396,269	972,710,329
Net Increase before Working Capital changes	939,396,269	972,710,329
Change of Working Capital		
(Increase)/Decrease of Interest Receivable on Government Securities	(1,581,250,000)	(35,502,718)
(Increase)/Decrease of Cess Receivable	6,815,722	(20,875,866)
Increase/(Decrease) of payable	884,809,359	-
Increase/(Decrease) of Amount to be Transferred from PPF	(540,000)	87,981,414
	(690,164,919)	31,602,829
Net Cash Increase/(Decrease) from Operating Activities	249,231,350	1,004,313,159
Cash Flow from/(used in) Investing Activities		
Investments in Fixed Deposits	(224,970,912)	(1,153,407,500)
Net Cash Increase/(Decrease) from Investing Activities	(224,970,912)	(1,153,407,500)
Net Increase/(Decrease) in Cash and Cash Equivalents	24,260,438	(149,094,341)
Cash and Cash Equivalents at the beginning of the year	1,301,693	150,396,035
Cash and Cash Equivalents at the end of the year	25,562,131	1,301,693
Balance at Current Account	1,000,000	1,000,000
Balance at Fund Management Account	24,562,131	301,693
	25,562,131	1,301,693

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 17th July 2023.

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, 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.

ACCOUNTING POLICIES

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 and 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.

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

ACCOUNTING POLICIES

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 are the 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

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

ACCOUNTING POLICIES

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

At the end of each financial period the Commission assesses 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.

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.

ACCOUNTING POLICIES

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 2022	21,614,840
Current Service Cost	2,529,452
Past Service Cost (Due to retirement age change)	531,395
Interest Cost	2,377,632
Actuarial losses / (gains)	(2,815,631)
Charged to profit and loss of the statement of comprehensive income	2,622,848
Benefits paid	(446,775)
At the end of financial year 2022	23,790,913

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	:	18% per annum
Rate of salary increase	:	15%
Retirement Age	:	60 years

3.1.2 DEFINED CONTRIBUTION PLANS - EPF AND ETF

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

3.2 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

ACCOUNTING POLICIES

4.1.1 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Fees and Taxes

The IRCSL recognizes revenue 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 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

ACCOUNTING POLICIES

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.

Utilization

In terms of Sec 103(2) of the RII Act, the PPF should be utilized for the general protection of Policy holders and for other specific purposes as may be determined by the Commission, by the Rules made in that behalf. In terms of Rule No 10 of the gazette Extraordinary No 1412/30 dated 29th September 2005, money lying to the credit of the PPF, may be utilized for the following specific purposes in so far as it would be for the policyholders and potential policy holders.

- 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, and discharge and performance of its powers, functions and Duties.

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	Furniture, Fixtures & Fittings (EDP & Others)	Office Equipment	Training Equipment	Software	Total
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
Balance as at 1st January 2022	12,800,000	9,074,935	23,354,671	141,450		45,371,056
Additions	-	-	6,190,600	-	1,759,050	7,949,650
Disposals	-	-	-	-	-	-
Impact on Revaluation	-	2,364,409	194,205	-	-	2,558,614
Balance as at 31st December 2022	12,800,000	11,439,343	29,739,476	141,450	1,759,050	55,879,319
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
Charge for the year	3,200,000	1,165,427	3,803,532	-	151,767	8,320,725
Disposals	-	-	-	-		-
Impact on Revaluation	-	(1,054,538)	(232,358)	-		(1,286,896)
Balance as at 31st December 2022	3,200,000	5,504,096	19,580,208	141,450	151,767	28,577,520
WRITTEN DOWN VALUE						
AS AT 31ST DECEMBER 2022	9,600,000	5,935,248	10,159,268	-	1,607,283	27,301,799
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2021	12,800,000	3,681,727	7,345,638	-	-	23,827,365

Fully Depreciated Assets as at 31.12.2022 amounting to 36,393,384 are still in use. Revalued amount is Rs. 3,845,510

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 during May 2021

NOTES TO THE FINANCIAL STATEMENTS

	Notes	As at 31.12.2022 Rs.	As at 31.12.2021 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
		9,593,949	445,593,949
	CURRENT ASSETS		
	Investment in Fixed Deposits	9,030,350,000	7,449,100,000
	Interest Receivable on the Government Securities and Fixed Deposits	1,045,737,393	384,766,481
	CESS Receivable	154,386,720	161,202,441
	Balance at Fund Management Account	24,562,131	301,693
	Balance at Bank	1,000,000	1,000,000
		10,256,036,244	7,996,370,615
	Less		
	Amount to be transferred from PPF	-	540,000
	Tax provision on PPF interest income	21 (b) 884,809,359	-
		9,371,226,885	7,995,830,615
	Total Assets	9,380,820,834	8,441,424,564
3	OTHER NON CURRENT ASSETS		
	Refundable Deposit for rent	2,688,246	2,688,246
	Prepayments	332,247	775,242
	Staff Loans *	9,520,222	6,176,249
		12,540,714	9,639,737
4	INVENTORIES		
	Printing, Stationery and Computer Accessories	527,655	519,010
	Stamps	8,259	79,420
		535,914	598,430
5	OTHER CURRENT ASSETS		
	Receivable from non Exchange transactions		
	Other Receivables	270,954	239,953
	Receivable from Exchange transactions		
	Amount to be transferred from PPF	-	540,000
	Provision for Acquisition	5.1 -	2,200,000
	Staff Loans *	3,311,546	2,292,955
	Festival advance*	1,190,100	1,170,100
	Advance and Pre-payments	3,707,402	4,101,974
	VAT Control	1,807,933	581,313
	Deposits	5.2 285,120	228,686
	Interest Receivable - Government Securities	28,024,105	1,093,957
		38,597,160	12,448,937

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

	Notes	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
*Loans Granted to Staff (Staff loan and Festival Advance)			
Balance as at 1st January 2022		9,639,304	8,758,228
Loans Granted during the year		9,051,101	7,257,500
		18,690,405	16,015,728
Repayments during the year		(4,668,537)	(6,376,424)
Balance as at 31st December 2022		14,021,868	9,639,304
6 CASH & CASH EQUIVALENTS			
Cash at Banks			
Balance at Fund Management Account	22	13,550,961	5,437,940
Bank of Ceylon 1877		-	373,073
Bank of Ceylon FSMP Account	27 b	-	508,578
Savings Account - NSB		614	595
		13,551,576	6,320,185
Bank of Ceylon Negative Balance *			
Bank of Ceylon 1877 - as per Ledger	22	(8,993)	-
		13,542,583	6,320,185
7 POLICYHOLDERS' PROTECTION FUND			
Opening Balance		8,441,424,564	7,468,719,235
Cess Received during the year		587,757,528	543,906,322
Interest on Repo		3,505,521	334,087
Interest on Fixed Deposits		1,231,844,234	515,764,257
Interest on Fund Management Account		1,100,267	150,009
		10,265,632,115	8,528,873,909
Less:			
Reversal of Surplus transferred to PPF		-	87,446,414
Income tax provision on interest income of PPF	21	884,809,359	-
Total transfers- Policyholders' Protection Fund		884,809,359	87,446,414
Bank charges		1,922	2,932
		884,811,282	87,449,347
Closing Balance		9,380,820,835	8,441,424,564

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
8 GRANT		
Balance at the beginning of the year	5,061,291	10,829,811
Capital Expenditure from Policyholders' Protection Fund	-	(5,773,521)
Less: Amortized during the year	-	-
Balance at the end of the year	5,061,291	5,061,291

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 Fund was discontinued due to the surplus in the Commission 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%

9 RETIREMENT BENEFIT OBLIGATIONS

Balance at the beginning of the year	21,614,840	19,473,749
Provision made during the year	5,438,479	3,634,057
Actuarial (Gain)/ loss	(2,815,631)	496,209
(-)Payment made during the year	(446,775)	(1,989,175)
Balance at end of the year	23,790,913	21,614,840
Discount Rate	18%	11%
Future Salary Increment Rate	15%	9%

9.1 SENSITIVITY OF ASSUMPTIONS USED

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

	Discount Rate	Future Salary Increment Rate
1% Increase	22,251,194	25,652,749
1% Decrease	25,505,636	22,099,027

An actuarial valuation of the retirement gratuity obligation was carried out as at December 31, 2022 by a professional Actuary, Actuarial 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 31.12.2022 Rs.	As at 31.12.2021 Rs.
10 OTHER CURRENT LIABILITIES		
Accrued Expenses	26,369,239	25,008,338
EPF Payable	1,265,775	1,247,337
ETF Payable	189,868	187,102
PAYE Payable	43,545	35,068
Retention Payable	36,228	36,228
SSCL Payable	51,558	-
Income Tax payable	35,295,147	5,948,270
Refunds & Other payables	758,416	3,329,621
	64,009,776	35,791,964
11 REVENUE FROM NON- EXCHANGE TRANSACTIONS		
Annual Fees from Insurance Companies	290,823,507	257,764,270
Registration and Renewal Fees	17,082,329	14,846,384
	307,905,835	272,610,654
12 INCOME FROM FSMP		
FSMP - Non DLI Grant	750	255,150
	750	255,150
13 REVENUE FROM EXCHANGE TRANSACTIONS		
Interest on Fixed Deposit	41,262,360	5,514,050
Interest on Fund Management Account	1,121,610	201,853
Interest on Savings Account	19	41
Interest on Repos	16,437,636	6,893,783
	58,821,625	12,609,727
14 Other Income		
Interest on Vehicle Loan	291,708	274,395
Interest on Distress Loan	235,236	149,012
Sundry Income	5,611	1,890
	532,554	425,296

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
15 Staff Costs		
Staff Salaries	77,625,084	77,422,627
EPF 12%	9,303,310	9,293,499
ETF 3%	2,325,828	2,323,376
Chairman - Allowance	1,200,000	1,200,000
Chairman - Fuel Allowance	594,935	241,050
Commission Members - Sitting Allowance	1,754,354	1,384,859
Interns Allowance	1,877,000	242,000
Overtime	426,546	527,240
Staff Medical Expenses	2,681,572	2,773,703
Staff Medical Insurance	2,785,293	2,328,894
Insurance Fire and Personal	498,166	587,977
Staff Welfare	867,855	4,459,324
Staff Training Local & Subscription	1,168,025	921,188
Performance Based Incentives	9,291,626	9,096,187
Advertising Recruitment	95,000	732,740
Directors Telephone Residence	665,203	786,390
Leave Encashment	744,985	1,796,425
Vehicle Operating Lease Charges	485,016	1,455,048
Directors Vehicle Allowance	4,487,603	4,570,890
Directors Fuel Allowance	3,364,460	1,356,590
Staff Gratuity	5,438,479	3,634,057
	127,680,340	127,134,065
16 PROFESSIONAL CHARGES		
Tax & gratuity valuation Fee	227,120	320,576
	227,120	320,576

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
17 OPERATIONAL EXPENSES		
Rent & Service Charge	48,254,736	44,182,960
Parking Fees	777,830	763,550
Telephone Expenses & Internet	1,463,367	1,690,919
Electricity	1,367,225	1,626,825
Office Upkeep	572,855	618,023
Printing & Stationary	1,560,693	2,764,004
Public Awareness	8,570,966	1,814,843
Traveling - Local	94,875	58,840
Office Equipment Maintenance EDP & Others	2,969,581	2,103,839
International Membership of IAIS	5,999,664	4,516,334
Advertising - Others	163,520	355,255
Meeting Expenses	537,250	290,520
Subscription Newspapers & Library Books	194,998	164,694
Postage & Courier Charges	87,426	62,438
Audit Fees-Auditor General	550,000	504,000
Audit Fees-Internal	1,300,000	1,262,200
Depreciation	8,320,725	7,861,456
Trade Tax	70,000	-
General Expenses	104,435	112,778
Legal Expenses	55,755	-
Investigation Expenses	13,070	12,921
Supervision Expenses	2,830	-
Vehicle Maintenance	459,196	223,973
Vehicle Insurance	81,088	96,464
Vehicle Running Charges	262,872	259,272
	83,834,958	71,346,108
18 FSMP Expenses		
Advertising for recruitment	-	253,150
Bank charges	-	2,000
Visa expenses	750	-
	750	255,150
19 FINANCE & OTHER EXPENSES		
Bank Charges	297,028	54,613
	297,028	54,613

NOTES TO THE FINANCIAL STATEMENTS

	Actual 2022 Rs.	Budget 2022 Rs.	Variance Rs.
20 COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET			
Income			
Annual Fees from Insurance Companies	290,823,507	285,830,000	2%
Registration and Renewal Fees	17,082,329	14,290,000	20%
Less: Expenditure			
Staff Costs	127,680,340	148,955,000	14%
Professional charges & operational	84,062,078	122,956,000	32%
Finance and Others	38,279,669	9,500,000	-303%

	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
21 TAXATION		
a. Commission Fund		
Current Income Tax		
Current Income tax charge	42,345,148	16,443,952
Deferred Tax		
Relating to origination and reversal of temporary differences	(4,363,257)	(429,516)
Income tax expense reported in the statement of Financial Performance	37,981,891	16,014,436

The IRD has increased the standard rate of Income tax from 24% to 30% with effective from 1st October 2022 (IRD Ammendment Act No 45 of 2022). Accordingly the tax computation has been carried out.

Reconciliation	9 months	3 months	Total
A. Business Income			
Profit before Tax	116,415,426	38,805,142	155,220,568
Add: Deductions not allowed			
Accounting depreciation on PPE	6,240,544	2,080,181	8,320,725
Provision for retirement contributions (Gratuity)	4,078,859	1,359,620	5,438,479
Directors Telephone Residence	498,902	166,301	665,203
Less: Allowable Deductions			
Capital allowances on depreciable assets	2,294,965	764,988	3,059,953
Gratuity paid	-	446,775	446,775
	<u>124,938,767</u>	<u>41,199,481</u>	<u>166,138,247</u>
Total Business Income			
Tax payable @24% and 30%	24%	30%	
Current Year Tax	<u>29,985,304</u>	<u>12,359,844</u>	<u>42,345,148</u>
Total Tax			<u>42,345,148</u>

NOTES TO THE FINANCIAL STATEMENTS

	As at 31.12.2022 Rs.	As at 31.12.2021 Rs.
Deferred Tax		
Accelerated Depreciation for tax purposes		
Balance as at 1st January	1,898,049	483,021
Originating/(reversing) during the year	(4,363,257)	1,415,028
Balance as at 31st December	(2,465,208)	1,898,049
Deferred Tax provision as at the year end is made up as follows		
Deferred Tax Provision from temporary differences of		
- Property Plant and Equipment	4,672,066	2,197,895
- Gratuity	(7,137,274)	(299,847)
- Revaluation surplus		
	(2,465,208)	1,898,048

b. Policy Holders Protection Fund

The IRCSL was categorized under Section 7 of the Inland Revenue Act, No 10 of 2006 and profit and income, other than profit and income from dividend or interest was exempted from income tax. However, with the introduction of Inland Revenue Act, No. 24 of 2017, the said exemption was removed. Considering the above fact and impact on same, IRCSL had discussions with the Ministry of Finance and with the IRD. However, the IRCSL now received a letter from the IRD to pay tax on interest income of the PPF. Accordingly following provisions have been made in the accounts

Year	Interest Income	Tax rate	Tax
2018	455,331,220	28%	127,492,742
2019	574,484,713	28%	160,855,720
2020	622,183,692	24%	149,324,086
2021	516,248,353	24%	123,899,605
			561,572,152
2022			
9 months	794,963,330	24%	190,791,199
3 months	441,486,692	30%	132,446,008
	1,236,450,022		323,237,207
			884,809,359

NOTES TO THE FINANCIAL STATEMENTS

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 2022 are as follows.

Balance of Fund Management Account	Rs. 13,550,961
Balance of Current Account	Rs. (8,993)
Total	<u>Rs. 13,541,968</u>

23. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2022.

24. CONTINGENT LIABILITIES & CONTINGENT ASSETS

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote. Contingent liability recognized initially measured at its fair value.

The IRCSL was categorized under Section 7 of the Inland Revenue Act, No. 10 of 2006 and profit and income, other than profit and income from dividend or interest was exempted from Income Tax. However, with the introduction of Inland Revenue Act, No. 24 of 2017, the said exemption was removed. Considering the above fact and impact on same, IRCSL had discussions with the Ministry of Finance and with the IRD.

The IRCSL has received the following assessments on the 19/01/2023 and 17/02/2023 to pay tax on interest income of the PPF with penalty and interest.

Year of Assessment	Penalty	Interest
2018/19	25,752,129	79,187,797
2019/20	36,757,586	74,434,113

Tax provision has been made in the accounts as per the tax assessment issued by the IRD. Penalty and interest are to be recognized once the IRD confirms on waiver of the same.

25. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date other than mentioned in the note 24, 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 and subsequent amendments.

Description	2022. 12. 31	
	9 months	3 months
A. Business Income		
Profit before Tax	116,415,426	38,805,142
Add: Deductions not allowed		
Accounting depreciation on PPE	6,240,544	2,080,181
Provision for retirement contributions (Gratuity)	4,078,859	1,359,620
Directors Telephone Residence	498,902	166,301
Less: Allowable Deductions		
Capital allowances on depreciable assets	2,294,965	764,988
Gratuity paid	-	446,775
Total Business Income	124,938,767	41,199,481
Tax payable	24%	30%
	29,985,304	12,359,844
Total		42,345,148
Less: Tax Credits		
B/F Income tax		5,948,270
WHT		-
Self -Assessments paid		(12,998,271)
Balance Payable		35,295,147

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 (IRCCL).

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 SDR

NOTES TO THE FINANCIAL STATEMENTS

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 SDR 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.

SDR - Special Drawing Rights

a. 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	(322,041)
	<u>200,959</u>

(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

b. Balance available in the FSMP bank account (BOC 73613) amounting to Rs 507,827.74 was transferred to the "deputy Secretary to the Treasury" on the 18th of November 2022, to settle the DA account as all payments had been completed of the FSMP project.

28. RELATED PARTY DISCLOSURES

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

Mr. A.K.Seneviratne was appointed as an EX-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 26th August 2022.

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. R.M.P. Rathnayake 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 01st March 2022.

Mr. S.S.S.Fernando 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 15th August 2022.

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	Member (1st January 2022 to 31st December 2022)
	BMICH	Member (1st January 2022 to 31st December 2022)
Mr. R.M. P. Rathnayake	Bank of Ceylon (BOC)	Ex-Officio member (1st January 2022 to 31st December 2022)
	Lotus Tower Management Company (Pvt) Limited	Chairman (Acting) 3rd February 2022 to 31st December 2022)
	Securities and Exchange Commission	Ex-Officio Member 1st January 2022 to 31st December 2022)
	Local Loan & Development Fund (LLDF)	Ex-Officio member (1st January 2022 to 28th February 2022)
Mr. A.K.Seneviratne	Civic Aviation Authority	Director (8th August 2022 to 31st December 2022)
	The Victoria Home for Incurable	Director (15th August 2022 to 31st December 2022)
Mr. Sanjeewa Dissanayaka	Sri Lanka Accounting & Auditing Standards monitoring Board	Ex- Officio Member (1st January 2022 to December 2022)
	Accounting Standards Committee	Ex- Officio Member (1st January 2022 to December 2022)
Mrs. T.M.J.Y.G Fernando	Central Bank of Sri Lanka	Deputy Governor (1st January 2022 to 31st December 2022)
	Credit Information Bureau of Sri Lanka (CRIB)	Chairperson (1st January 2022 to 31st December 2022)
	Institute of Bankers of Sri Lanka (IBSL)	Chairperson (1st January 2022 to 31st December 2022)
	Securities and Exchange Commission	Commissioner (11th October 2022 to 31st December 2022)
	Api Wenuwen Api Fund	Member of Board of Management (06th May 2022 to 21st December 2022)
Mr. Haris Salpitikorala	Nil	Nil
Mr. Raja Goonaratne	Nil	Nil
Ms. Indra Baduge	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

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

Name of the Account	Account Number	Balance as at 31.12.22	Balance as at 31.12.2021
Bank of Ceylon	1877	Rs. 8,993	Rs. 373,073
Bank of Ceylon	74236358	Rs. 13,550,961	Rs. 5,437,940
Bank of Ceylon	83094438	Rs. Nil	Rs. 508,578
Bank of Ceylon	1886	Rs. 1,000,000	Rs. 1,000,000
	74236394	Rs. 24,562,130	Rs. 301,963

28.3 The following investments were channeled through BOC during the year 2022:

Commission Fund

Investment Type	Investments during the year (Rs.)	Balance as at 31.12.2022 (Rs.)
Repo	Rs. 1,168,000,000	Rs. 107,000,000
Fixed Deposits	Rs. 148,000,000	Rs. 148,000,000

PPF

Investment Type	Investments during the year (Rs.)	Balance as at 31.12.2022 (Rs.)
Repo	Rs. 4,725,800,000	-
Fixed Deposits	Rs. 3,777,000,000	Rs. 3,777,000,000

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.3,549,289
Medical insurance premium for 3 members	Rs.160,440

Chief Executive and Senior Management Group

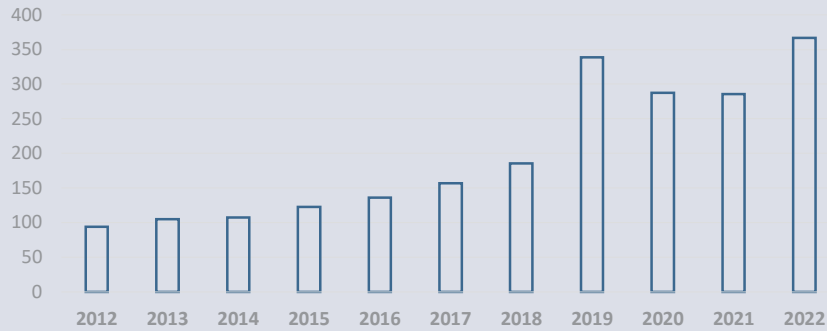
Aggregate remuneration for 6 persons	Rs.25,629,600
Non cash benefits	Rs. 1,316,286
Medical Insurance Premium for 6 person	Rs.307,210

29. Comparative Information

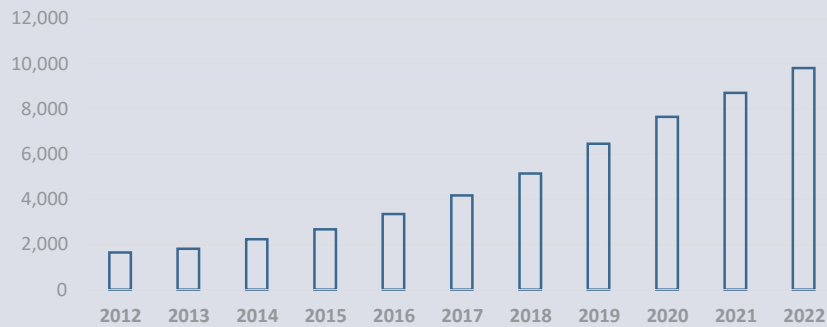
The IRCSL initiated the application of deferred taxation as per the requirement of LKAS 12 – Income Taxes. Previously IRCSL did not provide temporary timing differences, which amounts to a change in the accounting policy. As such, the previous two years (From 2020) have been reinstated in order to comply with the requirements of SLPSAS 3 – Accounting Policies, Change in Accounting Estimates and Errors.

FINANCIAL HIGHLIGHTS

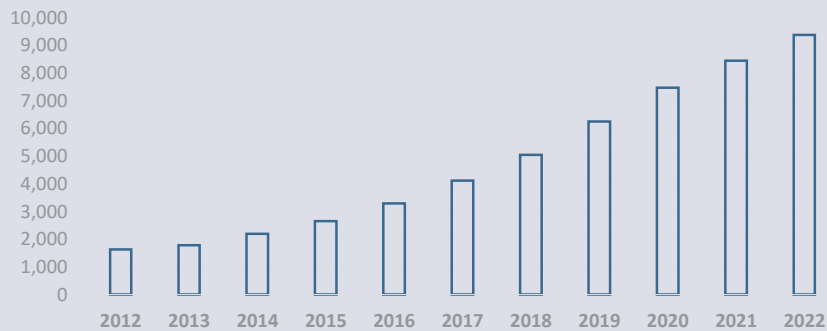
Income of the Commission (Mn)



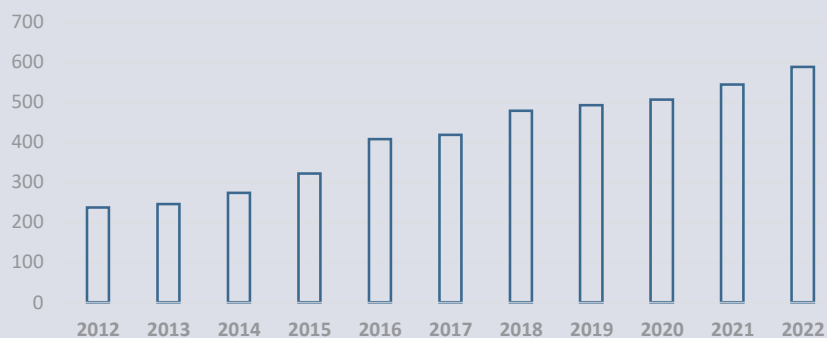
Assets of the Commission (Mn)



Policy Holders' Protection Fund (Mn)



Cess Income (Mn)



APPENDIX I

Insurance Companies Registered under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2022

No	Name of the Insurance Company	Class of Insurance Business
1	AIA Insurance Lanka Ltd.	Long Term Insurance
2	Allianz Insurance Lanka Ltd.	General Insurance
3	Allianz Life Insurance Lanka Ltd.	Long Term Insurance
4	Amana Takaful Life PLC	Long Term Insurance
5	Amana Takaful PLC	General Insurance
6	Arpico Insurance PLC	Long Term Insurance
7	Ceylinco General Insurance Limited	General Insurance
8	Ceylinco Life Insurance Limited	Long Term Insurance
9	Continental Insurance Lanka Ltd.	General Insurance
10	Continental Insurance Life Lanka Ltd.	Long Term Insurance
11	Cooperative Insurance Company PLC	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

** The company has provided a confirmation that they have ceased 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 2022

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]	Long Term and General Insurance
12	Assetline Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
13	BIMA Lanka Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
14	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General Insurance
15	Candex Asia Insurance Brokers (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	Charenco Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
21	Colombore Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
22	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
23	D S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
24	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
25	Eagle DVRS Insurance and Reinsurance Brokers (Private) Limited	General Insurance
26	Eagle Insurance Brokers (Private) Limited	Long Term and General Insurance
27	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
28	Esna Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
29	Essajee Carimjee Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
30	Fairway Insurance Brokers (Pvt) Ltd	Long Term and General Insurance

APPENDIX II

No	Name of Broker	Class of business
31	Find My Insurance & Reinsurance Brokers (Pvt) Ltd.	Long Term and General Insurance
32	Foremost Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
33	George Steuart Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
34	Global Insurance Brokers and Services (Pvt) Ltd.	Long Term and General Insurance
35	Grand Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
36	Green Alpha Insurance Brokers (Pvt) Ltd	General Insurance
37	Guardian Insurance Brokers (Pvt) Ltd.	General Insurance
38	Icon Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
39	IIRM Insurance Brokers (Pvt) Ltd. [former Finlay Insurance Brokers (Pvt) Ltd]	Long Term and General Insurance
40	Imperial Specialty Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
41	InsureMe Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
42	J B Boda Insurance & Reinsurance Brokers Lanka (Pvt) Ltd. [former Ax Insurance Brokers (Pvt) Ltd.]	General Insurance
43	Jay Insurance Brokers and Consultants (Pte) Ltd.	Long Term and General Insurance
44	L M & A Insurance Brokers & Consultants (Pvt) Ltd	Long Term and General Insurance
45	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
46	Life & General Insurance Brokers Ceylon (Pvt) Ltd.	Long Term and General Insurance
47	M R U S Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
48	Maxwell Insurance Brokers (Private) Ltd.	Long Term and General Insurance
49	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
50	Mercantile Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
51	Mutual Insurance Brokers (Pvt) Ltd	General Insurance
52	My Insurance Brokers (Pvt) Ltd.	General Insurance
53	Nations Insurance Brokers Ltd.	Long Term and General Insurance
54	Penfield Insurance Brokers (Pvt) Ltd.	General Insurance
55	Pflege Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General Insurance
56	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
57	Planet Insurance Brokers (Pvt) Ltd	Long Term and General Insurance
58	Prestige Insurance Brokers Ltd	Long Term and General Insurance
59	Priority Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
60	Procure Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
61	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
62	Redmo Swiss Insurance Brokers (Pvt) Ltd.	General Insurance

APPENDIX II

No	Name of Broker	Class of business
63	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
64	Rinkoon Lanka Insurance Brokers (Private) Limited	General Insurance
65	Samson Insurance Brokers (Pvt) Ltd.	General Insurance
66	Senaratne Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
67	Senkadagala Insurance Brokers (Private) Ltd.	Long Term and General Insurance
68	Serendib Insurance Brokers (Private) Ltd.	Long Term and General Insurance
69	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
70	Sungate Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
71	Trust Insurance Brokers (Pvt) Ltd.	General Insurance
72	UN Insurance Brokers (Pvt) Ltd.	General Insurance
73	United Insurance Brokers (Pvt) Ltd.	General Insurance
74	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
75	Victor Emmanuel Insurance Brokers (Pvt.) Ltd	Long Term and General Insurance
76	Volanka Insurance Brokers (Pvt) Ltd.	Long Term and General Insurance
77	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 2022.

No	Name of loss adjuster	Effective date of License
1	Entrust International (Pvt)Ltd	08 th June 2020
2	The Shield Adjusters (Pvt) Ltd.	29 th March 2019
3	Mr. A.W.M. Bandula Wijekoon	29 th March 2019
4	Mr. Ahmed Nazim Nazvi Rahman	25 th June 2018
5	Mr. Anthony Preshant Royce De Mel	28 th September 2022
6	Mr. Anura Mahinsaka Dedigama	12 th August 2020
7	Mr. Dissanayaka Mudiyansele Indika Sanjeewa	26 th May 2022
8	Mr. Gunawardena Mudiyansele Ananda Udaya Kumara Gunawardena	25 th June 2018
9	Mr. Hema Gotabaya Mahanama Liyanage	16 th March 2021
10	Mr. Jasin Basthian Arachchige Ravinath Niroshana	26 th September 2019
11	Mr. Johann Amarathunga	08 th February 2021
12	Mr. Lalindra Krishantha Karunaratne	29 th March 2019
13	Mr. Mahabalage Don Sisira Upali Perera	26 th June 2018
14	Mr. Mampe Vithanage Rupasena Perera	07 th July 2021
15	Mr. Mangala Keerthi Ashoka Kumara Dharmaratne	12 th August 2020
16	Mr. Meda Walawwe Ananada Bandara Rambukwella	24 th August 2022
17	Mr. Nirosh Sanjeewa Wathukarawatta	26 th June 2018
18	Mr. Piyal Watudura	05 th July 2021
19	Mr. Rajapaksha Pathirage Don Kanchana Surangika	10 th September 2018
20	Mr. Ran Banda Tennakoon	25 th June 2018
21	Mr. Shelvin Maligaspe Koralage	12 th August 2020
22	Mr. Sithira Pandithasundara	12 th August 2020
23	Mr. Sreenath Bandula Amarasekera	12 th August 2020
24	Mr. Sugath Weerathna	07 th July 2021
25	Mr. Susantha Mahindratna Weerakoon	26 th June 2018
26	Mr. Swarnekamal Swarnaraj	21 st January 2021
27	Mr. Thanuja Higulage	06 th December 2021
28	Mr. Wijithasena Leelaratne Fernando	25 th June 2018
29	Ms. Udithamala Jinadarie Kurukulasuriya	13 th June 2018

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).

$$\text{CAR} = (\text{TAC}/\text{RCR}) \times 100$$

Cedent

Client of a reinsurance company (primary insurance company).

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

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event: such as the destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured, maturity of an endowment policy, the attainment of pensionable age, the amount payable on the surrender of a policy.

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurance to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

Claims Outstanding Reserve - General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred but Not Reported (IBNR) claims and claims handling

GLOSSARY

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.

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.

GLOSSARY

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.

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

One off Surplus transfer

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

Operating Profit

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

GLOSSARY

Operational Risk

The risk arising from the inadequacy or failure of internal systems, personnel, procedures or controls 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 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:

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

(b) for long term insurance business:

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

Solvency Margin (Risk Based Capital)

The regulatory capital requirement set out for the determination of amount of unencumbered capital that an insurer must have in addition to technical provision for insurance liabilities and the standard for capital adequacy including an absolute minimum as well as a risk-based requirement as defined in Solvency Margin (Risk Based Capital) Rules 2015 made under Section 105 read with Section 26(1) of the Regulation of Insurance Industry Act, No. 43 of 2000.

Surrender Value

The amount payable by an insurer to a policyholder in respect of long term insurance on termination of an

GLOSSARY

insurance policy before the expiry of its term. In order to attain a surrender value, the policy should have been in force continuously for a period of at least three years.

Surrender Value Capital Charge (SVCC)

Risk of an extreme adverse scenario where all life insurance contracts are surrendered simultaneously.

Term Insurance

Type of life insurance policy that provides coverage for a certain period of time, or a specified "term" of years. If the insured dies during the time period specified in the policy and the policy is active - or in force - then a death benefit will be paid.

Technical Provision

The amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, reinsurance and of the capital required to cover the remaining risks.

Tier 1 capital

Permanent capital that is fully available to cover the losses of an insurer at all times on both a going concerns and a winding up basis.

Tier 2 capital

Capital that lacks some of the absorbency characteristics of the Tier 1 Capital, but nevertheless provides some loss absorbency during ongoing operations or on winding up.

Total Available Capital (TAC)

Total available capital is determined as the sum of Tier I capital and Tier II capital less any prescribed deductions in terms of Solvency Margin (Risk Based Capital) Rule 2015.

Underwriting Profit

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

Unearned Premium

The portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve

A fund kept by a general insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Unexpired Risk Reserve

The excess of estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

Universal Life

Permanent life insurance with an investment savings element and low premiums like term life insurance. Most universal life insurance policies contain a flexible premium option. However, some require a single premium (single lump-sum premium) or fixed premiums (scheduled fixed premiums)

Whole Life Insurance

Whole life insurance provides coverage for the life of the insured. In addition to providing a death benefit, whole life also contains a savings component where cash value may accumulate. These policies are also known as permanent or traditional life insurance.

Catastrophic losses

A relatively infrequent event or phenomenon that produces usually aggregate losses.

Stress-testing

A method of assessment that measures the financial impact of stressing one or more factors which could severely affect the insurer.

GENERAL INFORMATION

Office Address

Level 11, East Tower, World Trade Centre
Colombo 01
Sri Lanka.

Telephone : +94112396184-9
Fax : +94112396190
E-mail : info@ircsl.gov.lk
Web site : www.ircsl.gov.lk

Legal Form

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

The Object and Responsibility of the Commission

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

Accounting Year

31 December

Auditors

The Auditor General

Bankers

Bank of Ceylon

Audit Committee

Mr. R. M. P. Rathnayake	(01.01.2022 - 01.03.2022)
Mr. Saman Fernando	(11.03.2022 - 15.08.2022)
Mr. A. K. Senevirathna	(26.08.2022 - 31.12.2022)
Mrs. T. M. J. Y. P Fernando	(01.01.2022 - 31.12.2022)
Mr. Haris Salpitikorala	(01.01.2022 - 31.12.2022)
Ms. Indra Baduge	(01.01.2022 - 11.03.2022)



INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

Level 11, East Tower, World Trade Centre, Colombo 01, Sri Lanka
Telephone : +94 11 2396184-9 | Fax : +94 11 2396190
E-mail : info@ircsl.gov.lk | Web site : www.ircsl.gov.lk