



## ANUUAL REPORT 2004

## GENERAL INFORMATION

### Office Address

# 07-02 East Tower,  
World Trade Center,  
Echelon Square, Colombo 1,  
Sri Lanka.

### 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 1<sup>st</sup> March 2001 by Government Gazette Notification No. 1172/27 dated 23<sup>rd</sup> February 2001.

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### The object and responsibility of the Board

The object and responsibility of the Board 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 policy-holders and potential policy-holders.

### Accounting year

31st December

### Auditors

The Auditor General

### Bankers

Bank of Ceylon  
People's Bank  
Hongkong & Shanghai Banking Corporation Limited.

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## MISSION STATEMENT

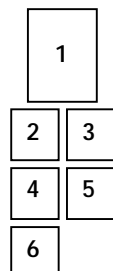
*“To ensure that insurance business  
in Sri Lanka is carried on with  
integrity and in a professional and  
prudent manner with a view to  
safeguarding the interests of the  
policy-holders and potential policy-holders”*

## MEMBERS OF THE BOARD



**IBSL**  
INSURANCE  
BOARD OF SRI LANKA

1. DR. D.C. JAYASURIYA (CHAIRMAN)
2. MRS. D. DE SILVA
3. DR. (MRS) R. JAYAMAHA
4. MR. U KARIYAWASAM
5. MR. S. ABEYSINGHE
6. MR. O. M. WEERASOORIYA





## MEMBERS OF THE BOARD WHO RESIGNED OR CEASED TO BE MEMBERS DURING THE YEAR

|                       |            |   |
|-----------------------|------------|---|
| Lt. Gen Denis Perera  | - Chairman | - Resigned in May 2004  |
| Dr. Nihal Jinasena    | - Member   | - Resigned in May 2004  |
| Mr. P. M. Nagahawatte | - Member   | - Resigned in April 2004  |
| Mr. Faiz Mohideen     | - Member   | - Resigned in May 2004  |
| Mr. H. L. A. de Silva | - Member   | - Resigned in April 2004  |
| Mr. W. Unamboowe      | - Member   | - Resigned in April 2004  |
| Mr. P. Gunawardena    | - Member   | - Ceased to be Member on his demise on 26 <sup>th</sup> December 2004 |



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The year under review was one of both good news as well as bad news. In terms of good news, there was an increase in market penetration and in the total volume of business in the long term insurance and general insurance sectors. The bad news is that the devastation caused by the Tsunami on 26 December 2004 exacted a heavy toll in terms of loss of life and damage to property and businesses resulting in insurance claims in excess of Rs 13 billion. The full impact is yet to be quantified. In a magnanimous gesture of goodwill almost all Companies made ex-gratia payments in respect of certain classes of claims for property damaged by the Tsunami related floods. The Board issued a directive relating to damages to vehicles noting that earthquake cover was not offered in Sri Lanka until that point of time. Since then, most Companies offer a more comprehensive package.

Several Insurance Companies are engaged in aggressive marketing practices, coupled with the deployment of new and innovative products and competitive pricing policies. However, the overall insurance penetration rates in Sri Lanka are still relatively low and much more yet remains to be done to promote insurance products. Health and old age insurance, in particular, continue to remain neglected areas. The Honourable Finance Minister's announcement in the budget proposals for a contributory health insurance scheme for public servants deserves special mention. The extension of the scheme to retired public servants merits consideration in the not too distant future.



The Insurance Board issued a directive requiring CEOs/CFOs to certify that the Company has complied with the legal and regulatory provisions of the Regulation of Insurance Industry Act No. 43 of 2000, reinsurance guidelines issued by the IBSL, reserving and solvency guidelines and the minimum capital requirements. This is an important, albeit only a small, step forward towards improving accountability, transparency and good corporate governance. The Board continued its efforts to encourage the industry to move towards self-regulation. An important development is the decision by the industry to establish the office of Insurance Ombudsman.

The Board maintained a healthy and constructive dialogue with the Insurers Association, the Association of Brokers and other stakeholders.

I assumed office as the Chairman in mid - September. Having served as the Director General/CEO until February 2003, I am pleased that I now have this opportunity to complete some of the items of the unfinished agenda. The former Chairman and the appointed Members resigned in April 2004. I wish to place on record our appreciation for their contribution. The Board held 3 meetings between January and April and no meetings were held between May and August. Much of the backlog was cleared during 4 meetings that were held between September and December. I am grateful for the cooperation that was extended by fellow Board Members and the staff of the SEC/IBSL Secretariat that enabled us to address several urgent issues. The Board decided to recruit staff to work full time on insurance-related matters and it is likely that by mid 2005 the Insurance Board will have its own staff for supervision and related work. Some of the areas that had hitherto received relatively insignificant attention such as risk-based supervision; critical review of reinsurance treaties; development of a national reinsurance policy; development of a natural disaster fund; and amendments to the legislation will be fast tracked in the new year. These are formidable challenges but we can no longer remain oblivious to them. We need to redouble our efforts in the next few years to ensure that we have a stable and vibrant insurance industry that meets all international standards. These efforts require the unstinted support and commitment of all stakeholders.

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**Dr Dayanath Jayasuriya**  
**Chairman, Insurance Board of Sri Lanka**



**PART I**

**ADMINISTRATION  
OF THE REGULATION  
OF INSURANCE  
INDUSTRY ACT**



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## LEGISLATION

The insurance industry is regulated and supervised in terms of the provisions of the Regulation of Insurance Industry Act No.43 of 2000 of Sri Lanka (hereinafter referred to as the Act). The Insurance Board of Sri Lanka (hereinafter referred to as the Board) was established under this Act.

## LICENSING AND MARKET STRUCTURE

Registration was granted to Allianz Insurance Company Lanka Ltd. under the Act to engage in general insurance business. This company is a subsidiary of Allianz Group of Germany and 100% of the equity of this company is held by the Allianz Group.

All Lanka Mutual Assurance Organization Ltd (ALMAO) changed its name to Sanasa Almao Insurance Company Ltd (SAICL). SAICL, which was registered under the Act by IBSL to engage in long term insurance business, submitted an application to the IBSL to obtain registration to engage in general insurance business as well.

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As at the end of the year 2004, there were 14 insurance companies of which 11 insurers are engaged in composite insurance, carrying on both long term insurance business and general insurance business while 2 insurers are engaged in long term insurance business and one insurance company engaged in general insurance business.

Janashakthi Insurance Company Ltd (JICL) which obtained the concurrence of the IBSL for the amalgamation of National Insurance Corporation Ltd and JICL with effect from 1<sup>st</sup> January 2004, informed IBSL that it wishes to postpone the amalgamation to 1<sup>st</sup> January 2005.

Hayleys AIG Insurance Company Ltd informed the IBSL that it will cease issuing long term insurance policies with effect from 1<sup>st</sup> June 2004 but the company gave an assurance to the IBSL that it will continue to service the existing long term insurance policyholders.

During the year, 8 new insurance brokers were registered under the Act, registrations of 37 insurance brokers were renewed and registrations of 4 insurance brokers were suspended.

## INSURANCE AGENTS

Rules on the qualification of insurance agents which were made under section 78(4) of the Act were amended to permit persons with an ordinary pass in mathematics or arithmetic at the G.C.E. (O/L) Examination as the basic qualification instead of a credit pass.

The Sri Lanka Insurance Institute (SLII) commenced conducting the pre-recruitment test for the insurance agents in respect of long term insurance during the latter part of 2003 in the English medium and subsequently commenced conducting the test in Sinhala medium and Tamil medium from January 2004. Information relating to the pre-recruitment test in respect of long term insurance is as follows:

### Pre-recruitment Test - Long Term Insurance

|  | English Medium | Sinhala Medium | Tamil Medium | Total |
|--|----------------|----------------|--------------|-------|
| Number of Tests held during the year           | 22             | 57             | 23           | 102   |
| Number of Candidates who appeared for the test | 98             | 4,357          | 329          | 4,784 |
| Number passed                                  | 70             | 2,719          | 109          | 2,898 |

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SLII published a book titled "Technical Competency Course in General Insurance for Agents" in English in December 2004, which is to be used as the text for conducting the pre-recruitment test for persons who are to be appointed as general insurance agents by the insurers and insurance brokers. SLII informed IBSL that they intend conducting the pre-recruitment test for general insurance agents in the English medium commencing March 2005 and they will be conducting the test in Sinhala medium and Tamil medium subsequently, once the book is translated into Sinhala and Tamil.

## COMPANY STATUS AND CHANGES IN EQUITY

In terms of the provisions of the Act, a company should be incorporated as a public company under the Companies Act No.17 of 1982 in order to register as an insurance company under the Act. In terms

of the powers vested with the Board, the Board has taken a decision to increase the issued share capital for general insurance business to rupees one hundred million from the present level of rupees fifty million and the issued share capital of long term insurance business to rupees one hundred million from the present minimum share capital requirement of rupees twenty-five million.

Out of the 14 insurance companies five companies i.e. Ceylinco Insurance Company Ltd, Eagle Insurance Company Ltd, Union Assurance Ltd, Asian Alliance Insurance Company Ltd and HNB Assurance Ltd are listed on the Colombo Stock Exchange.

The Controller of Exchange has allowed foreign equity participation in insurance companies up to 100% in terms of the Gazette Notification No1232/14 of 19th April 2002.

### **SOLVENCY MARGIN RULES - GENERAL INSURANCE BUSINESS**

Solvency Margin (General Insurance) Rules, 2004 made by the Insurance Board of Sri Lanka under section 26 of the Act were published in Gazette Notification No 1341/8 of 17<sup>th</sup> May 2004. Insurance companies are permitted under the Rules to continue with the solvency margin requirement in terms of the Control of Insurance Act No.25 of 1962 for three years from the date of the Gazette Notification, and are required to comply with the provisions of the Solvency Margin (General Insurance) Rules with effect from 17<sup>th</sup> May 2007.

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### **LEVY OF AN ANNUAL FEE FROM INSURANCE COMPANIES**

The Board has decided to levy an annual fee of 0.05% of gross written premium of general insurance business and long term insurance business from the insurance companies in terms of section 13(1)(d) of the Act.

### **LEVY OF A CESS FROM INSURANCE COMPANIES**

In terms of section 7(2), an order was made by the Hon. Minister of Finance for the levy of a Cess at the rate of 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business. This was published in the Gazette Notification No.1244/5 on 9<sup>th</sup> July 2002. The Cess was collected from the insurers with effect from January 2003. The total amount collected as at 31<sup>st</sup> December 2004 was Rs.81,042,539/-.

## **POLICY HOLDERS PROTECTION FUND**

The Cess collected from the insurance companies was deposited into the Policy Holders Protection Fund that was established under section 103(1) of the Act. The amounts lying to the credit of the Policy Holders Protection Fund is invested in Treasury Bills. The accumulated amount in the Fund as at 31<sup>st</sup> December 2004 was Rs. 86,560,645/-

## **INSURANCE TARIFF**

Fire Insurance and Employees Liability Insurance (Workmen's Compensation) are tariff based.

In the year 2003 the Board appointed a Committee consisting of representatives from the Insurance Association of Sri Lanka, Sri Lanka Insurance Brokers' Association and a mechanical engineer with wide experience in Fire Insurance to revise the existing tariff on Fire Insurance. The Fire Association of Ceylon that was established in 1897 was responsible for determining the tariff operation since 1923. The Board felt that a revision was necessary since the tariff was not realistic and did not reflect current needs.

The Committee completed the revision of the fire tariff and submitted the report to the Board and the Board decided to implement the revised fire tariff.

However, the Insurance Brokers Association of Sri Lanka and the Ceylon Chamber of Commerce made representations to the Hon. Minister of Finance, requesting the Hon. Minister to intervene in this matter and suspend the implementation of the revised fire tariff, as the rates under the revised tariff are very much higher than the existing market rates.

Taking into account the views expressed by the two Associations, the Secretary to the Treasury requested the Insurance Board of Sri Lanka to consider the removal of tariff on fire insurance, pointing out that in a free market there should not be any control on premium rates and the rates should be determined by market forces.

The tariff on fire insurance was abolished with effect from 1<sup>st</sup> January 2005. The public was informed by IBSL through press notices.



## **STRIKE, RIOT, CIVIL COMMOTION AND TERRORISM FUND (SRCC&T FUND)**

The Government established the SRCC&T Fund in 1987 as the insurers found it difficult to obtain reinsurance cover against risks due to strike, civil commotion and terrorism. All the insurance companies are members of the SRCC&T Fund and the Board of the Fund consists of a member nominated by each insurance company and approved by the Secretary, Ministry of Finance. An officer from the Ministry of Finance is appointed by the Secretary, Ministry of Finance as the Chairman of the Board of the Fund. It is mandatory in terms of the Constitution of the Fund for all insurance companies to cede the entire premium that is collected in respect of risks covered by them against strike, riot, civil commotion and terrorism. The Ministry of Finance withdrew the powers vested with the Board to regulate the Fund, with effect from 28 August 2003. No reasons were given for this decision.

## **OTHER RELATED MATTERS**

### **Insurance Association of Sri Lanka**

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The Insurance Association was established in 1989. Every insurance company registered under the Act is eligible for membership of the Association.

The Executive Committee is responsible for the overall management of the Association. The Executive Committee is assisted by the Life Insurance Forum, the General Insurance Forum and the Finance and Actuarial Sub-Committees, which consider and make recommendations to the Executive Committee on subjects relating to their respective areas.

The Association maintained a close working relationship with the Insurance Board.

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

The Sri Lanka Insurance Brokers' Association is the only association of insurance brokers that has been approved by the Board and all insurance brokers are members of this Association. In terms of Section 79 of the Act, it is mandatory that all registered insurance brokers and all applicants seeking registration are required

to be members of this Association. The members of the Association are subject to the Code of Conduct in terms of the Constitution of the Association.

SLIBA maintained a very cordial relationship with the Board.

### **The Sri Lanka Insurance Institute**

The Sri Lanka Insurance Institute was established in 1982. It is a non-profit making organization and its main objective is to develop the skills and knowledge of the persons engaged or employed in insurance business. Funding for the Institute is through contributions made by the insurance companies and the annual subscriptions from the members. The Institute conducts classes for those who are preparing for the examinations of the Chartered Insurance Institute of London, Insurance Institute of Australia and Insurance Institute of India.

The Institute is affiliated to the Chartered Insurance Institute, London and administers the examinations of professional bodies such as the Chartered Insurance Institute, London; Insurance Institute of Australia; Insurance Institute of India and the Actuarial Society of India. The Institute conducts short-term diploma courses in insurance for persons employed in the insurance industry.

The Board entrusted the Institute with the responsibility of conducting the pre-qualification test for the candidates who are to be appointed as insurance agents by the insurers and insurance brokers. The Institute conducted the pre-recruitment test in respect of long term insurance business in English, Sinhala and Tamil during the year. The Institute has developed a syllabus in respect of general insurance business and informed the Board that they intend conducting the pre-recruitment test in respect of general insurance from March 2005.

### **South Asian Insurance Regulators' Forum**

The South Asian Insurance Regulators' Forum was established in the year 2001. Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are members of this Forum. Dr. Dayanath Jayasuriya was the founder Chairman of the Forum in 2001/2002.

Mr.C.S. Rao, Chairman, Insurance Regulatory and Development Authority of India (IRDA) continued as the Chairman of the Forum, while Mr. Sonam Wangchuk from the Royal Monetary Authority of Bhutan, Mr. Narayan Prashad Silwal from the Beema Samiti (Insurance Board) of Nepal, Mr. Ibrahim Naeem of the Monetary Authority of Maldives, Mr.Khalid A. Mirza of the Securities and Exchange Commission of Pakistan and Mrs. Lasinee Seresinhe of the Insurance Board of Sri Lanka continued as Vice-Chairpersons during the year.

The objectives of the Forum are to promote co-operation among South Asian Insurance Regulators to facilitate regulatory activities; the sharing of information and experiences; and the harmonization of legislative approaches and financial reporting systems, to the extent feasible.

The Annual Meeting of the Forum was held in New Delhi in June 2004. Mrs. Lasinee Seresinhe, Officer in Charge of the Insurance Board of Sri Lanka attended the meeting.



**PART II**

**PERFORMANCE OF  
THE INSURANCE  
INDUSTRY**

**DURING THE YEAR 2004**



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## PREMIUM INCOME

The overall gross written premium of Rs.29,555 million from long term insurance business and general insurance business during the year showed a growth rate of 22.40% when compared with the previous year's growth rate of 19.06%. General insurance business with the premium income of Rs.17,037 million (2003: Rs.13,534 million) accounted for 57.65% (2003: 56.05%) of the total combined gross premium written, while long term insurance business accounted for 42.35% (2003: 43.95%) with the premium income of Rs.12,518 million (2003: Rs.10,613 million). The contribution of 1.52% (2003:1.37%) to the GDP during the year by the insurance sector, shows increased insurance activity since 2000.

**Table 1**  
**Premium Income**  
( in million rupees)

|                             | 1998   | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|
| Long Term Insurance         | 4,876  | 5,453  | 6,252  | 7,494  | 8,682  | 10,613 | 12,518 |
| General Insurance           | 7,111  | 7,762  | 8,615  | 9,366  | 11,599 | 13,534 | 17,037 |
| Total Premium Income        | 11,987 | 13,215 | 14,867 | 16,860 | 20,281 | 24,147 | 29,555 |
| Total premium as a % of GDP | 1.20   | 1.21   | 1.18   | 1.20   | 1.28   | 1.37   | 1.52   |
| Growth rate as a %          | 11.40  | 10.23  | 12.52  | 13.39  | 20.29  | 19.06  | 22.40  |

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## PERFORMANCE OF LONG TERM INSURANCE BUSINESS

### Premium Income and Market Share Company-wise

On analyzing the market share of insurance companies, it is observed that Ceylinco Insurance Company Ltd had 31.65% (2003:28.67%) of the market share with a premium income of Rs.3,961 million (2003: Rs.3,043 million), while Sri Lanka Insurance Corporation Ltd had a market share of 26.62% and with a premium income of Rs.3,332 million (2003:Rs.3,239 million). Eagle Insurance Company Ltd with a premium income of Rs.2,500 million (2003:2,170 million) and market share of 19.97% (2003:20.45%) has maintained its market share more or less at the same level as in the previous year. Union Assurance Ltd with a premium income of Rs.1,210 million (2003:Rs.1,096 million) and market share of 9.66% (2003:10.33%) showed a marginal decline in its market share. Janashakthi Insurance Company Ltd with a market share of 4.26% (2003:3.92%), Asian Alliance Insurance Company Ltd with a market share of 3.37% (2003:2.59%), HNB Assurance Ltd with a market share of 1.64% (2003:0.98%) and Life Insurance Corporation (Lanka) Ltd with a market share of 0.66%(2003:0.13%) have increased their business turnover during the year. (Table 2 and Chart 1)

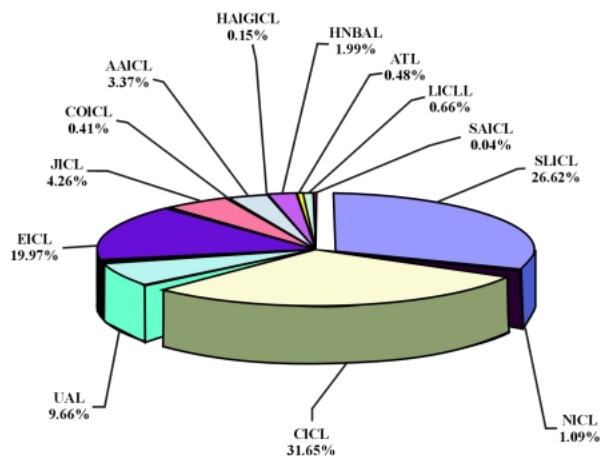
**Table 2**  
**Long Term Insurance Business**  
**Gross Written Premium and Market Share – Company- wise**

| Company      | 1999             |              | 2000             |              | 2001             |              | 2002             |              | 2003              |              | 2004              |              |
|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|-------------------|--------------|-------------------|--------------|
|              | Premium          | %            | Premium          | %            | Premium          | %            | Premium          | %            | Premium           | %            | Premium           | %            |
| SLICL        | 2,064,863        | 37.86        | 2,260,288        | 36.1         | 2,526,814        | 33.70        | 2,788,636        | 32.12        | 3,238,959         | 30.52        | 3,331,583         | 26.62        |
| NICL         | 163,061          | 2.99         | 179,444          | 2.87         | 184,308          | 2.50         | 178,475          | 2.06         | 157,543           | 1.48         | 136,128           | 1.09         |
| CICL         | 1,312,434        | 24.06        | 1,428,052        | 22.84        | 2,091,907        | 27.90        | 2,359,671        | 27.18        | 3,042,655         | 28.67        | 3,961,390         | 31.65        |
| UAL          | 495,040          | 9.08         | 701,957          | 11.23        | 730,417          | 9.70         | 934,147          | 10.76        | 1,096,149         | 10.33        | 1,209,534         | 9.66         |
| EICL         | 1,185,481        | 21.74        | 1,386,325        | 22.17        | 1,616,758        | 21.60        | 1,827,208        | 21.05        | 2,169,843         | 20.45        | 2,500,131         | 19.97        |
| JICL         | 231,400          | 4.24         | 280,600          | 4.49         | 284,008          | 3.80         | 343,000          | 3.95         | 416,220           | 3.92         | 532,643           | 4.26         |
| COICL        | 1,640            | 0.03         | 9,000            | 0.14         | 11,700           | 0.20         | 24,519           | 0.28         | 44,144            | 0.42         | 51,610            | 0.41         |
| AAICL        | -                | -            | 6,942            | 0.11         | 45,902           | 0.60         | 163,280          | 1.88         | 274,470           | 2.59         | 421,280           | 3.37         |
| HAIGICL      | -                | -            | -                | -            | 2,273            | 0.00         | 8,620            | 0.10         | 14,387            | 0.14         | 19,342            | 0.15         |
| HNBAL        | -                | -            | -                | -            | -                | 0.00         | 35,297           | 0.41         | 104,436           | 0.98         | 205,883           | 1.64         |
| ATL          | -                | -            | -                | -            | -                | -            | 19,439           | -            | 39,990            | 0.38         | 60,658            | 0.48         |
| LICLL        | -                | -            | -                | -            | -                | -            | -                | -            | 13,319            | 0.13         | 82,127            | 0.66         |
| SAICL        | -                | -            | -                | -            | -                | -            | -                | -            | 480               | 0.00         | 5,245             | 0.04         |
| <b>Total</b> | <b>5,453,919</b> | <b>100.0</b> | <b>6,252,608</b> | <b>100.0</b> | <b>7,494,087</b> | <b>100.0</b> | <b>8,682,292</b> | <b>100.0</b> | <b>10,612,595</b> | <b>100.0</b> | <b>12,517,554</b> | <b>100.0</b> |

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**Chart I**  
**Long Term Insurance Business Market Companywise - 2004**

- SLICL : Sri Lanka Insurance Corporation Ltd
- NICL : National Insurance Corporation Ltd
- CICL : Ceylinco Insurance Company Ltd
- UAL : Union Assurance Ltd
- EICL : Eagle Insurance Company Ltd
- JICL : Janashakthi Insurance Company Ltd
- COICL : Co-operative Insurance Company Ltd
- AAICL : Asian Alliance Insurance Company Ltd
- HAIGICL : Hayleys AIG Insurance Company Ltd
- HNBAL : HNB Assurance Ltd
- ATL : Amana Takaful Ltd
- LICLL : Life Insurance Corporation (Lanka) Ltd
- SAICL : Sanasa Almao Insurance Company Ltd





## PERFORMANCE OF GENERAL INSURANCE BUSINESS

### Gross Written Premium and Company-wise Market Share

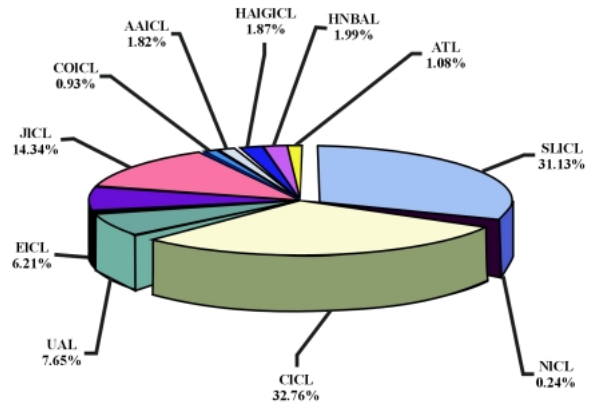
In respect of general insurance business, Ceylinco Insurance Company Ltd had 32.76% (2003:27.50) of the market, with a premium income of Rs.5,581 million (2003:Rs.3,721 million), while the Sri Lanka Insurance Corporation Ltd had a market share of 31.13% (2003:35.95%) and premium income of Rs.5,303 million (2003:Rs.4,866 million). Janashakthi Insurance Company Ltd with a premium income of Rs.2,444 million (2003:1,407 million) had increased its market share to 14.34% from the previous year's market share of 10.40%. Union Assurance Ltd with a market share of 7.65% (2003:9.35%) and Eagle Insurance Company Ltd with a market share of 6.21% (2003:7.93%) showed a marginal drop in their market share during the year. The other five insurance companies showed marginal increase in their market share and they accounted for 7.68% of the market share with cumulative premium income of Rs.1,309 million. ( Table 3 and Chart 2)

**Table 3**  
**General Insurance Business**  
**Gross Written Premium and Market Share – Company-wise**

| Company      | 1999             |              | 2000             |              | 2001             |              | 2002              |              | 2003              |              | 2004              |              |
|--------------|------------------|--------------|------------------|--------------|------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
|              | Premium          | %            | Premium          | %            | Premium          | %            | Premium           | %            | Premium           | %            | Premium           | %            |
| SLICL        | 3,548,250        | 45.71        | 3,835,602        | 44.52        | 3,961,163        | 42.3         | 4,922,866         | 42.44        | 4,866,149         | 35.95        | 5,303,104         | 31.13        |
| NICL         | 507,523          | 6.54         | 580,863          | 6.74         | 549,809          | 5.87         | 357,684           | 3.08         | 254,689           | 1.88         | 40,200            | 0.24         |
| CICL         | 1,555,594        | 20.04        | 1,693,047        | 19.65        | 1,895,185        | 20.2         | 2,607,339         | 22.48        | 3,721,206         | 27.50        | 5,580,643         | 32.76        |
| UAL          | 967,153          | 12.46        | 1,018,085        | 11.82        | 1,132,730        | 12.09        | 1,218,997         | 10.51        | 1,264,961         | 9.35         | 1,302,894         | 7.65         |
| EICL         | 666,823          | 8.59         | 686,112          | 7.96         | 730,511          | 7.80         | 909,883           | 7.84         | 1,072,666         | 7.93         | 1,058,025         | 6.21         |
| JICL         | 472,189          | 6.08         | 536,450          | 6.23         | 718,235          | 7.67         | 947,971           | 8.17         | 1,407,309         | 10.40        | 2,443,808         | 14.34        |
| COICL        | 39,711           | 0.51         | 59,119           | 0.69         | 60,650           | 0.65         | 85,482            | 0.74         | 161,128           | 1.19         | 157,741           | 0.93         |
| AAICL        | 4606             | 0.06         | 165,443          | 1.92         | 244,738          | 2.61         | 285,607           | 2.46         | 271,097           | 2.00         | 310,400           | 1.82         |
| HAIGICL      | -                | -            | 39,821           | 0.46         | 61,602           | 0.66         | 109,554           | 0.94         | 186,571           | 1.38         | 318,254           | 1.87         |
| HNBAL        | -                | -            | -                | -            | 11,785           | 0.13         | 122,233           | 1.05         | 243,390           | 1.80         | 338,708           | 1.99         |
| ATL          | -                | -            | -                | -            | -                | -            | 31,783            | 0.27         | 84,842            | 0.63         | 183,581           | 1.08         |
| <b>Total</b> | <b>7,761,849</b> | <b>100.0</b> | <b>8,614,542</b> | <b>100.0</b> | <b>9,366,408</b> | <b>100.0</b> | <b>11,599,399</b> | <b>100.0</b> | <b>13,534,008</b> | <b>100.0</b> | <b>17,037,358</b> | <b>100.0</b> |

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**Chart 2**  
**General Insurance Business**  
**Market Share Company-wise-2004**



**Abbreviations**

- SLICL : Sri Lanka Insurance Corporation Ltd
- NICL : National Insurance Corporation Ltd
- CICL : Ceylinco Insurance Company Ltd
- UAL : Union Assurance Ltd
- EICL : Eagle Insurance Company Ltd
- JICL : Janashakthi Insurance Company Ltd
- COICL : Co-operative Insurance Company Ltd
- AAICL : Asian Alliance Insurance Company Ltd
- HAIGCL : Hayleys AIG Insurance Company Ltd
- HNBAL : HNB Assurance Ltd
- ATL : Amana Takaful Ltd

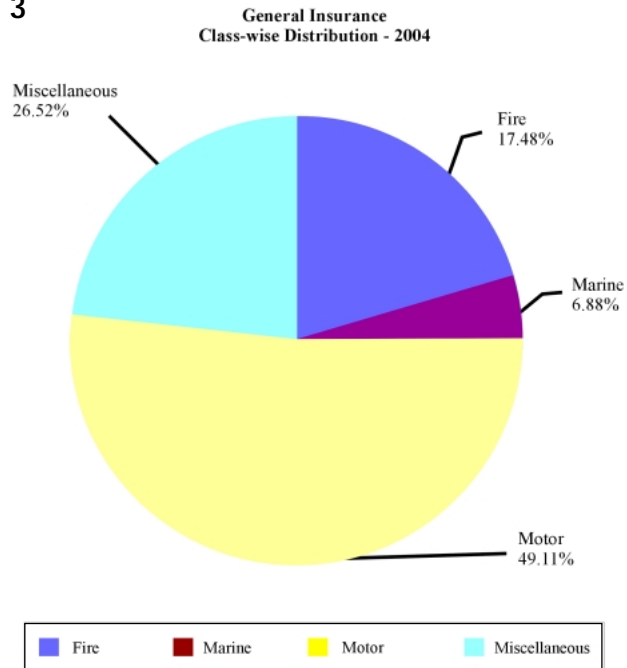
## DISTRIBUTION OF GROSS WRITTEN PREMIUM

It has been observed that gross written premium from motor insurance has been the major contributor to the total gross written premium income in respect of general insurance business. During the year with a premium income of Rs.8,367 million (2003:Rs.6,224 million), motor insurance contribution was 49.11% (45.99%) to the total premium income of Rs.17,037 million (2003:Rs.13,534 million). Fire insurance, with a premium income of Rs.2,979 million (2003:Rs.2,725 million) accounted for 17.48% (2003:20.13%) of the total premium. Marine insurance, with a premium income of Rs.1,173 million (2003: Rs.957 million) and miscellaneous insurance with a premium income of Rs.4,518 million (2003:Rs.3,628 million) contributed 6.88% (2003:7.07%) and 26.52% (2003:26.81%) respectively to the total premium income.(Table 4 and Chart 3)

**Table 4**  
**Distribution of Gross Written Premium**  
**General Insurance Business**

| YEAR     | Fire<br>Rs.'000 | Marine<br>Rs.'000 | Motor<br>Rs.'000 | Misc.<br>Rs.'000 | Total<br>Rs.'000 |
|----------|-----------------|-------------------|------------------|------------------|------------------|
| 1998     | 1,846,904       | 679,534           | 2,739,819        | 1,844,415        | 7,110,672        |
| 1999     | 1,912,212       | 706,656           | 3,160,937        | 1,982,044        | 7,761,849        |
| 2000     | 2,010,136       | 842,178           | 3,528,391        | 2,194,092        | 8,574,797        |
| 2001     | 2,339,829       | 809,547           | 3,774,471        | 2,442,561        | 9,366,408        |
| 2002     | 2,475,897       | 942,868           | 4,498,495        | 3,682,139        | 11,599,399       |
| 2003     | 2,724,800       | 956,900           | 6,224,332        | 3,627,976        | 13,534,008       |
| 2004     | 2,978,979       | 1,172,810         | 8,367,447        | 4,518,122        | 17,037,358       |
| % Change |                 |                   |                  |                  |                  |
| 1988     | 15.56           | -6.24             | 17.45            | -4.82            | 7.84             |
| 1999     | 3.54            | 3.99              | 15.37            | 7.46             | 9.16             |
| 2000     | 5.12            | 19.18             | 11.62            | 10.70            | 10.47            |
| 2001     | 16.40           | -3.87             | 6.97             | 11.32            | 9.23             |
| 2002     | 5.82            | 16.47             | 19.18            | 50.75            | 23.84            |
| 2003     | 10.05           | 1.49              | 38.36            | -1.47            | 16.68            |
| 2004     | 9.33            | 22.56             | 34.43            | 24.54            | 25.89            |
| % Share  |                 |                   |                  |                  |                  |
| 1998     | 25.97           | 9.56              | 38.53            | 25.94            | 100.00           |
| 1999     | 24.64           | 9.10              | 40.72            | 25.54            | 100.00           |
| 2000     | 23.44           | 9.82              | 41.15            | 25.59            | 100.00           |
| 2001     | 24.98           | 8.64              | 40.3             | 26.08            | 100.00           |
| 2002     | 21.35           | 8.13              | 38.78            | 31.74            | 100.00           |
| 2003     | 20.13           | 7.07              | 45.99            | 26.81            | 100.00           |
| 2004     | 17.48           | 6.88              | 49.11            | 26.52            | 100.00           |

**Chart 3**



## REINSURANCE AND RETENTION OF GROSS WRITTEN PREMIUM

During the year the insurance companies have retained Rs.12,323 million (2003: 8,705 million) out of the total gross written premium Rs,17,037 million (2003:13,534 million), thereby 72.33% of the premium was retained when compared with the previous year's retention of 64.32%. This indicates that insurance companies are gradually increasing their retention levels.

Motor insurance accounted for the highest retention with 95.92% (2003:95.63%) followed by miscellaneous insurance with 71.64% (2003:51.57%) and marine insurance with 43.19% (2003:42.09%), whereas fire insurance had the lowest retention of 18.57% (2003:17.57%). (Table 5)

**Table 5**

| <b>Gross Written Premium (in Rs. '000)</b>           |                  |                  |                  |                   |                   |                   |
|--|------------------|------------------|------------------|-------------------|-------------------|-------------------|
|  | <b>1999</b>      | <b>2000</b>      | <b>2001</b>      | <b>2002</b>       | <b>2003</b>       | <b>2004</b>       |
| Fire   | 1,912,212        | 2,034,780        | 2,339,829        | 2,475,897         | 2,724,800         | 2,978,979         |
| Marine   | 706,656          | 848,250          | 809,547          | 942,868           | 956,900           | 1,172,810         |
| Motor  | 3,160,937        | 3,533,619        | 3,774,471        | 4,498,495         | 6,224,332         | 8,367,447         |
| Miscellaneous  | 1,982,044        | 2,197,969        | 2,442,561        | 3,682,139         | 3,627,976         | 4,518,122         |
| <b>Total Gross Written Premium</b>                   | <b>7,761,849</b> | <b>8,614,618</b> | <b>9,366,408</b> | <b>11,599,399</b> | <b>13,534,008</b> | <b>17,037,358</b> |
| <b>Reinsurance Premium (in Rs. '000)</b>             |                  |                  |                  |                   |                   |                   |
| Fire   | 1,408,244        | 1,524,421        | 1,686,421        | 2,076,360         | 2,246,092         | 2,425,875         |
| Marine   | 359,656          | 485,003          | 445,694          | 580,348           | 554,160           | 666,292           |
| Motor  | 758,972          | 219,663          | 198,587          | 350,853           | 272,217           | 341,072           |
| Miscellaneous  | 472,375          | 642,429          | 808,975          | 1,182,228         | 1,756,857         | 1,281,222         |
| <b>Total Reinsurance Premium</b>                     | <b>2,999,247</b> | <b>2,871,516</b> | <b>3,139,677</b> | <b>4,189,789</b>  | <b>4,829,326</b>  | <b>4,714,461</b>  |
| <b>Net Premium Written (Retention) (in Rs. '000)</b> |                  |                  |                  |                   |                   |                   |
| Fire   | 503,968          | 490,210          | 653,408          | 399,537           | 478,708           | 553,104           |
| Marine   | 346,999          | 336,881          | 363,853          | 362,520           | 402,740           | 506,518           |
| Motor  | 2,401,965        | 3,311,912        | 3,575,884        | 4,147,642         | 5,952,115         | 8,026,375         |
| Miscellaneous  | 1,509,669        | 1,553,503        | 1,633,586        | 2,499,911         | 1,871,119         | 3,236,900         |
| <b>Total Net Written Premium</b>                     | <b>4,762,601</b> | <b>5,692,506</b> | <b>6,226,731</b> | <b>7,409,610</b>  | <b>8,704,682</b>  | <b>12,322,897</b> |
| Fire   | 26.36            | 24.09            | 27.93            | 16.14             | 17.57             | 18.57             |
| Marine   | 49.10            | 39.71            | 44.95            | 38.45             | 42.09             | 43.19             |
| Motor  | 75.99            | 93.73            | 94.74            | 92.20             | 95.63             | 95.92             |
| Miscellaneous  | 76.17            | 70.68            | 66.88            | 67.89             | 51.57             | 71.64             |
| <b>Overall Retention</b>                             | <b>61.36</b>     | <b>66.08</b>     | <b>66.48</b>     | <b>63.88</b>      | <b>64.32</b>      | <b>72.33</b>      |

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## PERFORMANCE OF INSURANCE BROKERS

Forty five insurance brokers operated during the year. Eight companies were registered as insurance brokers and registration of 43 insurance brokers were renewed. Registration of 4 insurance brokers were suspended during the year.

Insurance brokers continued to concentrate in general insurance business as in the previous years and their contribution of Rs.4,117 million (2003:Rs.3,573 million) to the total gross written premium of Rs.17,037 (2003:Rs.13,354 million) accounted for 24.16% (2003:26.40%). With the gross written premium of Rs.88 million (2003:Rs.50 million), insurance brokers' contribution in respect of long term insurance business was only 0.70% (2003:0.72%) to the total gross written premium of Rs.12,518 million (2003:10,613 million). Eleven insurance brokers with a premium income of Rs.3,339 million accounted for 79% of the total gross written premium income of the insurance brokers.



# OPERATIONAL DIVISIONS







## CORPORATE AFFAIRS DIVISION

### WHAT WE DO

- ★ Inquire into and resolve complaints of policyholders and agents
- ★ Examine Annual Reports and Quarterly Financial Statements
- ★ Ensure compliance with good Corporate Governance Principles
- ★ Coordinate the work of Consultants

### WHAT WE DID

#### Handling of complaints

During the year under review the Division received 70 complaints. The following schedule depicts the details:

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| TYPE OF INSURANCE                          | TOTAL NO. OF COMPLAINTS RECEIVED | PENDING AS AT 31/12/04 |
|--|----------------------------------|------------------------|
| 1. Fire Insurance                          | 5                                |                        |
| 2. Motor Insurance                         | 22                               | 2                      |
| 3. Marine                                  | 3                                | -                      |
| 4. Miscellaneous                           | 7                                | -                      |
| 5. Life Insurance                          | 25                               | 3                      |
| 6. Agents/non-receipt of Agency Commission | 3                                | 1                      |
| 7. Other                                   | 2                                |                        |
| 8. Burglary                                | 3                                |                        |
| <b>TOTAL</b>                               | <b>70</b>                        | <b>6</b>               |

## **New procedure to handle complaints**

During the latter part of the year under review, the Insurance Association of Sri Lanka decided to launch an Ombudsman Scheme and to appoint Dr Wickrema Weerasooria as the Ombudsman to receive, inquire into, mediate, conciliate and settle complaints by any insurance policyholder against any insurer.

Although all disputes will be heard by the Ombudsman, it was agreed initially that any decision upto Rs.500,000 (Five Hundred Thousand) would be binding upon the insurance companies.

The scheme will come into operation in January 2005.

## **REGISTRATION OF INSURANCE BROKERS/INSURERS**

Registration was granted to 5 new insurance broking companies and one new insurance company was registered during the year under review.

## **DIRECTIVES / CIRCULARS**

During the year under review the IBSL issued one directive and four circulars in order to better regulate the industry. These addressed the following areas:

### **DIRECTIVE**

\* Requirement for a certificate signed by the Chief Executive Officer of the Company confirming that all current advertisements were in conformity with the Regulation of the Insurance Industry Act No. 43 of 2000.

### **CIRCULARS**

\* Requirement for registered Insurance brokers to submit the Quarterly Returns within 30 days of the end of each quarter;

\* All registered insurance brokers to ensure that its Principal Officer is employed on a permanent basis;

\* All registered insurance brokers required not to have an excess or deductible in an amount exceeding 2.5% of the minimum limit of indemnity in the Professional Indemnity Policies that they submit along with the renewal applications.

## INVESTIGATIONS DIVISION

### WHAT WE DO

- ★ Deal with complaints regarding suspected irregular activities in the Insurance Industry;
- ★ Conduct investigations into alleged violations of laws and regulations governing the Insurance Industry.

### WHAT WE DID

In the event the complaints and referrals received by the IBSL relate to any suspected fraudulent activity or violation of the provisions of the RII Act which appear to require enforcement action or the imposition of sanctions, such matter is referred to the Division in order to carry out detailed investigations. The Division conducted investigations into two complaints, out of which one was an investigation in relation to the alleged mis-appropriation of premia by an Insurance Agent, whilst the other complaint was an appeal made to the Board by a parent of a deceased life policy holder regarding the non-payment of the death benefits due under the life policy of her son.

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Since legal action filed against the Insurance Agent by the Department of Police in respect of misappropriation of funds was pending in court the matter was referred to the Hon. Attorney General in order to obtain a formal advice on the issue whether any action could be contemplated by the IBSL against the Agent whilst a criminal action was pending in court. As recommended by the Members of the Board the other complaint was also referred to the Attorney General's Department for formal advice.

## LEGAL & ENFORCEMENT DIVISION

### WHAT WE DO

- ★ Draft amendments to the Regulation of Insurance Industry Act and subordinate legislation made thereunder;
- ★ Provide advisory services to the Board on legal matters and complaints made by policyholders and aggrieved persons;
- ★ Formulate draft Rules and Regulations required to be made in terms of the Regulation of Insurance Industry Act.
- ★ Liaise with the Attorney General's Department, Legal Draftsman's Department and Exchange Control Department of the Central Bank on relevant matters.

### WHAT WE DID

During the period under review the Legal and Enforcement Division, amongst other things, carried out the following tasks:

#### Legislative Measures



#### ● AMENDMENTS TO THE REGULATION OF INSURANCE INDUSTRY ACT NO.43/2000

The amendments to the Regulation of Insurance Industry Act were drafted. These were forwarded to the Ministry of Finance for approval.

Some of the main amendments suggested to the Act relate to the following:

- \* Provision of comprehensive criteria for the registration and renewal of registration of persons as loss adjusters;
- \* Provision enabling corporate bodies to also be appointed as insurance agents; and
- \* Provision enabling registration to be granted to insurance brokers for a period of three years, as opposed to the annual renewal presently carried out.

● **RULES AND REGULATIONS TO BE MADE IN TERMS OF THE REGULATION OF INSURANCE INDUSTRY ACT NO.43/2000**

The Rules and Regulations to be made in terms of the RII Act were drafted and submitted to the Legal Draftsman's Department for approval prior to publication in the Government gazette.

Amendments suggested by way of Regulations relate to the following:

- \* Minimum issued and paid-up share capital for insurers, the annual fee payable to the Board by an insurer and provisions pertaining to obtaining the Board's permission to keep any asset of an insurer outside Sri Lanka.
- \* Amendments suggested by way of Rules set out specifications to be complied with in respect of the following:  
Preparation of accounts of insurers, actuarial report and certification, director's certification, quarterly returns and valuation of assets and liabilities of insurers when winding up.

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**NEW SOLVENCY MARGIN RULES (GENERAL)**

The new Solvency Margin Rules for 2004 pertaining to General Insurance which were made under Section 105 read with Section 26 of the RII Act No.43/2000 were finalized. These Rules were gazetted and are currently in force. They deal with the minimum solvency margin required to be maintained by insurers carrying on general insurance business, and the basis for the quantification thereof.

**AMENDMENTS TO INSURANCE AGENTS QUALIFICATION RULES**

The amendments to the Insurance Agents Qualification Rules of 2004 which were made under Section 105 read with Section 78 of the RII Act No.43/2000 were gazetted and are currently in force. The minimum educational requirement for insurance agents which was *inter alia*, the General Certificate of Education (Ordinary Level) in at least six subjects with at least a credit pass in Mathematics or Arithmetic was amended with the substitution of an "ordi-

nary pass" in lieu of a credit pass for Mathematics or Arithmetic.

### **Regulatory/Advisory Measures**

★

- During the period under review the Legal & Enforcement Division focused specifically on enforcing compliance with requirements under the Regulation of Insurance Industry Act No.43/2000.
- In the context of non-compliance with the minimum Net Capital requirement, the Division recommended that an insurance broking company be prohibited from carrying on any insurance broking business.
- In another instance, an insurance broker was advised that the company could not continue to engage in insurance broking business without complying with the mandatory requirement of the appointment of a Principal Officer.

## **SUPERVISION DIVISION**

### **WHAT WE DO**

Monitor the financial and operational performance of all Insurance Companies and Insurance Broking Companies;

Ensure that Insurance Companies and Insurance Broking Companies maintain financial stability;

Ensure that Insurance Companies and Insurance Broking Companies employ competent staff to conduct business;

Conduct on-site routine inspections of Insurance Companies and Insurance Broking Companies and examine their books and records;

Conduct off-site inspections of Insurance Companies and Insurance Broking Companies based on the Quarterly Returns, Annual Returns and Audited Accounts;

Ensure that Insurance Companies and Insurance Broking Companies duly comply with the relevant laws and regulations;

Ensure that there is fairness and a level playing field in the Insurance market.

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### **WHAT WE DID**

#### **Returns and Accounts**

The Regulation of Insurance Industry Act requires all Insurance Companies to submit their Quarterly Returns within a month following the end of the quarter. The Audited Accounts, Annual Statutory Returns and Actuarial Report are required to be submitted to the Board within six months following the end of the financial year. Insurance Broking Companies are required to submit their Quarterly Returns within a month following the end of the quarter and the Audited Accounts within six months following the end of the financial year. The Division ensured that these Returns and Accounts were submitted to the Board within the stipulated period of time and where the Companies concerned exceeded the time frame a final date was given and all documents were subsequently received.

## Review of Quarterly Returns

The Supervision Division reviewed the Quarterly Returns submitted for the three quarters ended 30<sup>th</sup> September 2004 for Insurance Companies and Insurance Broking Companies. Returns from the Insurance Companies were found to be in order, whereas there were discrepancies observed in twenty returns from the Insurance Broking Companies. These included incomplete sections, prescribed format not followed, classification errors, discrepancies in the Insurance Broking Account, and premia outstanding without bank guarantees. The companies were informed of these weaknesses and the replies sent were considered to be satisfactory. In some instances, the Division requested the re-submission of the quarterly returns from the Insurance Broking Companies, which was done to the satisfaction of the Board. The Sri Lanka Insurance Brokers Association (SLIBA) was also informed of the necessity to improve the standard of the Returns which are submitted to the Board.

The Supervision Division reviewed the Quarterly Returns to ensure that Insurance Companies adhere to the requirements of maintaining 20% of the Technical Reserves of General Insurance Business and 30% of the Long Term Insurance Fund of the Long Term Insurance Business in Government Securities as required under the Act. It was observed that a few companies had not complied with the requirements. The Division informed these companies to take corrective action, and this was done to the satisfaction of the Division.



## **Review of Annual Statutory Returns, Audited Accounts and Actuarial Report**

### **Insurance Companies**

The Division reviewed and compared the Audited Accounts, Annual Statutory Returns and Actuarial Reports of twelve Insurance Companies for the year ended 31<sup>st</sup> December 2003 with the assistance of a Consultant Actuary from India. The Solvency Margins of the Insurance Companies were also verified as at 31<sup>st</sup> December 2003. It was noted that the Investment Limits and Solvency Margin requirements had been satisfied. Discrepancies were observed in the above documents which included the Forms as per the Statutory Returns being incomplete, figures in the Statutory Forms not corresponding with the Audited Accounts and Actuarial Report, Technical Reserves not maintained as per the requirements of the Act, Audit Qualifications etc. The companies concerned were requested to take corrective action. The replies received from these companies were considered to be satisfactory.

### **Insurance Broking Licences**

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The Division reviewed the financial performance of Insurance Broking companies to renew their insurance broker licence based on their latest Audited Accounts and Quarterly Returns. The Division also reviewed the financial performance of five new Insurance brokers based on the projected financial statements of the companies concerned. The Division recommended the licensing of these existing and new brokers, subject to certain conditions being fulfilled by these companies based on the financial statements submitted.

The Division requested six Insurance Broking Companies to infuse the necessary funds in the form of Issued Share Capital due to the continued losses, which eroded the Net Capital position. The funds were to be infused immediately by the companies concerned. Two companies adhered to the request, which was confirmed by the Auditors and/or Company Secretaries and the licences were renewed for the ensuing period. The remaining companies failed to infuse the necessary funds as at 31<sup>st</sup> December 2004 and hence their licences were not renewed.

## **Inspection of Insurance Companies and Insurance Broking Companies**

### **Insurance Companies**

The Division carried out inspections of twelve Insurance Companies based on the Audit Programme developed internally. During the year under review, the operational aspects of the Insurance Companies were reviewed. Special emphasis was accorded to the long term and general files which covered policies in force, claims paid on matured policies or when a claim becomes due. Some weaknesses were noted and the relevant companies were informed so that the necessary corrective action could be taken. The weaknesses identified during the inspections of the companies were claim settlement processes, debtors not analyzed for more than one year, large balances of other debtors and creditors reflected in the Balance Sheet, Register of Agents not maintained as per the gazette notification, and inaccuracy of Gross Premium and Reinsurance details submitted in the Quarterly Returns. The Accounts were also reviewed and it was observed that there were substantial amounts due to Insurance Companies from Insurance Brokers and Agents. The Supervision Division also reviewed an age analysis of outstanding premium payments from Brokers and Agents due to Insurance Companies. The Insurance Companies and Insurance Brokers and Agents were requested to expedite the settlement of these premium collections.

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### **Insurance Broking Companies**

The Division visited five Insurance Broking Companies and carried out on-site inspections based on an internally developed Audit Programme, where emphasis was focussed on the claim settlement procedure adopted by the Companies to assess whether the policy and Claims Registers were in accordance with the requirements of the Act. Weaknesses were observed which included delays in processing claims, premium amounts not deposited with insurers within two weeks of receipt of such premium and premium amounts outstanding for more than two months without a bank guarantee being furnished to the insurer which was contrary to the provisions of the Insurance Act. It was also noted that the figures in the Quarterly Returns, submitted to the Board were not in accordance with entries in the books and records of those companies. The companies were requested to take corrective action.

The Division carried out a special on-site inspection of an Insurance Broker consequent to a complaint received by the Board on the non-remittance of insurance premium by the broker to the insurance company. The inspection was finalized and the licence of the Insurance Broker was suspended.

### **Development of Risk Assessment Summary**

The Division liaised with a consultant assigned to the Board for one year under a Technical Assistance programme of the International Monetary Fund (IMF) as an Insurance Supervisory Advisor in strengthening the off-site and on-site inspection of Insurance Companies. The focus of the consultant's short term Action Plan was on the off-site and on-site monitoring functions of Insurance Companies through the development of a Risk Assessment Summary (RAS).

### **Insurance Standard for Insurance Companies**

The Division liaised with the Institute of Chartered Accountants of Sri Lanka (ICASL) in developing an Insurance Standard for Insurance Companies. The draft format was submitted to the Division and to the Technical Committee of the Insurance Association by ICASL for comments. Further amendments were suggested and re-submitted to ICASL and the standard was finalized in March 2004. Initially, the companies will adopt the standard on a voluntary basis as an accounting practice commencing January 2005 and subsequently as an accounting standard from January 2007.

## **PUBLIC RELATIONS AND MARKET DEVELOPMENT DIVISION**

### **WHAT WE DO**

- ★ Conduct training programmes;
- ★ Handle publications;
- ★ Inquire into and resolve complaints.

### **WHAT WE DID**

#### **SEMINARS AND TRAINING PROGRAMMES**

- **Teacher Training on Insurance**

The Division in association with the National Institute of Education (NIE) organized two comprehensive training programmes in Sinhala and Tamil to educate regional master teachers and teachers on the subject of Capital Markets and current developments. A session on Insurance and Regulation of the Insurance Industry was included in those programmes to provide updated information on the industry.

- The Division also conducted two seminars on insurance and regulation of the Insurance Industry for the students and teachers of the Gurukula Maha Vidyalaya, Kelaniya.

## PUBLICATIONS

### Booklet on Insurance

- The official release of the publication on the “Insurance Industry” authored by Mr. Nimal Perera, President, Insurance Association of Sri Lanka, was held in February at the IBSL Secretariat. The Chairman, IBSL attended the ceremony as the chief guest. The Chief Executive Officers of insurance companies and representatives from media institutions attended the function.
- During the latter part of the year, the Division commenced translating the above publication into Tamil. The translation would be published in the first quarter of 2005. The publication, is based on the G C E Advanced Level curriculum, will be distributed to all university libraries and Tamil medium schools in the country.

## HANDLING OF COMPLAINTS

- The Division entertained complaints from the public regarding advertisements in the print and electronic media. Two complaints were received during the year under review and resolved.

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## OTHER MATTERS

- **Resident Visas for non-nationals working for Insurance Companies/Brokers**

Facilitated non-nationals working for insurance companies/brokers to obtain resident visas or acquire an extension for a specified period of time. During the year under review, the Division made arrangements to obtain resident visas for seven non-nationals engaged in different areas of work in the insurance industry.

- **Guidelines for the Approval of Residential Visas for Non-nationals working for Insurance Companies/Brokers registered by the Insurance Board of Sri Lanka**

A set of guidelines were prepared by the Division for Insurance Companies/Brokers when they apply for resident visas for non-nationals working for their companies.

## **FINANCE & ADMINISTRATION DIVISION**

### **WHAT WE DO**

- ★ Financial control and budgeting including preparation of monthly, quarterly and annual financial statements;
- ★ Manage the Policy Holders Protection Fund;
- ★ Human Resource Management;
- ★ Supervise general maintenance and upkeep of the Secretariat;
- ★ Procurement of supplies;
- ★ Submission of the Annual Report to Parliament.

### **WHAT WE DID**

#### **STAFFING**

Since February 2003 the post of Director General was vacant. The post was advertised in December 2004 but was not filled.

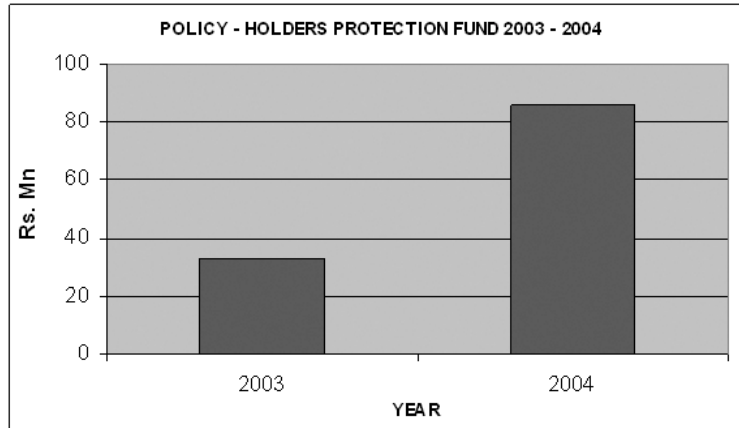
The staff of the Securities and Exchange Commission of Sri Lanka continued to discharge the mandate of the Board. Relevant training was provided and this included both foreign training as well as local training on insurance supervisory and regulatory aspects.

#### **FUNDING**

The operational expenses of the Board were mainly covered from the allocations made from the Consolidated Fund.

Section 103 of the Regulation of Insurance Industry Act states that "the Board shall establish a fund to be known as the 'Policy Holders Protection Fund' to which shall be credited money realized from the Cess levied and charged ———."

In terms of Gazette notification No 1244/5 dated 9<sup>th</sup> July 2002 a levy of Cess was introduced for Long Term Insurance business and General Insurance business at the rate of 0.2% and 0.4% respectively on net premium income that became effective from



9<sup>th</sup> January 2003. The Cess is received on a quarterly basis and falls due on or before a month from the end of the quarter. The collection of Cess credited to the "Policy Holders Protection Fund" amounted to Rs. 47 Million (for four quarters) as at the end of the year under

review in comparison to Rs. 33mn (for three quarters) as at 31<sup>st</sup> December 2003. The balance of the Fund as at 31<sup>st</sup> December 2004 amounted to Rs.86 Mn.





# FINANCIAL STATEMENTS





## BALANCE SHEET AS AT 31ST DECEMBER 2004

|   | Notes | 2004<br>Rs.       | 2003<br>Rs.       |
|---|-------|-------------------|-------------------|
| <b>Assets</b>   |       |                   |                   |
| <b>Current Assets</b>                                     |       |                   |                   |
| Inventories   | 2     | 76,849            | 72,933            |
| Receivables   |       | 26,486            | 27,467            |
| Withholding Tax Receivables                               |       | 644               | 644               |
| Advance & Prepayments                                     |       | -                 | 8,500             |
| Policy Holders Protection Fund Invested in Treasury bills | 11    | 86,560,645        | 32,904,791        |
| Cash & Cash Equivalents                                   | 3     | 90,701            | 85,146            |
| <b>Total Assets</b>                                       |       | <b>86,755,325</b> | <b>33,099,481</b> |
| <b>Net Assets &amp; Liabilities</b>                       |       |                   |                   |
| <b>Capital and Reserve</b>                                |       |                   |                   |
| Accumulated Fund  |       | (450,432)         | (233,737)         |
|   |       | <b>(450,432)</b>  | <b>(233,737)</b>  |
| Policy Holders Protection Fund                            | 11    | <b>86,560,645</b> | <b>32,904,791</b> |
| <b>Current Liabilities</b>                                |       |                   |                   |
| Receipt in Advance  |       | 53,342            | 61,365            |
| Accrued Expenses  | 4     | 588,780           | 336,785           |
| Amounts due to Related Parties                            | 5     | 2,990             | 20,906            |
| Withholding Tax Payable                                   |       | -                 | 9,371             |
|   |       | 645,112           | 428,427           |
| <b>Total Net Assets &amp; Liabilities</b>                 |       | <b>86,755,325</b> | <b>33,099,481</b> |

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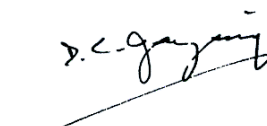
The Notes appearing on pages 55 to 63 form an integral part of the Financial Statements.

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

**FOR AND ON BEHALF OF THE INSURANCE BOARD OF SRI LANKA**



L S A Seresinhe  
OFFICER - IN - CHARGE



Dr. D C Jayasuriya  
CHAIRMAN

## INCOME & EXPENDITURE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2004

| INCOME  | Notes | 2004<br>Rs         | 2003<br>Rs         |
|---|-------|--------------------|--------------------|
| Government Grants                             | 6     | 7,743,000          | 8,274,000          |
| Transfer from Policy Holders Protection Fund  | 11    | -                  | 568,607            |
| Registration Fees                             |       | 665,334            | 298,454            |
| Licence Fees                                  |       | -                  | 14,000             |
| Sundry Income                                 |       | 250                | 7,613              |
| Interest on Call & Repo                       |       | 890                | 6,006              |
|   |       | <b>8,409,474</b>   | <b>9,168,680</b>   |
| Less:   |       |                    |                    |
| <b>EXPENDITURE</b>                            |       |                    |                    |
| Staff Costs                                   | 7     | (3,503,002)        | (4,235,325)        |
| Professional Charges                          | 8     | (3,139,335)        | (2,782,840)        |
| Administration & Establishment Expenses       | 9     | (1,955,051)        | (1,112,974)        |
| Finance & Others                              | 10    | (28,781)           | (76,163)           |
| <b>Total Expenditure</b>                      |       | <b>(8,626,169)</b> | <b>(8,207,302)</b> |
| <b>Net Surplus/ (Deficit) before Taxation</b> |       | <b>(216,695)</b>   | <b>961,378</b>     |
| Taxation                                      | 12    | -                  | -                  |
| <b>Net Surplus/ (Deficit) for the period</b>  |       | <b>(216,695)</b>   | <b>961,378</b>     |

The Notes appearing on pages 55 to 63 form an integral part of the Financial Statements.

**STATEMENT OF CHANGES IN NET  
ASSETS FOR THE YEAR ENDED 31ST  
DECEMBER 2004**

|  | <b>Notes</b> | <b>2004<br/>Rs.</b> | <b>2003<br/>Rs.</b> |
|--|--------------|---------------------|---------------------|
| <b>Accumulated Fund</b>                |              |                     |                     |
| Balance at the beginning of the period |              | (233,737)           | (1,195,115)         |
| Net Surplus/(Deficit) for the period   |              | (216,695)           | 961,378             |
| Balance at the end of the period       |              | <b>(450,432)</b>    | <b>(233,737)</b>    |

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2004

|  | NOTE | 2004<br>Rs         | 2003<br>Rs      |
|--|------|--------------------|-----------------|
| <b>Cash flow from operating activities</b>           |      |                    |                 |
| Net surplus /(Deficit) for the period                |      | (216,695)          | 961,378         |
| Adjustment for Interest Expenses                     |      | -                  | 29,765          |
| Increase/(Decrease) of provision for Gratuity        |      | -                  | (20,000)        |
| Net surplus before Working Capital changes           |      | <u>(216,695)</u>   | <u>971,143</u>  |
| Change of Working Capital                            |      |                    |                 |
| (Increase)/Decrease in Inventories                   |      | (3,916)            | 11,779          |
| (Increase)/Decrease of Receivables                   |      | 981                | 34,133          |
| (Increase)/Decrease of Advance & Prepayments         |      | 8,500              | (8,500)         |
| Increase/(Decrease) of Receipt in Advance            |      | (8,023)            | 1,165           |
| Increase/(Decrease) of Creditors & Accruals          |      | 242,624            | (123,151)       |
|  |      | <u>240,166</u>     | <u>(84,574)</u> |
| Cash Flow from Operating Activities                  |      | <b>23,471</b>      | <b>886,569</b>  |
| Interest paid  |      | -                  | (29,765)        |
| Net Cash Flow from Operating Activities              |      | <b>23,471</b>      | <b>856,804</b>  |
| <b>Cash Flow from Financing Activities</b>           |      |                    |                 |
| Short Term Loans obtained from Related Parties       |      | <b>2,206,132</b>   | 4,948,665       |
| Repayments of Short Term Loans to Related Parties    |      | <b>(2,188,216)</b> | (4,125,423)     |
| Net Cash Flows from Financing Activities             |      | <b>17,916</b>      | 823,242         |
| Net Increase/(Decrease) in Cash and Cash Equivalents |      | <b>5,555</b>       | <b>33,562</b>   |
| Cash and Cash Equivalents at beginning of period     | 3    | 85,146             | 51,584          |
| Cash and Cash Equivalents at end of period           | 3    | <b>90,701</b>      | <b>85,146</b>   |

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The Notes appearing on pages 55 to 63 form an integral part of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Significant Accounting Policies

#### General Accounting Policies

##### 1.1 Basis of Preparation

The Financial Statements of the Board are prepared under the historical cost convention in conformity with generally accepted Accounting Principles and Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL). No adjustments have been made for inflationary factors affecting the Financial Statements.

##### 1.2 Conversion of Foreign Currencies

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time of the transaction.

#### Assets & Bases of Valuation

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##### 1.3 Inventories

Inventories are valued at lower of cost and net realizable value. The costs of inventories are arrived at by using the first-in first-out (FIFO) basis.

##### 1.4 Receivables

Receivables are stated at estimated realizable value.

##### 1.5 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash at banks only.

##### 1.6 Property, Plant & Equipment

The IBSL utilizes the fixed assets of the Securities & Exchange Commission of Sri Lanka free of charge.

## NOTES TO THE FINANCIAL STATEMENTS

### Liabilities & Provisions

#### 1.7 Retirement Benefits

##### 1.7.1 Defined Benefit Plans

No provision is made in these accounts for retiring gratuities payable under the Payment of Gratuity Act No.12 of 1983 since there were no permanent staff attached to the Board during the year under review.

##### 1.7.2 Defined Contribution Plans

All permanent employees including the staff serving a period of internship are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions are covered. However there were no permanent staff attached to the Board during the year under review.

#### 1.8 Events Occurring after the Balance Sheet date

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

#### 1.9 Accounts Payable

Liabilities for accounts payable are carried at the amount of cash and cash equivalents expected to be paid.

### Income & Expenditure

#### 1.10 Revenue Recognition

Revenue principally is recognized on accrual basis in terms of Sri Lanka Accounting Standards 29.

#### 1.11 Government Grants

Grants received from the General Treasury of the Government of Sri Lanka are recognized as income.

#### 1.12 Expenditure Recognition

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



## NOTES TO THE FINANCIAL STATEMENTS

### 1.13 Borrowing Cost

Borrowing costs are recognized as an expense in the year in which it is incurred.

### Cash Flow Statement

### 1.14 Cash Flow Statement

The cash flow statement has been prepared using the indirect method.

|          |   |                       |                       |
|----------|---|-----------------------|-----------------------|
| <b>2</b> | <b>INVENTORIES</b>                            | <b>2004</b>           | <b>2003</b>           |
|          |   | Rs.                   | Rs.                   |
|          | Printing, Stationery & Computer Accessories   | 42,323                | 38,158                |
|          | Publications                                  | 34,526                | 34,775                |
|          |   | <u><b>76,849</b></u>  | <u><b>72,933</b></u>  |
| <b>3</b> | <b>CASH &amp; CASH EQUIVALENTS</b>            |                       |                       |
|          | <b>Cash at Banks</b>                          |                       |                       |
|          | People's Bank - Mudalige Mawatha              | 34,639                | 24,504                |
|          | Bank of Ceylon - Corporate Branch             | 50,111                | 36,081                |
|          | Hongkong & Shanghai Bank                      | 5,951                 | 24,561                |
|          |   | <u><b>90,701</b></u>  | <u><b>85,146</b></u>  |
| <b>4</b> | <b>ACCRUED EXPENSES</b>                       |                       |                       |
|          | Staff Training - Overseas                     | -                     | 3,035                 |
|          | Telephone Expenses                            | 6,075                 | 8,750                 |
|          | Courier Charges                               | 3,000                 | -                     |
|          | Meeting Expenses                              | 5,000                 | -                     |
|          | Audit Fees - External                         | 104,884               | 25,000                |
|          | Annual Report Printing 2003/2004              | 469,821               | 300,000               |
|          |   | <u><b>588,780</b></u> | <u><b>336,785</b></u> |
| <b>5</b> | <b>AMOUNTS DUE TO RELATED PARTIES</b>         |                       |                       |
|          | <b>Other Dues to Related Parties</b>          |                       |                       |
|          | Securities & Exchange Commission of Sri Lanka | 2,990                 | 20,906                |
|          |   | <u><b>2,990</b></u>   | <u><b>20,906</b></u>  |
| <b>6</b> | <b>GOVERNMENT GRANTS</b>                      |                       |                       |

The Grants received from the General Treasury of the Government of Sri Lanka was the main source of income.

## NOTES TO THE FINANCIAL STATEMENTS

|           |                                  |                         |                         |
|-----------|----------------------------------|-------------------------|-------------------------|
| <b>7</b>  | <b>STAFF COSTS</b>               | <b>2004</b>             | <b>2003</b>             |
|           |                                  | <b>Rs.</b>              | <b>Rs.</b>              |
|           | Staff Allowances                 | 3,353,935               | 3,405,629               |
|           | EPF 12%                          | 1,413                   | 5,273                   |
|           | ETF 3%                           | 353                     | 1,318                   |
|           | Staff Training - Overseas        | 135,926                 | 835,605                 |
|           | Staff Training - Local           | 11,000                  | 7,500                   |
|           | Staff Welfare                    | 375                     | -                       |
|           | Retirement Benefits- Gratuity    | -                       | (20,000)                |
|           |                                  | <u><b>3,503,002</b></u> | <u><b>4,235,325</b></u> |
| <b>8</b>  | <b>PROFESSIONAL CHARGES</b>      |                         |                         |
|           |                                  | <b>Rs.</b>              | <b>Rs.</b>              |
|           | Local Consultants                | 1,996,510               | 2,093,385               |
|           | Foreign Consultants              | 1,142,825               | 689,455                 |
|           |                                  | <u><b>3,139,335</b></u> | <u><b>2,782,840</b></u> |
| <b>9</b>  | <b>ADMINISTRATION COSTS</b>      |                         |                         |
|           |                                  | <b>Rs.</b>              | <b>Rs.</b>              |
|           | Advertising                      | 371,173                 | -                       |
|           | Telephone - General              | 50,851                  | 94,197                  |
|           | Internet Charges                 | 15,688                  | 25,655                  |
|           | Telephone - Directors Residence  | 10,895                  | 55,409                  |
|           | Printing & Stationary            | 300,476                 | 209,503                 |
|           | Seminar Charges                  | -                       | 18,649                  |
|           | Entertainment                    | 29,315                  | 641                     |
|           | Travelling - Local               | 5,755                   | 1,444                   |
|           | International Membership of IAIS | 590,100                 | 488,472                 |
|           | Board Members' Meeting Fees      | 45,432                  | 47,000                  |
|           | Meeting Expenses                 | 23,435                  | 53,853                  |
|           | Library Books                    | -                       | 14,455                  |
|           | Postage and Stamps               | 19,535                  | 10,717                  |
|           | Courier Charges                  | 23,127                  | 39,090                  |
|           | Audit Fees - External            | 79,884                  | 53,113                  |
|           | Cost of Publications             | 229,451                 | 776                     |
|           | Legal Expenses                   | 154,800                 | -                       |
|           | General Expenses                 | 1,000                   | -                       |
|           | Investigation Expenses           | 4,134                   | -                       |
|           |                                  | <u><b>1,955,051</b></u> | <u><b>1,112,974</b></u> |
| <b>10</b> | <b>FINANCE &amp; OTHERS</b>      |                         |                         |
|           |                                  | <b>Rs.</b>              | <b>Rs.</b>              |
|           | Interest on Loans                | -                       | 29,765                  |
|           | Bank Charges                     | 17,525                  | 8,141                   |
|           | Debit Tax                        | 11,256                  | 38,257                  |
|           |                                  | <u><b>28,781</b></u>    | <u><b>76,163</b></u>    |

## NOTES TO THE FINANCIAL STATEMENTS

### 11 POLICY HOLDERS PROTECTION FUND

|   | 2004<br>Rs.       | 2003<br>Rs.       |
|---|-------------------|-------------------|
| Balance as at 01/01/2004                | 32,904,791        | -                 |
| Cess Received during the year           | 49,607,693        | 32,753,706        |
| Interest on Treasury Bill Investment    | 4,105,109         | 732,692           |
| Interest on Repo & Call Account         | 61,700            | 80,388            |
|   | <u>86,679,293</u> | <u>33,566,786</u> |
| Less: Transfers to Operational Expenses | -                 | 568,607           |
| Debit Tax                               | 118,648           | 93,388            |
|   | <u>118,648</u>    | <u>661,995</u>    |
| Balance as at 31/12/2004                | <u>86,560,645</u> | <u>32,904,791</u> |

Policy Holders Protection Fund commenced in the year 2003.

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### POLICY HOLDERS PROTECTION FUND INVESTMENTS AND OTHERS

#### ASSETS

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Investment in Treasury Bills          | 85,172,916        | 31,312,988        |
| Investment in Call                    | -                 | 820,000           |
| Interest Receivable on Treasury Bills | 1,159,322         | 732,692           |
| Balance at Bank                       | 228,407           | 39,111            |
|                                       | <u>86,560,645</u> | <u>32,904,791</u> |

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Taxation

The Board has requested the Ministry of Finance to consider exemption of its profits and income from Income Tax under Section 8 of the Inland Revenue Act No. 38 of 2000, and expects that the request will be considered favorably. Accordingly, no tax on income has been provided in these Financial Statements.

### 13. Capital Commitments

There were no capital commitments as at 31<sup>st</sup> December 2004

### 14. Contingent Liabilities

There were no contingent liabilities as at 31<sup>st</sup> December 2004

### 15. Events occurred after the Balance Sheet date

No material events have occurred after the Balance Sheet date necessitating any adjustments or disclosures in the Financial Statements.

### 16. Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in the current financial year where necessary.

### 17. Related Party Disclosures

Dr. Dayanath C Jayasuriya was appointed to the post of Chairman of the Board on 17<sup>th</sup> September 2004 whilst Lt. Gen. J E D Perera resigned from the said post with effect from 10<sup>th</sup> May 2004.

The Members of the Board assumed office as follows:

|                            |        |                                 |
|----------------------------|--------|---------------------------------|
| Dr. (Mrs.) Raneey Jayamaha | w.e.f. | 4 <sup>th</sup> August 2004     |
| Mr Sumith Abeysinghe       | w.e.f. | 9 <sup>th</sup> August 2004     |
| Mrs. Dayani De Silva       | w.e.f. | 17 <sup>th</sup> September 2004 |
| Mr. Udayasri Kariyawasam   | w.e.f. | 17 <sup>th</sup> September 2004 |
| Mr. O M Weerasooriya       | w.e.f. | 19 <sup>th</sup> November 2004  |

The following Members of the Board Dr. Nihal Jinasena, Mr. P M Nagahawatte, Mr. Faiz Mohideen and Mr. W. Unamboowe resigned with effect from 6.05.2004, 17.04.2004, 13.05.2004 and 30.04.2004 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

The following members of the IBSL were also members of the Securities and Exchange Commission of Sri Lanka (SEC) except Mr. Palitha Silva Gunawardene who was the Director General of the SEC. Their dates of appointments and resignations to/from the SEC are given below.

|                               |   |        |            |
|-------------------------------|---|--------|------------|
| Dr. Dayanath C. Jayasuriya    | Member/Chairman appointed                   | w.e.f. | 30.08.2004 |
| Mrs. Dayani De Silva          | Member appointed                            | w.e.f. | 16.06.2004 |
| Dr. (Mrs) Raneer Jayamaha     | Member appointed                            | w.e.f. | 08.07.2004 |
| Mr. Udayasri Kariyawasam      | Member appointed                            | w.e.f. | 26.07.2004 |
| Mr. Sumith Abeysinghe         | Member appointed                            | w.e.f. | 09.08.2004 |
| Mr. O. M. Weerasooriya        | Member appointed                            | w.e.f. | 19.11.2004 |
| Lt. Gen. J E D Perera         | Member/Chairman resigned                    | w.e.f. | 10.05.2004 |
| Dr. Nihal Jinasena            | Member resigned                             | w.e.f. | 06.05.2004 |
| Mr. P M Nagahawatte           | Member resigned                             | w.e.f. | 17.04.2004 |
| Mr. F Mohideen                | Member resigned                             | w.e.f. | 13.05.2004 |
| Mr. W Unamboowe               | Member resigned                             | w.e.f. | 30.04.2004 |
| Mr. Palitha Silva Gunawardene | Director General<br>(Ceased to be a member) | w.e.f. | 26.12.2004 |

An honorarium was paid to the staff of the SEC for discharging the mandate of the IBSL amounting to Rs. 3,353,935/- during the period 01/01/04 to 31/12/04. Short term loans amounting to Rs.2,206,132/- were transferred during the year under review due to delay in receiving funds from the Treasury free of charge.

Rent and other related expenses were not levied to the IBSL office, which is housed in the SEC premises.

## NOTES TO THE FINANCIAL STATEMENTS

The following table depicts the Directorships held by the Members of the Board presently holding office.

Other than the two current accounts, Repo and call deposit investments at Bank of Ceylon and the transactions mentioned above, there were no transactions recorded with the following institutions during the year.

| Name                     | Name of Institution  | Position   |
|--------------------------|--|--|
| Dr. Dayanath Jayasuriya  | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> <li>● Settlement Guarantee Fund</li> <li>● National Procurement Agency</li> <li>● Public Utilities Commission</li> </ul> | Chairman<br>Trustee<br>Member of<br>the Board of<br>Management |
| Mr. Sumith Abeysinghe    | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> <li>● Bank of Ceylon</li> <li>● University Grants Commission</li> <li>● Settlement &amp; Guarantee Fund</li> </ul>       | Member<br>Director<br>Director<br>Trustee                      |
| Mrs. Dayani De Silva     | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> <li>● National Procurement Agency</li> </ul>   | Member<br>Member of<br>the Board of<br>Management              |
| Dr. (Mrs) Ranee Jayamaha | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> <li>● Credit Information Bureau</li> </ul>   | Member<br>Chairman   |
| Mr. Udayasri Kariyawasam | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> </ul>  | Member   |
| Mr O. M. Weerasooriya    | <ul style="list-style-type: none"> <li>● Securities and Exchange Commission of Sri Lanka</li> </ul>  | Member   |

The following table depicts the Directorships held by the Members of the Board during the period in which they held office in the year under review.

| Name  | Name of Institution  | Position          |
|---|--|-------------------|
| Lt.Gen Denis Perera                               | * Securities and Exchange Commission of Sri Lanka            | Chairman          |
|   | * Directories Lanka (Pvt) Ltd.                               | Chairman/Director |
|   | * 'E' Point  | - Do -            |
|   | * Conserve (Pvt) Ltd.  | - Do -            |
| Dr. Nihal Jinasena                                | * Jinasena Engineering Holdings (Pvt) Ltd.                   | Chairman          |
|   | * Jinasena New Technology Holdings (Pvt) Ltd.                | - Do -            |
|   | * Jinasena Industrial Appliances (Pvt) Ltd.                  | - Do -            |
|   | * Jinasena Management Services (Pvt) Ltd                     | - Do -            |
|   | * Jinasena Exports (Pvt) Ltd.                                | - Do -            |
|   | * Almeco (Pvt) Ltd.  | Chairman          |
|   | * Trakstar (Pvt) Ltd.  | - Do -            |
|   | * Loadstar (Pvt) Ltd.  | - Do -            |
|   | * Hessing Garments Ltd.                                      | - Do -            |
|   | * Sea & Land Foods (Pvt) Ltd.                                | - Do -            |
|   | * Royal Lotus Hotel (Pvt) Ltd.                               | Managing Director |
|   | * Jinasena Ltd.  | - Do -            |
|   | * Jinasena Castings Ltd.                                     | - Do -            |
|   | * Jinasena Electric Motors Ltd.                              | - Do -            |
|   | * Jiansena Pumps (Pvt) Ltd.                                  | - Do -            |
|   | * Jinasena Industrial Parks (Pvt) Ltd.                       | - Do -            |
|   | * Jinasena Engineering & Technology (Pvt) Ltd.               | - Do -            |
|   | * Deer Park Hotel (Pvt) Ltd.                                 | Director          |
|   | * Jinasena Seals Ltd.  | - Do -            |
|   | * Jinasena Agricultural Machinery (Pvt) Ltd.                 | - Do -            |
| * Jinasena Appliances (Pvt) Ltd.                  | - Do -   |                   |
| * Coral Sands Hotel Ltd.                          | - Do -   |                   |
| * Oceanic Travels Ltd.                            | - Do -   |                   |
| * Securities and Exchange Commission of Sri Lanka | Member   |                   |
| P M Nagahawatta                                   | * Credit information Bureau of Sri Lanka                     | Chairman          |
|   | * Securities and Exchange Commission of Sri Lanka            | Member            |
| Faiz Mohideen                                     | * Securities and Exchange Commission of Sri Lanka            | Member            |
|   | * Bank of Ceylon   | Director          |
| W Unamboowe                                       | * Securities and Exchange Commission of Sri Lanka            | Member            |
| Palitha Silva Gunawardene                         | * Public Enterprises Reform Commission                       | Member            |
|   | * Sri Lanka Accounting & Auditing Standards Monitoring Board | Member            |
|   | * Construction Guarantee Fund                                | Trustee           |
|   | * Settlement Guarantee Fund                                  | Trustee           |



# විගණකාධිපති දෙපාර්තමේන්තුව

கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம்

AUDITOR-GENERAL'S DEPARTMENT



මගේ අංකය }  
எனது இல. }  
My No. }

LP/F/IBSI/2005/01

ඔබේ අංකය }  
உமது இல }  
Your No }

දිනය }  
திகதி }  
Date }

21 March 2005

The Chairman,  
Insurance Board of Sri Lanka.

## Report of the Auditor General on the account of the Insurance Board of Sri Lanka for the year ended 31 December 2004 in Terms of Section 14(2)(c) of the Finance Act No. 38 of 1971.

The audit of accounts of the Insurance Board of Sri Lanka for the year ended 31 December 2004 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 Section 13(1) of the Finance Act No. 38 of 1971 and Section 8(3) of the Regulation of Insurance Industry Act No. 43 of 2000. My observations which I consider should be published with the annual report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

### 1.2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statement presented to audit and substantive test of sample of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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## **2:1 Audit Opinion**

I am of the opinion so far as appears from my examination and to the best of my information and according to the explanations give to me, the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes (Nos. 1.1 to 1.14) to the Financial statements and give a true and fair view of the financial position of the Board as at 31 December 2004, and the financial result and cash flow for the year then ended.

## **2:2 Financial Results**

According to the accounts presented, the operation of the Board for the year ended 31 December 2004 had resulted in a deficit of Rs. 216,695 as against the surplus of Rs. 961,378 for the preceding year.

## **2:3 Comments on Accounts**

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### **2:3:1 Non Compliance with Laws, Rules and Regulations**

A trainee officer has been recruited for the Insurance Board of Sri Lanka on temporary basis and paid the salary from the Fund provided by the Government without obtaining the approval of the Board of Directors or Ministry of Finance in terms of the Management Services Circular No. 14 of 3 January 2002.

## **3. Financial and Operating Review**

### **3:1 Uneconomic Transaction**

The second lowest tender of Rs. 287,876 had been accepted after rejecting the lowest tender of Rs. 224,978, when calling quotation for printing the annual reports for 2003 considering only the past experience of the selected company. The additional cost incurred by the Board due to this decision was Rs. 62,898.

### **3:2 Cost of Personnel**

The **temporary monthly allowance** approved in the year 2002 by the Ministry of Finance, had been paid to all employees of the Securities and Exchange Commission for the year 2004 too considering that they had covered up the duties of the IBSL. A sum of Rs. 3,353,935 had been incurred during the year under review without specific approval.

### **3:3 Activities of the Board**

Following observations are made.

- (a) Although the Board had a Corporate Plan covering the period from 2004 – 2006, the activity plan for the year 2004 contains the following weaknesses. Hence it had not been used as a proper guidance for the performance management of the Board.
- (i) Certain activities that had been included in the action plan were not within the purview of the Board.
  - (ii) The Board had not assigned the responsibilities to any individual for accomplishing the tasks or activities.
  - (iii) Physical targets had not been stipulated in the activity =plan.
- (b) There was a planned Programme of visits for the supervision of the books and records of insurers to ensure that the business transactions are properly carried out and that the reinsurance arrangement have been fully complied with. However only 6 insurances brokering companies have been visited out of 47 companies during the year under review.
- (c) Only one seminar had been held to increase the awareness of the public on insurance up to the end of third quarter of the year 2004 and it had been targeted only the groups such as school children, teachers and university students. No action had been taken to educate the policyholders, depositors and potential policyholders on the above Programme.
- (d) It had been planned to launch a Public Education Programme on insurance through a media campaign (Both print and electronic) with the support and involvement of the Industry Associations. However, it had not been implemented up to the end of the year.

- (e) One of the major project, planned to execute in 2004 was the relocation of an identified unit of the IBSL at least cost. However, activities coming under this project had not even been commenced during the year 2004.
- (f) Although the Policy Holders Protection Fund had been established under Section 103 of the Regulation of Insurance Industry Act No. 43 of 2000, a sum of Rs. 86,560,645 lying to the credit of that Fund at the end of the year under review had not been utilized for more than one



(S. C. MAYADUNNE)  
AUDITOR GENERAL

## AUDITORS REPORT

### RESPONSES OF THE BOARD TO THE MATTERS RAISED BY THE AUDITOR GENERAL IN HIS REPORT ISSUED IN TERMS OF SECTION 14(2) (c) OF THE FINANCE ACT NO 38 OF 1971 ON THE ACCOUNTS OF THE INSURANCE BOARD OF SRI LANKA FOR THE YEAR 2004

| AUDITORS COMMENTS  | IBSL RESPONSE   |
|--|---|
| <p><b>1. Uneconomic Transactions</b><br/>The second lowest tender of Rs 287,876/- had been accepted rejecting the lowest price of Rs 224,978/- when calling quotation for printing the annual reports for 2003 considering only the past experience of the selected company. The additional cost incurred by the Board due to this decision was Rs 62,898/-.</p> | <p>Your comment noted. The Tender Committee disregarded the price difference since the lowest quoted party wanted a 50% cash advance at the time of placing the order and moreover the Board had previous experience regarding the high quality of the work of the company that was awarded the contract.</p> |
| <p><b>2. Cost of Personnel</b><br/>The temporary monthly allowance approved in the year 2002 by the Ministry of Finance, had been paid to all employees of the SEC during the year 2004 too considering that they had covered up the duties of the IBSL. A sum of Rs 3,353,935/- had been incurred during the year under review without specific approval.</p>   | <p>The staff of the Securities and Exchange Commission of Sri Lanka is well trained in regulatory aspects and were appointed on a temporary basis from the inception of the Board to date to carry out the routine and regulatory functions of the Insurance Board of Sri Lanka with due approval.</p>        |
| <p><b>3.3 Activities of the Board</b><br/>3. Following observations are made.<br/>(a) Although the Board had a Corporate Plan covering the period from 2004 to 2006 the activity plan for the year 2004 contains the following weaknesses. Hence it had not been used as a proper guidance for the performance management of the Board.</p>                      | <p>We disagree with your observation. The Corporate Plan was certainly used as a proper guidance for performance management of the Board.</p>   |

| AUDITORS COMMENTS  | IBSL RESPONSE   |
|--|---|
| (i) Certain activities that had been included in the action plan were not within the purview of the Board.   | It is the obligation of the regulator to ensure that the policy-holder's interests are safeguarded. Hence it is necessary to review the quality of the existing products and the necessity for new products to cover various current and foreseeable risks, to meet with the public demand. In such a scenario benchmark service standards should also be considered. |
| (ii) The Board had not assigned the responsibilities to any individual for accomplishing the task or activities.   | All divisions are assigned specific targets and responsibility to collectively achieve the outputs. These are monitored. Board receives monthly divisional reports.   |
| (iii) Physical targets had not been stipulated in the activity plan.   | Where necessary physical targets have been formulated such as offsite and onsite supervision on insurance companies and insurance brokers. These are monitored. Board receives monthly divisional reports.  |
| (b) There was a planned programme of visits for the supervision of the books and records of insurers to ensure that the business transactions are properly carried out and that the reinsurance arrangements have been fully complied with. However, only 6 insurance broking companies have been visited out of 47 companies during the year under review.      | This task was fully completed during the 4 <sup>th</sup> quarter of the year 2004.  |
| (c) Only one seminar had been held to increase the awareness of the public on insurance up to the end of third quarter of the year 2004 and it had been targeted only to groups such as school children, teachers and university students. No action had been taken to educate the policyholders, depositors and potential policyholders on the above programme. | The long-term vision of the IBSL is to educate the public on insurance at grass root levels. Individual companies publish a number of articles & press releases on insurance for policy-holders & potential policy-holders. That is why the division has concentrated mainly on students and teachers.  |

| AUDITORS COMMENTS  | IBSL RESPONSE  |
|--|--|
| <p>(d) It had been planned to launch a Public Education Programme on insurance through a media campaign (Both print and electronic) with the support and involvement of the Insurance Industry Associations. However activities coming under this output had not been implemented up to the end of the year.</p> | <p>Plans to conduct the media campaign could not be carried out since funds requested for public awareness campaign was not approved by the Ministry of Finance.</p>   |
| <p>(e) One of the major output planned to execute in 2004 was the relocation of the identified unit of the IBSL within the minimum resources. However, activities coming under this output had not been touched during the year 2004.</p>  | <p>The Department of Public Enterprises by letter Ref PED/360/1 dated 19<sup>th</sup> February 2004 approved separate supervision unit for the Insurance Board of Sri Lanka. However necessary funds required to setup a separate unit was not approved by the Ministry of Finance.</p>  |
| <p>(f) Although the policy holders protection fund had been established as per section 103 of the Regulation of Insurance Industry Act No 43 of 2000, a sum of Rs 86,560,645/- lying to the credit of the fund at the end of the year under review has not been utilized for more than one and a half years.</p> | <p>Section 103 (2) of the Regulation of Insurance Industry Act No 43 of 2000 states that "the monies lying to the credit of the Fund shall be utilized for the general protection of policy-holders and for any other purpose as may be determined by the Board, by rules made in that behalf."</p> <p>However, there was no necessity to utilize the funds.</p> |



