



IBSL
INSURANCE
BOARD OF SRI LANKA



Insurance Board of Sri Lanka

IN THE RIGHT DIRECTION

Contents

Chairperson's Statement	4
Members of the Board	8
Senior Management Team	10
Staff	12
General Review	14
Statistical Review	18
Review of Operations	32
Financial Information	47
Balance Sheet	48
Income & Expenditure Statement	49
Statement of Changes in Reserves	50
Cash Flow Statement	51
Policyholders' Protection Fund	
Cash Flow Statement	52
Accounting Policies	53
Notes to the Financial Statements	55
Auditor General's Report	60
Responses of the Board to the	
Matters Raised by the Auditor General	63
Appendix I	65
Appendix II	66
Glossary	68

IN THE RIGHT DIRECTION

Our role as a governing body, in a time when the insurance industry is growing in leaps and bounds, has become more apparent and thereby more important. By advising, regulating, supervising and committing to the varied policies that make the insurance sector a safe and professional business, we are lighting the way and guiding both policy providers and users on the path to success. With strategy and prudent decisions leading the way, we at the Insurance Board of Sri Lanka are moving in the right direction.



Vision

“To strengthen the regulatory framework of the insurance industry, creating an environment that promotes public confidence and the development of the insurance industry thereby contributing towards sustainable economic growth”





Mission

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

Chairperson's Statement

“adoption of necessary strategies would bring to light the strengths and weaknesses, thus it is important for all stakeholders to work together within a participatory framework ”

Year 2010 has been a year of promise, with the country experiencing its first full year of peace in 30 years. Prudent leadership given by the President, His Excellency Mahinda Rajapakse paved the way for lasting peace and accelerated economic and social progress. Under the leadership of the President the Government not only embarked upon massive rehabilitation and resettlement schemes, but also initiated infrastructure facilities in every part of the country by entering upon large-scale development programmes, both at macro and micro levels. As a result country's GDP grew by 8% which is significantly higher than the growth rate of 3.5% achieved in the previous year. All the sectors in the country, agriculture, industry and service attributed to this significant achievement laying a firm foundation stone to sound economic growth.

Insurance industry has always provided a positive stimulus to the economic growth thus enhancing overall efficiency of the financial system by reducing transaction costs, creating liquidity, and facilitating economies of scale in investment. In the year under review as the country moved towards a growth momentum the Insurance Board of Sri Lanka focused on a firm and sound regulatory and supervisory system whilst allowing the industry to embrace the changing social, economic and technological developments.

One of the strategic goals of the Board has been to ensure that the insurance industry operates in a fair and efficient manner, retaining the confidence of all stakeholders whilst being competitive. In keeping with this, and in terms



of the statutory obligations, the Board took numerous initiatives in the year 2010.

We are pleased to announce that with effect from 1st January 2011, VAT on reinsurance claims and commissions was exempted. Having considered the submissions made by the Board, this exemption was included in the National Budget for 2010.

In 2009, the Board had taken a decision to transform the rules- based supervisory system to a Risk Sensitive Capital Model for insurance industry supervision, with the assistance of the First Initiative through the World Bank. This transformation was thought vital to accurately assess the varying risk profiles of different insurers and also to be

in line with the international best practices and emerging standards of the International Association of Insurance Supervisors (IAIS). This Risk Sensitive Capital Model was designed to be completed in 04 stages which also includes consultation of all stakeholders.

Although it was intended to complete this Model by end 2010, it took longer time than expected for the World Bank consultant to release the Report of the 2nd phase, the qualitative report which, among other things, outline the proposed solvency regime. We are in the process of completing this Model by the end of this year.

As a corollary of the risk-based supervisory model which will necessarily involve a more risk- sensitive capital

Chairperson's Statement

requirement, the Board took steps to increase the minimum capital requirement for new companies that seek registration as insurers, from Rs. 100 million to Rs. 500 million per class of insurance business. Action has already been taken to legalise this requirement.

During 2010, we recognized the need to strengthen the regulatory and supervisory powers of the Board with a view to protect the interest of policyholders and aligning our regulations with international standards. We believe that transparency in policy making endows a solid ground for financial stability and as such we provided the opportunity for meaningful stakeholder consultations in order to amend existing laws, create new laws, rules and regulations.

During 2010, drafting of the Bill to effect the amendments to the Act was completed and submitted to Parliament for approval. One of the significant provisions made in the Amendment Act enables the Board by framing necessary rules, to require insurance companies that have been already registered to increase their capital. The Principal Act enabled the Board to impose rules relating to the capital requirement at the time of registration. The new provisions require the insurance companies engaged in both long term and general insurance business to set up two separate entities in order to conduct each class of business. This is meant to facilitate protection of policyholders as it will enable the identification of assets and liabilities of one class of business and prevent a company engaged in both classes of business from setting off losses of one against the profits of the other. The Amendment Act also makes provision for corporate bodies to be registered as insurance agents of insurance companies and broking companies whereas the principal enactment permitted only individuals to be registered as insurance agents.

Among other changes brought out by the Amendment Act are the requirements to ensure formulation of fit and proper criteria for appointment and continuation of employment of directors, principal officers and specified officers of insurance companies and broking companies. Yet another is the enhancement of the regulatory scope of the Board by enabling registration of persons as loss adjusters.

During the year under consideration, the Board also issued a set of guidelines to auditors of insurance companies, advising them to state in their audit reports certain information in addition to the requirements in the Act, commencing from financial year ending 31st December 2010.

Since the number of complaints received by the Board was increasing, the Board had taken a decision to create a separate Investigation Division to examine amongst other things disputes over nonpayment of claims in order to ensure confidence of the policyholders, potential policy holders and the effectiveness of the regulatory system. During 2010, we established a fully fledged Investigation Division and also placed a procedure that enables us to maintain consistency in decision.

We also made special emphasis on the importance of public awareness, as we noted that the policyholders become increasingly less informative as the complexity of the products increase. Hence, a series of public awareness programmes through print media and various other means were launched in 2010.

The total premium income from long term and general insurance in 2010 has shown a significant growth of 19.63 % compared to negative growth of 1.57% in the previous year. This shows clear signal for a growth momentum in to the years ahead.

While the insurance industry can and should act as a fillip to growth as stated earlier, the industry too should rise up with new strategies and product innovations to reach out to the economic growth of the country. The Board believes that this could be facilitated if the insurance companies, brokers, agents and the Board work together within a participatory framework. Adoption of necessary strategies and setting up of appropriate mechanisms for exchange of ideas and consultation would bring to light the strengths and weaknesses of the existing systems and the procedures. The Board feels that this, together with the transformation of the supervisory system to a risk-based one, would enable the industry to provide the services which policyholders and the potential policy holders seek and expect, while protecting or guarding the insurance companies against the risks they face in their business activities.

Having taken over as the Chairperson of the Board in May 2010, I am pleased to state that the Board has significantly achieved most of its desired objectives in the year 2010, benefits of which would be accomplished in 2011.

On behalf of the Board, I wish to place my gratefulness to the President His Excellency Mahinda Rajapakse, who is also the Minister of Finance and Dr. P. B. Jayasundera, Secretary, Ministry of Finance and Planning and the

relevant officials of the Ministry for their continuous support towards the Board.

I wish to thank the members of the Board for their valuable contribution and support in all Board deliberations.

Further my sincere gratitude is placed to those in the insurance industry for the cooperation extended in the past year in carrying out our statutory duties.

The dedication shown by all ranks of the staff of the Insurance Board of Sri Lanka in performing their duties and functions is highly appreciated. It was their unstinted support that enabled the Board to achieve its objectives.



Indrani Sugathadasa
Chairperson

15th May 2011

Members of the Board

1. **Mrs. Indrani Sugathadasa - *Chairperson***
2. **Mr. P.D.J. Fernando**
3. **Mr. D. Widanagamachchi**
4. **Mr. Graetian Gunawardhana**
5. **Mr. Gamini Kohona**
6. **Mr. Nawaz Rajabdeen**

Mrs. Indrani Sugathadasa assumed duties as the Chairperson in May 2010. Mrs. Sugathadasa is a holder of Bachelor of Arts degree in Social Sciences, from the University of Colombo. She holds her MBA from the Monash University, Melbourne, Australia, and is also a recipient of the Hubert H. Humphrey fellowship (Fulbright), from the Government of United States, and was attached to the Hunter College, City University of New York .

Mrs. Sugathadasa commenced her eminent career in the public sector after having joined the Administrative Service of Sri Lanka (SLAS) in 1977 as an Assistant Secretary to the Ministry of Plan Implementation. She retired as Secretary, Ministry of Plantation Industries in 2010 after having served the public sector for over three decades.

During her tenure in the public sector, Mrs. Sugathadasa has held various positions such as, Director National Youth Service Council, Director Women's Bureau of Sri Lanka, Secretary, Ministry of Child Development and Women's Empowerment and Chairperson of National Institute of Plantation Management.

In addition to various training programmes and conferences she has attended locally as well as internationally, Mrs. Sugathadasa, has represented Sri Lankan Government in many foreign deliberations during her career in the public service.

Currently she is also the Chairperson of the Securities and Exchange Commission of Sri Lanka.

Mr. P.D.J. Fernando was appointed to the Board in June 2010. He holds a B.Sc (Hons) degree from the University of Peradeniya and M.Sc in Statistics from the University of Birmingham, UK. Mr. Fernando currently holds the Post of Deputy Governor of the Central Bank of Sri Lanka (CBSL). He has previously held key positions at the CBSL, such as Additional Director of Statistics,

Director of Information Technology, where he was involved in transforming the CBSL's operational setting into a predominantly computerized and automated environment and also Assistant Governor in charge of the Department of Information Technology, Payment and Settlements, EPF, Finance, Premises and Security. Further, he has also served as the Secretary to the Monetary Board of the CBSL, Director of Lanka Financial Services Bureau, Director of LankaClear (Pvt) Ltd., Member of the Standing Committee of the Cabinet Appointed Procurement Committee of Procuring Petroleum Products for Ceylon Petroleum Corporation (CPC) and Member of the Cabinet Appointed Negotiating Committee in Procurement of Petroleum Products for CPC.

Mr. Fernando is currently the Chairman of the Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka, National Payments Council and Steering Committee for establishing the common payment switch for Sri Lanka to facilitate inter-bank payments for retail transactions, Member of the Securities and Exchange Commission of Sri Lanka and Member of the Board of Management of Api Wenuwan Api Fund.

Mr. Dayananda Widanagamachchi joined the Board in December 2010. He holds a Bsc (Business Administration) degree from the University of Sri Jayewardenepura and a Postgraduate Diploma in Public Administration from the Postgraduate Institute of Management, Colombo, as well as a Diploma in Financial Management from Sri Lanka Institute of Development Administration (SLIDA)

Mr. Widanagamachchi, is a Deputy Secretary to the Treasury with over thirty years of experience in public service in several capacities. He has previously held senior positions in the Ministry of Finance and Planning some of it being, Director General, Department of Treasury Operations, Director General,



Department of State Accounts, Director, Department of State Accounts and Director, Department of Public Finance.

He has served on the Boards of many public entities such as Airport & Aviation Services, Sri Lanka Central Transport Board, National Water Supply & Drainage Board, CWE and Lak Sathosa Ltd. He is currently on the Boards of Sri Lanka Telecom, Development Lotteries Board, Industrial Development Board, Securities & Exchange Commission of Sri Lanka and Regional Development Bank

Mr. Gunawardhana was appointed to the Board in May 2010. He was the former Chairman of the Exporters Association, Sri Lanka Taiwan Friendship Association, and former Director of the American Chamber of Commerce. He was also a Board Member of the Securities & Exchange Commission of Sri Lanka.

Currently he serves as the Chairman of several organizations and private companies. He was adjudged the "Entrepreneur of the Year" in 1999/2000 and was the recipient of the Gold Award for Exports for the Extra Large Category for many years.

He was also adjudged the "Best Governor in the World" at the Boston Academy Awards function in 2006.

Mr. Gunawardhana was educated at Thurstan College and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician thereafter. He subsequently served in the Police Department for 12 years. He was the founder Chairman of Hands Internation (Pvt)

Ltd. a leading manufacturer and exporter of industrial gloves to the world.

Mr. Gamini Kohona was appointed to the Board in July 2010. Mr Kohona who was educated at St. Thomas' College, Mt. Lavinia, has had an illustrious carrier in plantation sector with over 30 years experience in plantation management in Tea, Rubber, Coconut and Oil Palm. He was the former Chief Executive Officer of Central Hills Plantations and currently serves as the Managing Director of Pulatisi Exports (Pvt) Ltd.

Mr. Mohamed Nawaz Rajabdeen was appointed to the Board in July 2010. Mr Rajabdeen's expertise has been in the areas of Marketing and Customer Relations.

He has formerly held several distinguished positions such as the Chairman of Hotel Developers (Pvt) Ltd, Director of Export Development Board, President of Federation of Chambers of Commerce and Industry of Sri Lanka, Vice President of SAARC Chamber of Commerce, President of Chamber of Construction Industry in Sri Lanka, National Director of United Nations Industrial Development Organisation and the Vice President of World Assembly of Small and Medium Enterprise.

Mr. Rajabdeen is currently the Vice President of the Confederation of SAARC Apex Body in Sri Lanka and the Chairman and Managing Director of Rajabdeen Group of Companies since 1984.

Senior Management Team

1. Damitha Narangoda - *Director Supervision*
2. Damayanthi Fernando - *Director Legal*
3. Thamari Senanayake - *Director Investigations*
4. Chamarie Ekanayake - *Assistant Director Supervision*

Senior Management Team



Staff



1 Chathuri Bandara

2 Kapila Thilakarathne

3 Decika Rathnayake

4 Merina Dias

5 S.A. Veena Dineka

6 H.P. Asanka

7 S.S.Supulee

8 Hiranya Perera

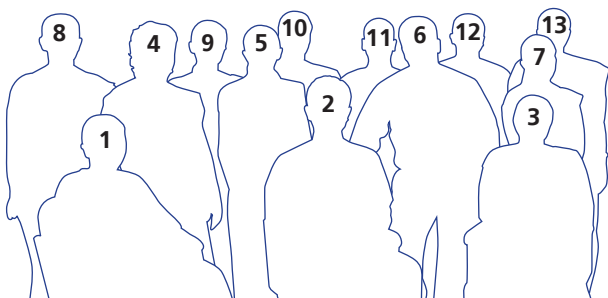
9 Thanuja Antoney

10 Lasanthi Thothahewa

11 Chaminda Lal Kumara

12 Saman Senadeera

13 Sujeewa Ranasinghe





14 Luxman Wijesinghe

15 Harshana Wanniarachchi

16 Shyamalie Attanayake

17 Sarika Wattuhewa

18 Upendra Senevirathna

19 Chamelika Peter

20 Priyangi De Silva

21 Chandima Kamburugamuwa

22 Ruvini Liyanage

23 Nipuni Egodage

24 Indika Ariyadasa

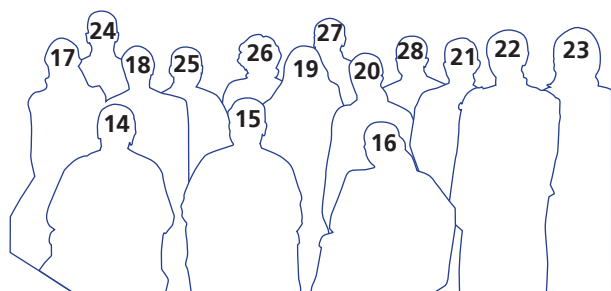
25 Bimsara Wijesinghe

26 Chatumadhusha Guruge

27 E. Srikanthan

28 Indika Prasad Mallawa

29 T.Eshanthi Mendis (not in the picture)



General Review

Administration of the Regulation of Insurance Industry Act

Legislation

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

Several amendments have been introduced to the principal enactment and subordinate legislation made under the Act, which are dealt in detail in the Regulatory Review of this report.

The Board has also suggested amendments to the Act to regulate and supervise the Superannuation Benefit Funds with a view to safeguarding the interests of contributors and potential contributors in a more formal manner. Currently Provident Funds and Contributory Pension Schemes come under the purview of the Commissioner of Labour.

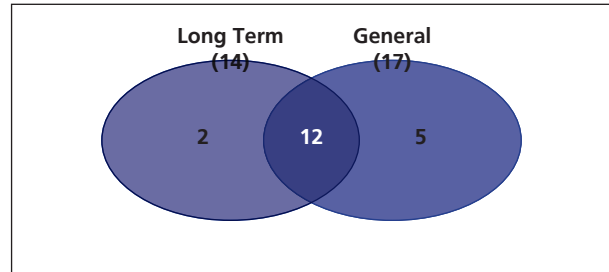
Market Structure Insurance Companies

In terms of section 13 of the Act, a company interested in engaging in insurance business in Sri Lanka should incorporate a public company under the Companies Act, No. 7 of 2007 and register as an insurer under the Act after having fulfilled other statutory requirements.

Nineteen insurance companies were registered under the Board at the end of the year. Out of the nineteen insurance companies, Ceylinco Takaful Limited is prohibited from operating as an insurer since 5th August 2009. LOLC Insurance Company Limited which was registered during the year commenced its operations in April 2011 since the winding up operations of Lanka Orix Insurance Brokers Limited had to be completed according to section 33 of the Act, in view of the holding company of the aforesaid two companies being Lanka Orix Leasing Company PLC. The following chart depicts the classes of insurance business companies are registered to carry on. Out of the nineteen companies, 12 companies are registered as composite insurance companies, carrying on both long term insurance business and general insurance business. Out of the rest, 2 companies are registered to carry on long term insurance business and 5 companies are registered to carry on general insurance business.

Chart 1.1
Classes of insurance business carried out by the insurers

Insurers (19)

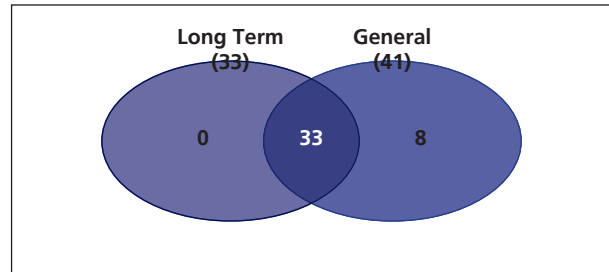


Insurance Brokers

In terms of section 80 of the Act, a company interested in engaging in insurance broking business in Sri Lanka should incorporate a company under the Companies Act, No. 7 of 2007, and obtain a registration as an insurance broker under the Act after having fulfilled other statutory requirements. At the beginning of year 2010, there were 42 companies engaged in insurance broking business in Sri Lanka. Out of the said companies, 33 companies were engaged in both long term and general insurance business, while 8 companies have engaged only in general insurance business. Steuart Insurance Brokers (Pvt) Ltd. which was registered at the beginning of the year informed the Board that they have ceased to function as an insurance broker with effect from 31st March 2010. The following chart depicts the classes of insurance business, broking companies are registered to carry on:

Chart 1.2
Classes of insurance business carried out by the brokers

Brokers (41)



Insurance Agents

The Principal Act permitted only individuals to function as insurance agents of insurance companies and insurance broking companies. The amendment to the Act permits persons other than individuals to function as insurance

agents. The Board in terms of section 78(4) of the Act has specified criteria for registration of individual agents and during the year has expanded the entry requirements, which are dealt in the Regulatory Review of this report. In this regard, the Board has authorised the Sri Lanka Insurance Institute (SLII) to conduct the pre-recruitment test for individuals in respect of long term insurance business and general insurance business in Sinhala, Tamil and English languages.

The Board during the year has done research into the registration requirements of institutional agents and until such time the Board specifies the registration criteria by way of rules, persons other than individuals will not be able to register themselves as insurance agents.

Individual insurance agents have played a key role in marketing insurance products in Sri Lanka, mainly in the life insurance sector. Approximately 65,000 individuals are functioning as insurance agents in the country.

Company Status and Changes in Capital Insurance Companies

The minimum capital requirement for a company to seek registration is Rs. 100 million per class of insurance business. The Board has revised this amount to Rs. 500 million per class of insurance business and will give effect to same by way of Rules.

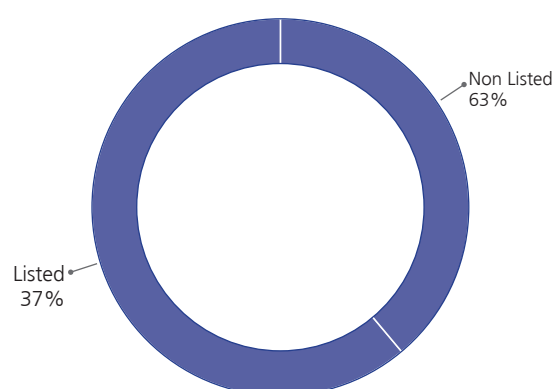
The Board has also requested all insurance companies to obtain, a rating of Insurer’s Financial Strength (IFS) indicating their ability to pay claims from a rating agency acceptable to the Board. Accordingly, the following Table depicts the ratings obtained by insurers:

Table 1.1
Ratings Obtained by Insurers

Name of Insurer	Rating obtained as at 31/12/2010	Name of Rating Agency	Criteria used as basis for rating	Details of credit rating guide
Sri Lanka Insurance Corporation Ltd.	AA- (lka)	Fitch Ratings London	IFS rating & Long Term rating	Outlook for both stable
HNB Assurance PLC	A- (lka)	Fitch Ratings Lanka Ltd.	Ability to meet policyholder & related obligations	Strong capacity to meet policyholder obligations
	National long term rating – A-(lka)		Credit quality	Low default risk
Janashakthi Insurance PLC	A-(lka)	Ram Ratings Lanka Ltd.	Claims paying ability	-
Co-operative Insurance Co. Ltd.	BB+	Ram Ratings Lanka Ltd.	Claims paying ability	Stable outlook
Asian Alliance Insurance PLC	BBB-	Ram Ratings Lanka Ltd.	Claims paying ability	

Out of the insurance companies, seven insurance companies are listed on the Colombo Stock Exchange namely, Ceylinco Insurance PLC, AVIVA NDB Insurance PLC (Formerly known as Eagle Insurance PLC), Union Assurance PLC, Asian Alliance Insurance PLC, HNB Assurance PLC, Amana Takaful PLC and Janashakthi Insurance PLC. The following chart depicts the percentage of listed/non listed insurance companies:

Chart 1.3
Percentage of ‘listed/ non listed’ insurance companies



However, the Regulation of Insurance Industry (Amendment) Act, No.03 of 2011 requires an existing insurer to have itself listed on the Stock Exchange within a period of five years from the date of coming into operation of the Amendment Act. According to the amendment, composite insurance companies would therefore, have to segregate its business into two separate companies within a period of four years prior to obtaining a listing.

General Review

A new insurance company registered on or after 7th February 2011 would have to list itself on the Stock Exchange within a period of three years of being issued with a licence by the Board. According to the amendment a new insurance company can engage only in one class of insurance business.

Foreign equity participation in insurance companies has been permitted up to 100% in terms of the Gazette Notification No. 1232/14 published by the Controller of Exchange on 19th April 2002. Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd. have 100% foreign equity participation. They are subsidiaries of Allianz SE.

Insurance Brokers

In terms of Rules made by the Board under section 80(1) (a) of the Act, the paid up share capital requirement to register companies as insurance brokers was increased to Rs. 1 million with effect from 29th September 2005. This amount has not been revised.

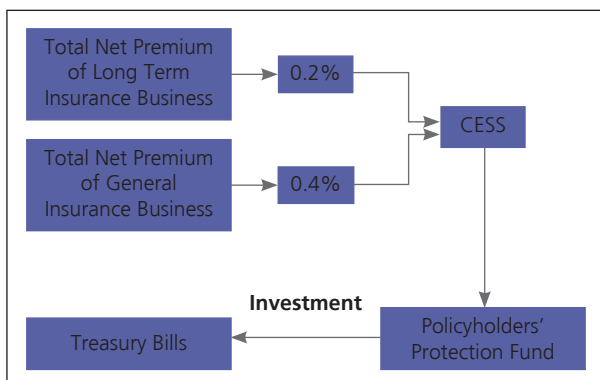
Levy of Cess from Insurance Companies

In terms of section 7 of the Act, an order was made by the Hon. Minister of Finance for the levy of Cess for the creation of Policyholders' Protection Fund. By Gazette Notification No. 1244/5 on 9th July 2002, it has specified 0.2% of the total net premium of long term insurance business and 0.4% of the total net premium of general insurance business to be credited to the Policyholders' Protection Fund. The collection of the Cess from insurers commenced with effect from January 2003 and the amount of Cess collected for the year 2010 was Rs. 145 million.

Policyholders' Protection Fund

The Cess collected from insurance companies is deposited into the Policyholders' Protection Fund, established in terms of section 103 of the Act. The amount lying to the credit of the Policyholders' Protection Fund is invested in Treasury Bills. The accumulated amount in the Fund as at 31st December 2010 was Rs. 1.012 billion. The following table depicts the percentage of Cess charged and the Policyholders' Protection Fund.

Table 1.2
Cess and the Policyholders' Protection Fund



Insurance Tariff

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

Overseas Insurance - Travel, Health and Liability Insurance

In terms of section 101 of the Act, the Board has granted approval to any person to place directly or indirectly health and travel insurance with an insurer licensed or registered overseas, even if such insurer is not registered in Sri Lanka under the Act. Further approval was granted to registered insurers if such registered insurers so desire to obtain liability insurance cover for their directors and employees in respect of liabilities arising from the discharge of their duties from an insurer licensed or registered overseas, even if such insurer is not registered in Sri Lanka under the Act, provided that any proceeds on such covers payable to a resident party for any claim will be brought into the country in foreign currency.

Exemptions

Provisions of the Act do not apply to the Agriculture and Agrarian Insurance Board established under the Agriculture and Agrarian Insurance Act, No. 20 of 1999, the Sri Lanka Export Credit Insurance Corporation established by the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978 and the Social Security Board established under the Social Security Board Act, No. 17 of 1996.

Other Related Matters

National Insurance Trust Fund (NITF)

The National Insurance Trust Fund Board established by the National Insurance Trust Fund Act, No. 28 of 2006 (NITF Act) was brought under the purview of the Board via the amendment brought to section 12 (1A) of the Act.

In terms of the provisions of the NITF Act, the NITF absorbed the Strike, Riot, Civil Commotion and Terrorism Fund maintained by the Ministry of Finance and Planning. Insurance companies providing insurance covers against strike, riot, civil commotion and terrorism risks on behalf of the NITF, remit the collected premiums to the NITF.

The Regulation of Insurance Industry Act, No. 43 of 2000 as amended by Act, No. 27 of 2007 requires all registered insurance companies to cede a percentage not exceeding 50% of reinsurance premium to NITF. In terms of the above provision, an order has been made under section 31 of the Act by the Hon. Minister of Finance & Planning directing all insurance companies to cede 20% of all types of Reinsurance Treaties and Facultative Reinsurance arrangements in respect of general insurance business to NITF with effect from 1st January 2008.

National Council for Road Safety (NCRS)

The National Council for Road Safety established under the Motor Traffic Act is under the purview of the Ministry of Transport. Every insurer providing motor insurance

cover is required to contribute 1% of third-party insurance premiums to the Road Safety Fund. The Insurance Board is represented on the NCRS.

Inter Regulatory Institutions Council (IRIC)

The Inter Regulatory Institutions Council was established by the Central Bank of Sri Lanka (CBSL). This high-level committee chaired by the Governor of the CBSL was set up to ensure that appropriate policy directions are set out for orderly development of financial markets, and that all regulatory agencies co-ordinate and exchange information in the interests of the entire financial system. The Board is represented on the IRIC.

Working Group of Regulators on Financial Conglomerates

The Working Group of Regulators on Financial Conglomerates was appointed by the Central Bank of Sri Lanka. The objectives of the group are to assess the systemic risks of financial conglomerates, to recommend a course of action for the regulation and supervision of such institutions on a consolidated basis and to propose a legal framework for the regulation and supervision of financial conglomerates. The Board is represented on this Group.

Insurance Association of Sri Lanka (IASL)

The Insurance Association of Sri Lanka was established in 1989 and every insurance company registered under the Act is eligible for membership of the Association. The Association maintains a close working relationship with the Board.

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

The objectives of the Association are:-

- to bring together all Insurers who are transacting insurance and/or reinsurance business within Sri Lanka, in order to afford opportunities for consultations and co-operation in all matters affecting the common interest and welfare of its members and the insuring public.
- to promote and maintain uniform and sound practices and high ethical standards in the insurance business so as to develop confidence and educate the insuring public in any manner as the member may feel necessary and by monitoring the legislation by making representations to the authorities concerned.
- to review and examine the insurance practices and techniques in Sri Lanka and in other countries and to make their recommendation after modification and/or alteration to the existing policies and/or tariffs if necessary, provided the membership feels it is advantageous to the insurance industry.

- to encourage, actively assist and promote professionalism in insurance through education and training and for this purpose to organize and conduct classes, conferences, seminars, forums, consultations, workshops and meetings.

Sri Lanka Insurance Brokers' Association

The Sri Lanka Insurance Brokers' Association (SLIBA) is the only Association of insurance brokers that has been approved by the Board. In terms of section 79 of the Act, it is mandatory for all registered insurance brokers to be members of this Association, and all applicants seeking registration as insurance brokers are required to obtain membership of this Association prior to registration as an insurance broker by the Board. Among its objectives, SLIBA focuses on fostering professionalism and looking after the interests of members who are also subject to a code of conduct formulated by the Association. SLIBA maintains a very cordial relationship with the Board.

Sri Lanka Insurance Institute (SLII)

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

The Institute is affiliated to the Chartered Insurance Institute of London and administers the examinations of professional bodies such as the Chartered Insurance Institute in London, Insurance Institute in Australia, Insurance Institute in 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 has entrusted the institute with the responsibility for conducting the pre-recruitment tests for persons who wish to be appointed as insurance agents. The Institute continues to conduct pre-recruitment tests in respect of both classes of insurance business. After 23rd September 2002, the date on which Insurance Agents Rules made by Board under the Act were published in Gazette Notification No. 1255/3, all insurance agents who were appointed by insurers and/or insurance brokers for procuring general insurance business were required to pass the pre-recruitment test conducted by the Institute on or before 31st December 2008.

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors, the Board regularly receives publications, guidelines such as Insurance Core Principles, and information on the activities of IAIS. Some of the core principles recommended by the IAIS are adopted by the Board for effective supervision and monitoring of the insurance industry in Sri Lanka.

Statistical Review

An Overview of the Insurance Industry

As depicted in Table 1, during 2010 the aggregate Gross Written Premium (GWP) reported from long term and general insurance businesses totaled up to Rs. 68,493 million (2009: Rs. 57,252 million) recording a significant increase of 19.63% compared to 2009. The GWP of long term insurance business amounted to Rs. 31,151 million (2009: Rs. 23,767 million) showing an increase of 31.07% while GWP of general insurance business amounted to Rs. 37,342 million (2009: Rs. 33,485 million) reporting a growth of 11.52% compared to 2009. The growth in GWP for both long term and general insurance sectors is mainly driven by improved business confidence after the restoration of peace, new business opportunities emerging from the North and East of the country, growth in GDP during 2010, recovery of global economy from the recession and reduction in policy lapses compared to the previous year as a result of improved socio economic factors of the country. The general insurance sector

accounted for 54.52% (2009: 58.48%) of aggregate GWP while the contribution of long term insurance sector was 45.48% (2009: 41.51%) of the total GWP depicting a steady growth each year. This significant improvement in life insurance is underpinned by growth in new businesses in 2010, especially due to the introduction of new life insurance products such as investment linked products and a range of retirement products to the market.

As reflected in Table 2, the total assets of insurance companies amounted to Rs. 222,243 million (2009: Rs.181,045 million) as at 31st December 2010 indicating a significant growth of 22.76% compared to 2009. Assets pertaining to long term insurance business rose to Rs. 139,592 million (2009: Rs.118,305 million) at the end of 2010 by recording a growth of 18%. Assets of general insurance business and shareholders amounted to Rs. 82,651 million (2009: Rs.62,740 million) reflecting a growth of 31.74% over 2009.

Table 1
Premium Income

	2004	2005	2006	2007	2008	2009	2010
Long term Insurance (Rs. millions)	12,518	14,814	17,104	20,729	23,613	23,767	31,151
General Insurance (Rs. millions)	17,037	22,410	25,931	31,156	34,553	33,485	37,342
Total Premium Income (Rs. millions)	29,555	37,224	43,035	51,885	58,166	57,252	68,493
Gross Domestic Product (Rs. billions)*	2,091	2,453	2,939	3,579	4,411	4,835	5,602
Total Premium as % of GDP	1.41	1.52	1.46	1.45	1.32	1.19	1.22
Growth Rate in Total Premium (%)	22.39	25.94	15.61	20.56	12.11	(1.57)	19.63

*Source - GDP (Central Bank of Sri Lanka)

Table 2
Assets of Insurance Companies

	2006	2007	2008	2009	2010
Assets - Long term Insurance (Rs. millions)	72,077	84,822	97,730	118,305	139,592
Assets - General Insurance & Shareholders (Rs. millions)	45,582	50,054	58,263	62,740	82,651
Total	117,659	134,876	155,993	181,045	222,243

Long term Insurance Business Gross Written Premium (GWP)

Table 3 and Chart 1 reflect the company-wise market share of GWP for long term insurance business.

Table 3
Company-wise Market Share of Gross Written Premium - Long term Insurance Business

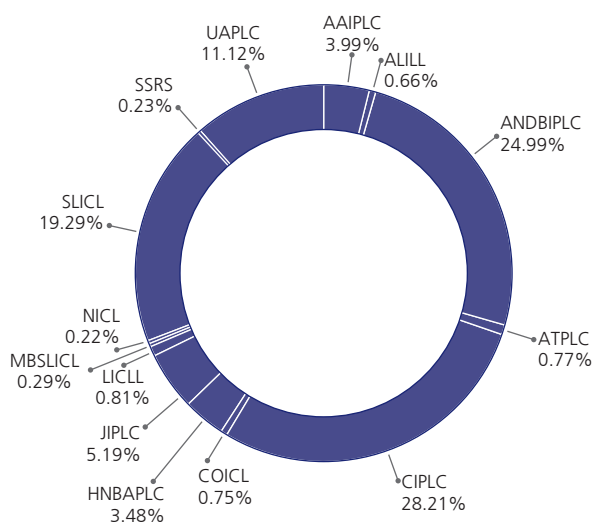
Insurer	2006		2007		2008		2009		2010	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
AAIPLC	747,934	4.37	890,794	4.30	970,077	4.11	1,009,031	4.25	1,242,608	3.99
ALILL	-	-	-	-	4,013	0.02	94,322	0.40	204,814	0.66
ANDBIPLC	3,150,042	18.42	3,788,103	18.27	4,342,218	18.39	4,632,490	19.49	7,783,925	24.99
ATPLC	90,895	0.53	130,986	0.63	188,406	0.80	207,097	0.87	240,156	0.77
CIPLC	5,717,887	33.43	6,847,185	33.03	8,257,279	34.97	7,523,097	31.65	8,786,120	28.21
COICL	73,695	0.43	100,393	0.48	131,003	0.56	149,391	0.63	232,609	0.75
HNBAPLC	503,322	2.94	767,576	3.70	914,170	3.87	891,808	3.75	1,084,480	3.48
JIPLC	912,658	5.34	1,108,152	5.35	1,339,041	5.67	1,304,976	5.49	1,616,633	5.19
LICLL	186,770	1.09	254,238	1.23	255,099	1.08	252,142	1.06	252,656	0.81
MBSLICL	23,891	0.14	47,438	0.23	52,747	0.22	55,606	0.23	89,984	0.29
NICL	111,500	0.65	97,881	0.47	87,119	0.37	89,045	0.38	68,775	0.22
SLICL	3,885,022	22.72	4,477,537	21.60	4,498,257	19.05	4,818,448	20.27	6,009,859	19.29
SSRS	27,826	0.16	55,548	0.27	69,617	0.29	61,563	0.26	73,030	0.23
UAPLC	1,672,744	9.78	2,163,480	10.44	2,503,888	10.60	2,678,482	11.27	3,465,505	11.12
Total	17,104,186	100.00	20,729,311	100.00	23,612,934	100.00	23,767,498	100.00	31,151,154	100.00
Growth Rate (%)	15.5		21.2		13.9		0.7		31.1	

During 2010, the GWP of long term insurance sector recorded a significant growth of 31.07% compared to the previous year by achieving GWP of Rs. 31,151 million (2009: Rs. 23,767 million). As reflected in Table 3, this is the highest growth rate of GWP achieved during the past five years. The top five market leaders accounted for 88.79% of the total industry GWP while the balance 11.21% was shared among the remaining insurers engaged in long term insurance. Ceylinco Insurance PLC has secured its top position in the market in terms of GWP of long term insurance business similar to previous years by achieving a market share of 28.21% though it is a reduction of 3.44% compared to 2009. AVIVA NDB Insurance PLC has been able to achieve the second position in the long term insurance sector in terms of GWP by recording Rs. 7,784 million (2009: Rs. 4,632 million) and thereby has increased its market share by 5.5% compared to 2009 which can be considered as a substantial growth. Though GWP of Sri Lanka Insurance

Corporation Ltd. has increased to Rs. 6,010 million in 2010 from Rs. 4,818 million recorded in 2009, its market share has decreased marginally by 0.98% in 2010. Union Assurance PLC achieved a market share of 11.12% (2009: 11.27%) while Janashakthi Insurance PLC accounted for a market share of 5.19% (2009: 5.49%), both companies reflecting a slight decline in the market shares though the GWP in rupee terms has increased during 2010 against 2009. Allianz Life Insurance Lanka Ltd., Co-operative Insurance Company Ltd. and MBSL Insurance Company Ltd. have been able to improve both GWP and their market shares during 2010 compared to 2009. The GWP of Asian Alliance Insurance PLC, Amana Takaful PLC, HNB Assurance PLC, Life Insurance Corporation (Lanka) Ltd. and Seemasahitha Sanasa Rakshana Samagama has increased in 2010 over 2009 though the market shares of the said companies have slightly declined in 2010.

Chart 1

Company-wise Market Share of Gross Written Premium - Long term Insurance Business - 2010



Life Insurance Penetration

As reflected in Table 4, the total number of life insurance policies in force was reported as 2,244,245 at the end of year 2010. During the year insurers have issued 503,543 new life insurance policies which indicate an increase of 8.46% compared to 464,249 new policies issued in year 2009. This growth was mainly due to the conducive economic conditions that prevailed in the country, new long term insurance products introduced to the market and strong advertising campaigns carried out by insurers during the year. The penetration of life insurance business as a percentage of the total population was 10.9% (2009: 10.4%) while the penetration as a percentage of total labour force was 27.7% (2009:26.4%).

Table 4
Life Insurance Penetration

	2004	2005	2006	2007	2008	2009	2010
No. of New Life Policies Issued	304,639	366,132	409,933	527,385	555,886	464,249	503,543
No. of Life Policies in Force	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809	2,131,947	2,244,245
Total Population (in '000)	19,462	19,668	19,886	20,010	20,217	20,450	20,653
Total Labour Force (in '000)	8,061	7,312	7,599	7,489	8,082	8,074	8,108
Penetration as % of the Total Population	7.7	8.3	8.8	9.6	10.4	10.4	10.9
Penetration as % of the Labour Force	18.5	22.3	22.9	25.7	26.0	26.4	27.7

*Source - Total population and total labour force figures (Central Bank of Sri Lanka)

General Insurance Business Gross Written Premium (GWP)

Company-wise market share of GWP of general insurance business is analysed in Table 5 and Chart 2.

Table 5
Company-wise Market Share of Gross Written Premium - General Insurance Business

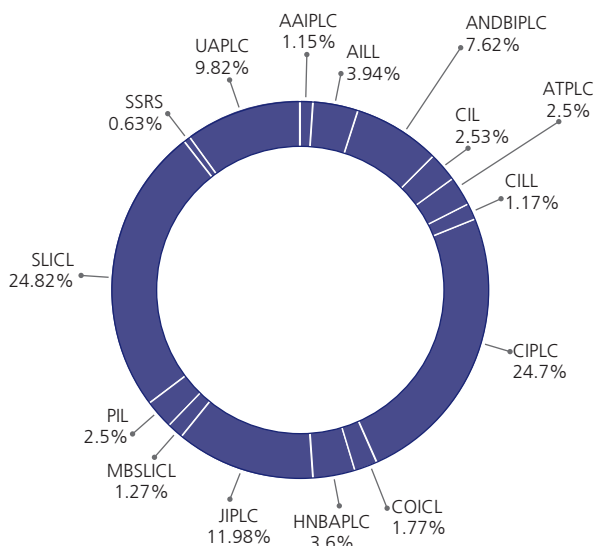
Insurer	2006		2007		2008		2009		2010	
	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%	Premium (Rs.'000)	%
AAIPLC	417,680	1.61	383,590	1.23	459,771	1.33	496,749	1.48	430,666	1.15
AILL	300,949	1.16	414,015	1.33	601,100	1.74	1,174,821	3.51	1,469,538	3.94
ANDBIPLC	1,468,420	5.66	1,867,142	5.99	2,064,423	5.97	2,503,628	7.48	2,846,803	7.62
ATPLC	589,067	2.27	678,013	2.18	835,188	2.42	953,798	2.85	933,193	2.50
CIL	443,997	1.71	681,148	2.19	908,651	2.63	816,275	2.44	943,419	2.53
CILL	-	-	-	-	-	-	-	-	438,794	1.17
CIPLC	9,561,249	36.87	10,350,684	33.22	11,287,233	32.67	9,081,294	27.12	9,224,608	24.70
COICL	207,490	0.80	289,688	0.93	522,449	1.51	595,822	1.78	661,524	1.77
CTL	14,849	0.06	36,931	0.12	178,734	0.52	28,324	0.08	-	-
HNBAPLC	618,502	2.39	704,578	2.26	924,709	2.68	1,130,782	3.38	1,343,703	3.60
JIPLC	3,099,955	11.95	3,678,224	11.81	3,937,284	11.39	4,272,925	12.76	4,472,255	11.98
MBSLICL	70,418	0.27	230,431	0.74	294,316	0.85	271,309	0.81	475,117	1.27
NICL	2,124	0.01	-	-	-	-	-	-	-	-
PIL	-	-	-	-	-	-	-	-	933,152	2.50
SLICL	6,640,055	25.61	8,848,192	28.40	9,140,845	26.45	8,764,540	26.17	9,266,637	24.82
SSRS	110,855	0.43	178,764	0.57	216,000	0.63	184,409	0.55	234,913	0.63
UAPLC	2,384,909	9.20	2,814,651	9.03	3,182,236	9.21	3,210,217	9.59	3,667,869	9.82
Total	25,930,519	100.00	31,156,051	100.00	34,552,939	100.00	33,484,893	100.00	37,342,191	100.00
Growth Rate (%)	15.7		20.2		10.9		(3.1)		11.5	

The general insurance business sector grew by 11.52% compared to 2009 by recording GWP of Rs. 37,342 million for 2010 (2009: Rs. 33,485 million). The favourable economic conditions that prevailed in the country during 2010 can be seen as the major factor which influenced the growth in GWP. It can be seen that the top five performers in the general insurance segment accounted for 78.94% of the total GWP with remaining insurers sharing the balance 21.06%. Sri Lanka Insurance Corporation Ltd. achieved the highest market share of 24.82% by recording GWP of Rs. 9,267 million (2009: Rs. 8,765 million). Ceylinco Insurance PLC, the previous year's top performer with GWP of Rs. 9,225 million (2009: Rs. 9,081 million) was ranked at number two due to the decline in market share to 24.70% from 27.12% recorded in 2009. Janashakthi Insurance PLC was ranked at the third place

with GWP of Rs. 4,472 million (2009: Rs. 4,273 million) and a market share of 11.98% (2009: 12.76%). Union Assurance PLC and AVIVA NDB Insurance PLC achieved the fourth and fifth places in terms of market share by recording GWP amounting to Rs. 3,668 million (2009: Rs. 3,210 million) and Rs. 2,847 million (2009: Rs. 2,504 million) respectively. Allianz Insurance Lanka Ltd., CHARTIS Insurance Ltd., HNB Assurance PLC, MBSL Insurance Company Ltd. and Seemasahitha Sanasa Rakshana Samagama have improved their GWP positions compared to 2009. However, the GWP of Asian Alliance Insurance PLC and Amana Takaful PLC have dropped marginally compared to 2009 while the two new players in the market, Continental Insurance Lanka Ltd. and People's Insurance Ltd. have gained 1.17% and 2.5% of market share respectively in 2010.

Chart 2

Company-wise Market Share of Gross Written Premium - General Insurance Business - 2010



Class-wise Analysis of GWP

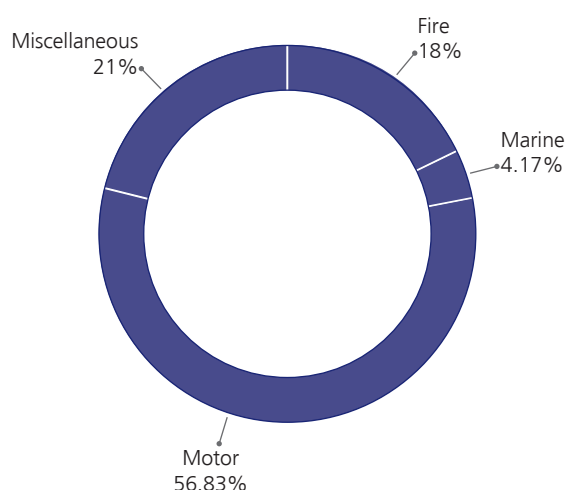
Similar to previous years, motor insurance was the largest contributor of GWP towards the premium income of general insurance business by recording GWP of Rs. 21,222 million (2009: Rs. 17,829 million) indicating a growth of 19.03% as reflected in Table 6. This represented 56.83% (2009: 53.25%) of total general insurance portfolio. Miscellaneous insurance with a premium income of Rs. 7,842 million (2009: Rs. 7,455 million) accounted for 21% (2009: 22.26%) of the total premium and indicated a growth of 5.19% over 2009. Fire insurance with a premium income of Rs. 6,720 million (2009: Rs. 6,759 million) accounted for 18.00% (2009: 20.18%) of the total premium, reflecting a decline of 0.57% compared to 2009. Marine insurance recorded GWP of Rs. 1,558 million (2009: Rs. 1,442 million) accounted for 4.17% (2009: 4.31%) of the total premium, growing by 8.08% compared to 2009.

Table 6

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

Sub-class	Gross Written Premium (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	2,978,979	4,140,458	4,627,075	5,724,377	6,480,344	6,758,843	6,720,164
Marine	1,172,810	1,358,033	1,554,560	1,637,019	1,825,782	1,441,683	1,558,178
Motor	8,367,447	11,102,737	14,005,560	17,060,829	18,717,667	17,829,077	21,221,535
Miscellaneous	4,518,122	5,808,928	5,743,624	6,733,828	7,529,146	7,455,290	7,842,314
Total	17,037,358	22,410,156	25,930,819	31,156,053	34,552,939	33,484,893	37,342,191
Sub-class	Growth (%)						
	2004	2005	2006	2007	2008	2009	2010
Fire	9.33	38.99	11.75	23.71	13.21	4.30	(0.57)
Marine	22.56	15.79	14.47	5.30	11.53	(21.04)	8.08
Motor	34.43	32.69	26.15	21.81	9.71	(4.75)	19.03
Miscellaneous	24.54	28.57	(1.12)	17.24	11.81	(0.98)	5.19
Total	25.89	31.54	15.71	20.15	10.90	(3.09)	11.52
Sub-class	Percentage Share (%)						
	2004	2005	2006	2007	2008	2009	2010
Fire	17.49	18.48	17.84	18.37	18.76	20.18	18.00
Marine	6.88	6.06	6.00	5.26	5.28	4.31	4.17
Motor	49.11	49.54	54.01	54.76	54.17	53.25	56.83
Miscellaneous	26.52	25.92	22.15	21.61	21.79	22.26	21.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Chart 3

Class-wise Analysis of Gross Written Premium - General Insurance Business- 2010

Claims Ratio of General Insurance Business

As depicted in Table 7, during 2010 the overall claims ratio was reduced to 61.63% from 63.20% recorded for 2009. Motor insurance recorded the highest claims ratio among the different sub-classes of general insurance business by recording 64.17% (2009: 63.36%) and indicated an increase of 0.81% compared to last year. Marine insurance showed the lowest claims ratio of 31.65% (2009: 25.58%) though it has increased by 6.07% during 2010. Fire insurance with a claims ratio of 45.39% (2009: 44.38%) has increased marginally by 1.01%. Miscellaneous insurance reported a claims ratio of 60.37% (2009: 70.67%) reducing significantly by 10.3% from 2009.

Table 7
Earned Premium, Claims Incurred and Claims Ratio

Sub-class	Earned Premium (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	687,351	1,033,804	757,066	962,204	901,075	1,126,607	1,155,788
Marine	474,776	545,962	667,135	606,908	752,825	587,397	693,414
Motor	6,920,787	9,153,642	11,920,208	14,518,179	16,942,690	17,205,912	18,366,712
Miscellaneous	2,267,407	3,316,000	3,584,231	4,095,975	4,996,599	5,416,661	5,051,408
Total	10,350,321	14,049,408	16,928,640	20,183,266	23,593,189	24,336,577	25,267,322
Sub-class	Claims Incurred (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	851,804	486,354	520,944	815,821	659,542	500,043	524,630
Marine	150,590	122,131	202,379	215,824	213,740	150,275	227,036
Motor	4,421,530	5,810,762	7,204,754	9,459,168	10,854,607	10,901,356	11,785,172
Miscellaneous	1,894,192	2,338,487	2,337,018	2,618,869	3,589,902	3,828,181	3,065,776
Total	7,318,116	8,757,734	10,265,095	13,109,682	15,317,791	15,379,855	15,602,614
Sub-class	Claims Ratio (%)						
	2004	2005	2006	2007	2008	2009	2010
Fire	123.93	47.05	68.81	84.79	73.20	44.38	45.39
Marine	31.72	22.37	30.34	35.56	28.39	25.58	31.65
Motor	63.89	63.48	60.44	65.15	64.07	63.36	64.17
Miscellaneous	83.54	70.52	65.20	63.94	71.85	70.67	60.37
Total	70.70	62.34	60.64	64.95	64.92	63.20	61.63

Statistical Review

Retention of Gross Written Premium and Reinsurance

Motor insurance continued to maintain the highest retention ratio of 97.53% (2009: 96.56%) when compared to other sub-classes of general insurance as depicted in Table 8. Retention ratios of fire, motor and marine recorded improvements though the retention ratio of miscellaneous insurance has decreased by 2.73% compared to 2009. Retention ratio of fire insurance

was 17.64% (2009: 15.77%) which improved by 1.87% and marine insurance indicated a growth of 9.26% by recording a retention ratio of 46.87% (2009: 37.61%) during 2010. However, the retention ratio of miscellaneous insurance reflected a decrease of 2.73% by recording a retention ratio of 71.25% (2009: 73.98%). The overall retention ratio of 75.52% (2009: 72.69%) reflected that premium retention by insurers in 2010 was higher than the previous year by 2.83%.

Table 8
Gross Written Premium, Reinsurance Premium and Retention by Insurer

Sub-class	Gross Written Premium (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	2,978,979	4,140,458	4,627,075	5,724,377	6,480,344	6,758,843	6,720,164
Marine	1,172,810	1,358,033	1,554,560	1,637,019	1,825,782	1,441,683	1,558,178
Motor	8,367,447	11,102,737	14,005,560	17,060,829	18,717,667	17,829,077	21,221,535
Miscellaneous	4,518,122	5,808,928	5,743,624	6,733,828	7,529,146	7,455,290	7,842,314
Total Gross Written Premium	17,037,358	22,410,156	25,930,819	31,156,053	34,552,939	33,484,893	37,342,191
Sub-class	Reinsurance Premium (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	2,425,875	3,260,854	3,904,755	4,346,992	5,661,372	5,692,637	5,534,824
Marine	666,292	656,340	915,086	986,706	1,166,168	899,486	827,858
Motor	341,072	539,951	623,688	919,537	930,588	612,696	523,863
Miscellaneous	1,281,222	1,484,923	1,644,675	1,989,109	2,437,905	1,939,910	2,254,818
Total Reinsurance Premium	4,714,461	5,942,068	7,088,204	8,242,344	10,196,033	9,144,729	9,141,363
Sub-class	Retention (Rs.'000)						
	2004	2005	2006	2007	2008	2009	2010
Fire	553,104	879,604	722,320	1,377,385	818,972	1,066,207	1,185,340
Marine	506,518	701,693	639,474	650,313	659,614	542,197	730,320
Motor	8,026,375	10,562,786	13,381,872	16,141,292	17,787,079	17,216,381	20,697,672
Miscellaneous	3,236,900	4,324,005	4,098,949	4,744,719	5,091,241	5,515,380	5,587,496
Total Net Written Premium	12,322,897	16,468,088	18,842,615	22,913,709	24,356,906	24,340,165	28,200,828
Sub-class	Retention as a percentage of Gross Written Premium						
	2004	2005	2006	2007	2008	2009	2010
Fire	18.57	21.24	15.61	24.06	12.64	15.77	17.64
Marine	43.19	51.67	41.14	39.73	36.13	37.61	46.87
Motor	95.92	95.14	95.55	94.61	95.03	96.56	97.53
Miscellaneous	71.64	74.44	71.37	70.46	67.62	73.98	71.25
Overall Retention	72.33	73.48	72.66	73.54	70.49	72.69	75.52

Total Assets of Insurance Companies

Table 9
Total Assets of Insurance Companies

Insurer	Distribution of Assets							
	2009				2010			
	Long term Insurance Rs.'000	General Insurance/ Shareholders Rs.'000	Total Rs.'000	%	Long term Insurance Rs.'000	General Insurance / Shareholders Rs.'000	Total Rs.'000	%
AAIPLC	1,861,645	903,182	2,764,827	1.53	2,230,621	2,119,714	4,350,335	1.96
AILL	-	1,105,444	1,105,444	0.61	-	1,586,019	1,586,019	0.71
ALILL	271,418	-	271,418	0.15	282,365	-	282,365	0.13
ANDBIPLC	18,958,838	5,462,348	24,421,186	13.49	25,608,474	6,068,488	31,676,962	14.25
ATPLC	369,186	861,532	1,230,718	0.68	486,076	1,272,986	1,759,062	0.79
CIL	-	682,454	682,454	0.38	-	715,960	715,960	0.32
CILL	-	498,971	498,971	0.28	-	769,135	769,135	0.35
CIPLC	29,852,432	12,641,347	42,493,779	23.47	34,071,282	17,546,977	51,618,259	23.23
COICL	322,733	837,404	1,160,137	0.64	452,221	1,120,823	1,573,044	0.71
CTL	-	60,586	60,586	0.03	-	39,655	39,655	0.02
HNBAIPLC	2,098,269	1,573,434	3,671,703	2.03	2,558,981	1,989,223	4,548,204	2.05
JIPLC	2,744,848	7,031,697	9,776,545	5.40	3,556,510	7,319,754	10,876,264	4.89
LICLL	677,278	-	677,278	0.37	983,691	-	983,691	0.44
LOLCICL	-	-	-	0.00	-	209,394	209,394	0.09
MBSLICL	88,515	360,850	449,365	0.25	84,573	547,840	632,413	0.28
NICL	968,826	-	968,826	0.53	990,081	-	990,081	0.45
PIL	-	116,683	116,683	0.06	-	870,141	870,141	0.39
SLICL	48,454,169	25,114,739	73,568,908	40.64	55,122,650	34,151,403	89,274,053	40.17
SSRS	167,598	313,262	480,860	0.27	176,505	408,630	585,135	0.26
UAIPLC	11,468,769	5,176,460	16,645,229	9.19	12,987,842	5,914,786	18,902,628	8.51
Total	118,304,524	62,740,393	181,044,917	100.00	139,591,872	82,650,928	222,242,800	100.00

*The assets belonging to shareholders of ALILL and LICLL have been reported under long term insurance

* Inter segment transactions (life and general) have not been considered

* CTL is prohibited from engaging in insurance business since 5th August 2009

The total assets of insurance companies were reported as Rs. 222,243 million as at 31st December 2010 as depicted in Table 9. This was a growth of 22.76% when compared to total assets as at 31st December 2009 which amounted to Rs. 181,045 million. Assets pertaining to long term insurance business amounted to Rs. 139,592 million (2009: Rs. 118,305 million) and represented 62.81% of total assets. Assets of general insurance and shareholders amounted to Rs. 82,651 million (2009: Rs. 62,740 million) and represented the balance 37.19% of total assets. The assets of long term insurance have grown by 18% while the assets of general insurance and shareholders have grown by 31.74% in 2010 compared to the previous year.

Chart 4

Concentration of Assets Company-wise Analysis - 2010

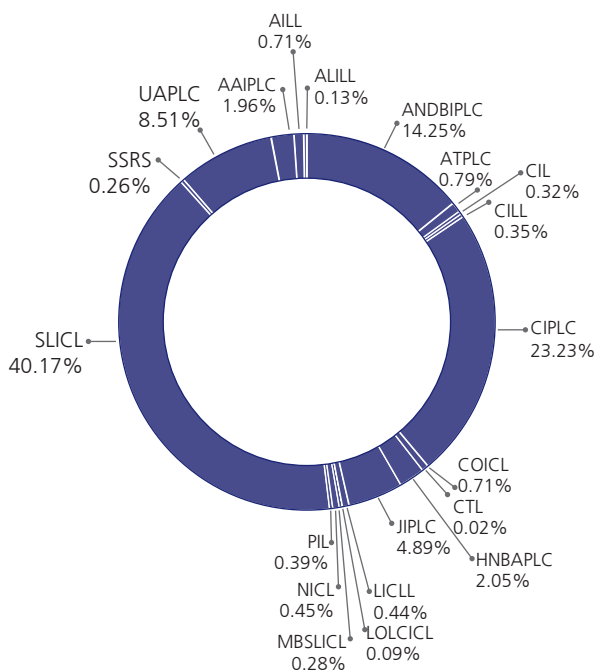


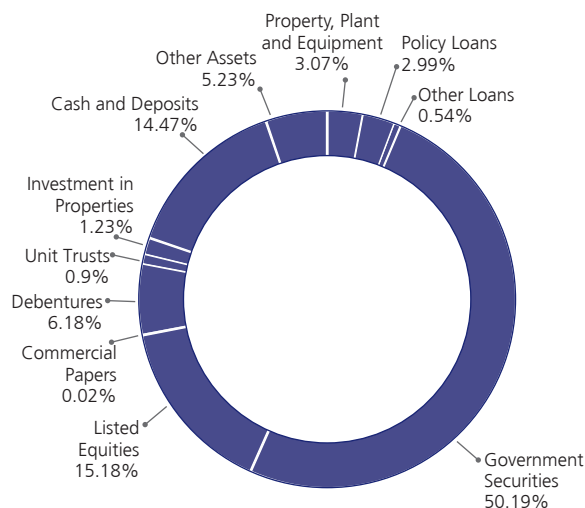
Table 10

Concentration of Assets of Long term Insurance Business - 2010

Type of Investment	Rs.'000	%
Property, Plant and Equipment	4,292,346	3.07
Policy Loans	4,170,837	2.99
Other Loans	746,146	0.54
Government Securities	70,059,073	50.19
Listed Equities	21,194,882	15.18
Commercial Papers	30,000	0.02
Debentures	8,623,854	6.18
Unit Trusts	1,258,890	0.90
Investment in Properties	1,718,353	1.23
Cash and Deposits	20,198,395	14.47
Other Assets	7,299,096	5.23
Total	139,591,872	100.00

Chart 5

Concentration of Assets of Long term Insurance Business - 2010



Concentration of Assets of Long term Insurance Business of Insurance Companies

The concentration of assets among different asset categories of long term insurance business as at 31st December 2010 is depicted in Table 10 and Chart 5. The investments in government securities amounting to Rs. 70,059 million (2009: Rs. 60,648 million) accounted for a share of 50.19% (2009: 51.26%) of the total assets. The Board ensured that investments in government securities exceed the statutory minimum investment of 30% of Long Term Insurance Fund as required under the Act and the remaining assets of insurers were invested in accordance with Determination No.1 throughout 2010. As indicated in Table 10 and Chart 5, the insurers had substantial amounts of assets of long term insurance business in the form of listed equities, cash and deposits and debentures.

Concentration of Assets of General Insurance Business and Shareholders of Insurance Companies

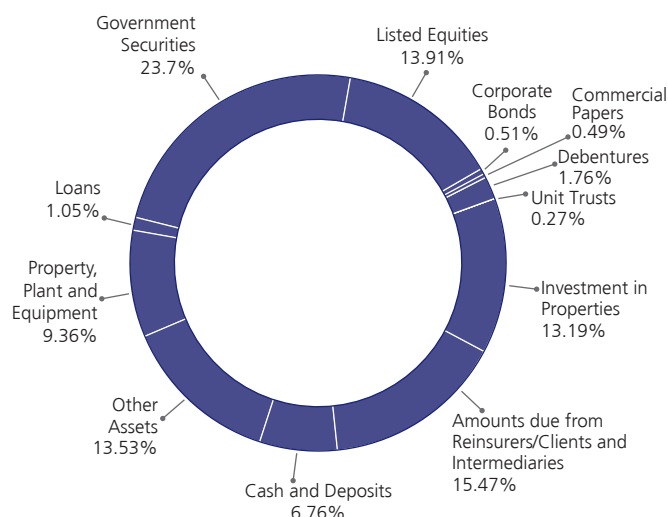
Table 11 and Chart 6 represent the concentration of assets pertaining to general insurance business and shareholders of insurers. The investment in government securities amounted to Rs. 19,584 million (2009 : Rs.17,435 million) and represented 23.70% of total assets. Significant amounts of assets of general insurance business and shareholders were in the form of dues from reinsurers, clients and intermediaries, listed equities, other assets and investments in properties. The Board closely monitored that insurers engaged in general insurance to comply with the 20% minimum investment of technical reserves in government securities as required under the Act and the remaining assets were invested in accordance with Determination No.1

Table 11
Concentration of Assets of General Insurance Business and Shareholders - 2010

Type of Investment	Rs.'000	%
Property, Plant and Equipment	7,737,269	9.36
Loans	864,260	1.05
Government Securities	19,584,153	23.70
Listed Equities	11,500,684	13.91
Corporate Bonds	422,629	0.51
Commercial Papers	406,875	0.49
Debentures	1,450,734	1.76
Unit Trusts	223,951	0.27
Investment in Properties	10,902,453	13.19
Amounts due from Reinsurers/ Clients and Intermediaries	12,787,811	15.47
Cash and Deposits	5,588,032	6.76
Other Assets	11,182,077	13.53
Total	82,650,928	100.00

Chart 6

Concentration of Assets of General Insurance Business and Shareholders - 2010



Distribution of Total Assets of Major Financial Institutions

Total assets of major financial institutions amounted to Rs. 6,690.7 billion (2009: Rs. 5,613.8 billion) and the total assets of the insurance sector amounted Rs. 222 billion (2009: Rs. 181 billion) which represented 3.3% (2009: 3.2%). The distribution of total assets of major financial institutions from 2007 to 2010 is illustrated in Table 12 and Chart 7 depicts the distribution of total assets among the major financial institutions as at the end of year 2010.

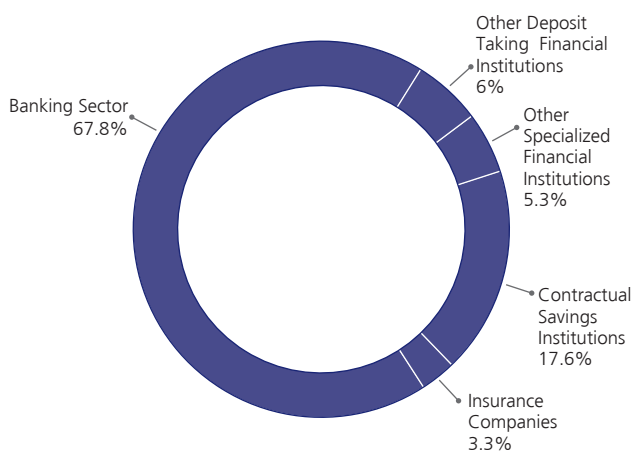
Table 12
Distribution of Total Assets of Major Financial Institutions

Financial Institutions	Distribution of Assets							
	2007		2008		2009		2010	
	Rs. billion	%	Rs. billion	%	Rs. billion	%	Rs. billion	%
Banking Sector	3,065.6	71.1	3,294.6	68.1	3,835.2	68.3	4,533.2	67.8
Other Deposit Taking Financial Institutions	175.3	4.1	285.9	5.9	315.7	5.6	400.9	6.0
Other Specialized Financial Institutions	180.8	4.2	239.7	4.9	257.4	4.6	354.8	5.3
Contractual Savings Institutions	754.5	17.5	864.6	17.9	1,024.5	18.3	1,179.8	17.6
Insurance Companies	134.9	3.1	156.0	3.2	181.0	3.2	222.0	3.3
Total	4,311.1	100.0	4,840.8	100.0	5,613.8	100.0	6,690.7	100.0

*Source: Central Bank of Sri Lanka. (Assets of insurance companies and contractual savings institutions are reinstated based on IBSL data)

Chart 7

Distribution of Assets of Major Financial Institutions - 2010



Total Shareholders' Funds of Insurance Companies

The Shareholders' Funds of all nineteen insurance companies amounted to Rs. 42,327 million as at 31st December 2010 indicating a significant increase of 45.69% compared to Rs. 29,053 million recorded as at 31st December 2009 as indicated in Table 13.

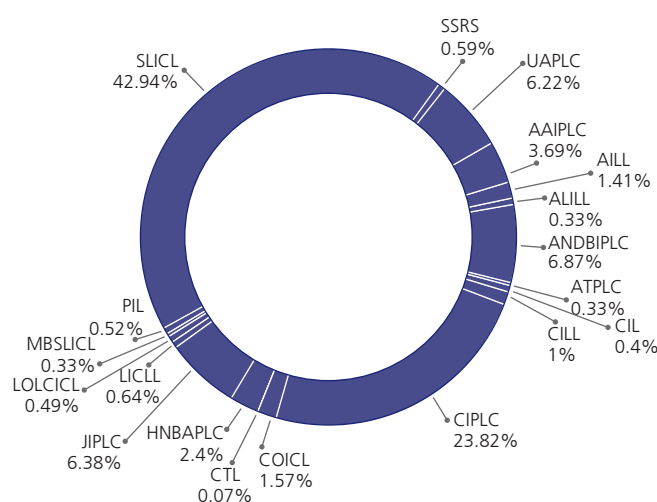
Table 13
Total Shareholders' Funds of Insurance Companies

Insurer	2009		2010			
	Total Shareholders' Funds Rs.'000	%	Stated Capital Rs.'000	Reserves Rs.'000	Total Shareholders' Funds Rs.'000	%
AAIPLC	517,540	1.78	1,062,500	498,360	1,560,860	3.69
AILL	473,145	1.63	250,000	349,254	599,254	1.41
ALILL	167,410	0.58	349,999	(209,342)	140,657	0.33
ANDBIPLC	2,575,487	8.87	300,000	2,607,477	2,907,477	6.87
ATPLC	201,440	0.69	500,000	(362,009)	137,991	0.33
CIL	160,995	0.55	536,669	(365,546)	171,123	0.40
CILL	498,971	1.72	500,000	(77,655)	422,345	1.00
CIPLC	7,925,963	27.28	1,324,822	8,758,655	10,083,477	23.82
COICL	439,611	1.51	553,819	109,037	662,856	1.57
CTL	43,346	0.15	130,000	(100,828)	29,172	0.07
HNBAPLC	830,851	2.86	375,000	641,340	1,016,340	2.40
JIPLC	2,294,407	7.90	1,496,000	1,205,755	2,701,755	6.38
LICLL	175,516	0.60	373,000	(101,081)	271,919	0.64
LOLCICL	-	-	200,000	5,514	205,514	0.49
MBSLICL	137,543	0.47	528,487	(388,041)	140,446	0.33
PIL	114,317	0.39	250,000	(30,644)	219,356	0.52
SLICL	9,977,961	34.35	6,000,000	12,174,098	18,174,098	42.94
SSRS	213,522	0.73	216,900	32,285	249,185	0.59
UAPLC	2,305,151	7.94	375,000	2,258,109	2,633,109	6.22
Total	29,053,176	100.00	15,322,196	27,004,738	42,326,934	100.00

The distribution of Shareholders' Funds among insurers as at 31st December 2010 is depicted in Chart 8 which indicates that two insurance companies account for more than two thirds (66.76%) of total industry Shareholders' Funds.

Chart 8

Company-wise Analysis of Shareholders' Funds - 2010



Statistical Review

Performance of Insurance Broking Companies

During 2010, forty two insurance broking companies operated in the insurance market and reflected a reduction compared to the forty eight insurance broking companies operated in 2009. The total GWP income generated through brokers during 2010 amounted to Rs. 9,560 million (2009: Rs. 8,886 million) for both long term and general insurance and represented 13.96% of the total industry GWP. Out of the total industry GWP generated through brokers, Rs. 243 million (2009: Rs. 188 million) was generated for long term insurance business representing 0.78% of the total premium of long term insurance business. The remaining GWP of Rs. 9,317 million (2009: Rs. 8,698 million) was generated for general insurance business which represented 24.95% of total GWP of general insurance business.

Twenty one insurance broking companies contributed more than Rs. 100 million of GWP for 2010 and they recorded GWP of Rs. 9,108 million as reflected in Table 14. These twenty one insurance broking companies represented 95.27% of the GWP generated through all the insurance broking companies for 2010.

Table 14

Gross Written Premium Generated Through Insurance Broking Companies - Year 2010

	Name of Insurance Broking Company	Gross Written Premiums (Rs. '000)		
		Long term	General	Total
1	ADZ Insurance Brokers (Pvt) Limited	1,156	491,691	492,847
2	Aitken Spence Insurance Brokers (Pvt) Limited	231	270,212	270,443
3	Alfinco Insurance Brokers (Pvt) Limited	37	321,972	322,009
4	Assetline Insurance Brokers Limited	-	484,692	484,692
5	CF Insurance Brokers (Pvt) Limited	123	1,235,526	1,235,649
6	Commercial Insurance Brokers (Pvt) Limited	63,323	1,045,642	1,108,965
7	Delmege Insurance Brokers (Pvt) Limited	1,229	525,933	527,162
8	Essajee Carimjee & Co. (Pvt) Limited	2,631	220,607	223,238
9	Finlay Insurance Brokers (Pvt) Limited	11,008	1,092,243	1,103,251
10	Global Insurance Services (Pvt) Limited	-	166,615	166,615
11	Industrial & Commercial Insurance Brokers (Pte) Limited	2,072	360,211	362,283
12	Lanka ORIX Insurance Brokers Limited	6,484	588,135	594,619
13	Nations Insurance Brokers Limited	6,097	396,472	402,568
14	Procure Insurance Brokers (Pvt) Limited	1,643	124,770	126,413
15	Protection & Assurance Insurance Brokers (Pvt) Limited	1,063	519,234	520,297
16	Reliance Insurance Brokers (Pvt) Limited	2,687	148,785	151,472
17	Senaratne Associates (Pvt) Limited	12,738	429,490	442,228
18	Strategic Insurance Brokers (Pvt) Limited	679	101,024	101,703
19	Sun Insurance Brokers Lanka (Pvt) Limited	89,734	58,718	148,453
20	Volanka Insurance Services (Pvt) Limited	6,453	164,378	170,831
21	Zenith Insurance Brokers (Pvt) Limited	2,002	150,524	152,526
	Sub-total	211,390	8,896,874	9,108,264
	Other Insurance Broking Companies (21)	31,534	419,846	451,380
	Grand Total	242,924	9,316,720	9,559,644

Abbreviations for Insurance Companies

AAIPLC	: Asian Alliance Insurance PLC
AILL	: Allianz Insurance Lanka Ltd.
ALILL	: Allianz Life Insurance Lanka Ltd.
ANDBIPLC	: AVIVA NDB Insurance PLC
ATPLC	: Amana Takaful PLC
CIL	: CHARTIS Insurance Ltd.
CILL	: Continental Insurance Lanka Ltd.
CIPLC	: Ceylinco Insurance PLC
COICL	: Co-operative Insurance Company Ltd.
CTL	: Ceylinco Takaful Ltd.
HNBAPLC	: HNB Assurance PLC
JIPLC	: Janashakthi Insurance PLC
LICLL	: Life Insurance Corporation (Lanka) Ltd.
LOLCICL	: LOLC Insurance Company Ltd.
MBSLICL	: MBSL Insurance Company Ltd.
NICL*	: National Insurance Corporation Ltd.
PIL	: People's Insurance Ltd.
SLICL	: Sri Lanka Insurance Corporation Ltd.
SSRS	: Seemasahitha Sanasa Rakshana Samagama
UAPLC	: Union Assurance PLC

*NICL was amalgamated with JIPLC in December 2006

Review of Operations

SUPERVISORY REVIEW

Insurance Companies

1. Review of Returns submitted to the Board

Annual Statutory Returns, Audited Financial Statements and Actuarial Reports

During the year, the Board ensured timely submission of annual statutory returns, audited financial statements and actuarial reports of all insurers. In terms of the provisions of the Act, all insurers are required to submit the annual statutory returns and audited financial statements to the Board within six months following the end of the financial year. In addition, insurers engaged in long term insurance business are required to submit an actuarial report and abstract together with the annual statutory returns.

The Board reviewed the returns to confirm their accuracy and compliance with relevant Rules and Regulations. Any deviations from statutory requirements were notified to the respective companies and instructions were given to take corrective action within stipulated deadlines.

Furthermore, material issues noted during the review of the returns were addressed at meetings and during onsite inspections conducted by the Board and guidance for corrective action was also provided to the insurers concerned.

Quarterly Returns

In accordance with the provisions of the Act, all insurers are required to submit their quarterly returns within forty five days of the end of each quarter. The Board reviewed the quarterly returns submitted by insurers for all four quarters of 2010 to ensure their timeliness, accuracy and compliance with relevant Rules and Regulations.

The Board scrutinized the information reported in the returns in order to ascertain the quarterly performance of all insurers. This included a comprehensive analysis of performance of insurers based on premium income, underwriting profit and net profit for different classes of insurance business and also for different insurance companies in order to ascertain the overall industry performance. Further, different ratios, namely, earnings and profitability, liquidity, capital adequacy, etc. were computed and analyzed by the Board in order to acquire an in depth knowledge about the companies' performance and financial position during 2010.

Monthly Returns

Two insurance companies were required to submit their monthly returns since the Board decided to closely monitor the financial position and the operations of the companies concerned. As per the directives issued by the Board,

they were required to furnish the monthly returns within fifteen days after the end of each month. If inaccuracies or discrepancies were noted during the course of the review of the returns, respective companies were advised to rectify the same within stipulated timelines.

2. Monitoring compliance with Solvency Margin Rules

All insurers are required to maintain the required solvency margins for both long term insurance and general insurance as per Long Term Insurance Solvency Margin Rules of 2002 and General Insurance Solvency Margin Rules of 2004.

The Board carefully observed the solvency margins of all the insurance companies for both long term insurance and general insurance sectors during the year 2010. Insurers are required to submit their quarterly solvency margin computations along with the quarterly returns and these computations were scrutinized to confirm that the companies maintain the required solvency margins as per the Board's Solvency Margin Rules. If the solvency margins were found to be inaccurately computed or if the insurers were unable to meet the required solvency margin, the relevant companies were advised to rectify the same and demonstrate compliance within the given time lines.

3. Risk Sensitive Capital Model for insurance industry supervision

In the year 2010, the Board continued its efforts in the project launched to develop a risk sensitive capital model for insurance industry supervision with the assistance of the World Bank. Through this project the Board expects to develop and implement a risk sensitive minimum capital regime which is consistent with the industry risk profiles, practices and market dynamics for the supervision of Sri Lankan insurance industry.

The first phase of the project, "market analysis report" was completed and the Board was working on finalizing the second phase of the project, "qualitative report" during the year 2010.

The market analysis report provided an overview of the Sri Lankan insurance industry by taking into account the macroeconomic aspects of Sri Lankan economy, market participants, investment portfolio, long term and general insurance sectors, distribution channels, products and services, etc. and broad validation of key issues relevant to the project. It outlined growth parameters and key factors influencing or likely to influence the industry and comprised of findings from the industry interactions. Further it included an introduction of risk based capital approach and the advantages of moving towards a risk based capital approach, etc.

The qualitative report proposes the principles and structure for a risk based solvency regime. Further, it identifies a suitable risk sensitive capital model, develops an understanding of preconditions and undertakes a comparison of advantages and disadvantages of selecting alternate models, etc.

The original time lines established to complete each phase of the project were revised due to the practical issues encountered during the course of the project.

4. Grant of new licences

The Board received an application from LOLC Insurance Company Limited for registration as an insurer to carry out long term and general insurance business.

The documents submitted by the company, namely, detailed business plan and organizational structure, forecasted financial statements prepared in accordance with the Statement of Recommended Practice for Insurance Contracts issued by the Institute of Chartered Accountants of Sri Lanka, certificate by the company's external auditor confirming the stated capital, reinsurance and credit rating details, etc. were evaluated by the Board before granting the licence.

Since the above documents fulfilled the requirements of the Board, licence was granted to the company to operate as an insurer.

5. Monitoring compliance with Investment Specifications

Investments in Government Securities

According to section 25 of the Act, not less than 20% of the assets of technical reserves for general insurance business and not less than 30% of the assets of the Long Term Insurance Fund for long term insurance business should be invested in government securities by all insurers. Therefore to confirm that the insurers comply with the said Rule, the Board closely observed the investments in government securities during all four quarters of 2010.

The Board scrutinized the statements of holdings issued by the Central Bank of Sri Lanka to confirm the accuracy of the figures reported in the returns and the title and ownership of investments in government securities. Any non-compliance noted in respect of investments in government securities was brought to the notice of the companies concerned for rectification. Further, the Board evaluated the investments in government securities at market prices based on the information contained in quarterly returns, statements of holdings and relevant interest rates with the objective of ascertaining the liquidity position of the investments.

Other investments as per Determinations

Insurers are required to invest the balance assets of the technical reserves and Long Term Insurance Fund as specified in Determination 1 promulgated under the Act. The Board continuously monitored each insurer's investments to confirm that they comply with the Determination 1. Insurers were instructed to comply with the said Determination if deviations were identified by the Board.

6. Risk Based Supervision

The Board conducted onsite inspections at MBSL Insurance Company Ltd, Life Insurance Corporation (Lanka) Ltd. and People's Insurance Ltd. based on the risk based supervisory framework referred to as "CARAMELS" framework during the year 2010. Accordingly, the inspections focused on assessing the risk profiles of the insurers with respect to Capital (C), Assets (A), Reinsurance (R), Actuarial Liabilities (A), Management (M), Earnings (E), Liquidity (L) and Subsidiaries (S) and such areas were evaluated for compliance with the Act. Further special focus was given on areas where the companies lacked proper policies and procedures and recommendations were given to improve the circumstances by our onsite inspection reports after obtaining the feedback of the respective companies with regard to the Board's observations and recommendations.

7. Evaluation of new insurance products

During the year, the Board evaluated the policy documents of new insurance products which were submitted by the insurers prior to their introduction to the market. The Board obtained the assistance of its consultant actuary in the product evaluation process and any changes to be made to the terms and conditions of the policy documents were notified to the companies concerned.

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

The Board submits information to the Financial System Stability Department of the Central Bank of Sri Lanka on the performance and financial position of insurers on a quarterly basis. An in depth analysis of areas such as revenue, profitability, liquidity, capital, reinsurance, actuarial issues, etc. was carried out for each insurance company in order to identify the individual company performances over the four quarters of 2010. Further the results of individual companies were compared against their industry competitors in order to ascertain the overall performance of the insurance industry.

9. New Solvency Margin Rules and Determinations

Amendments to the existing Solvency Margin Rules for both long term and general insurance and Determinations were initiated by the Board during the year 2010.

Review of Operations

Accordingly, the Solvency Margin (Long term Insurance) Rules of 2002 and Solvency Margin (General Insurance) Rules of 2004 and Determinations were amended by the Board after considering changes and developments taking place in the insurance industry which came into effect from 01st April 2011. Therefore, the Board has also drafted new reporting formats in line with the new Solvency Margin Rules.

10. Review of Reinsurance Arrangements

According to the Act all insurers are required to furnish the Board with certified copies of its reinsurance treaties, contracts and arrangements annually. The said documents were perused by the Board to ensure that the risks of the policyholders and insurers are sufficiently covered by the reinsurance arrangements obtained. The insurance companies should always comply with the guidelines issued by the Board under section 31(1) of the Act when they enter into reinsurance arrangements with various reinsurers.

11. Circular No. 29 - Auditor's Report

The Board informed the auditors of all insurance companies to state in their report to the shareholders that the companies are compliant with the sections given in Circular No. 29 with effect from the financial year ending 31st December 2010. The Institute of Chartered Accountants of Sri Lanka (ICASL) proposed to develop guidelines for the agreed procedure engagement, in order to comply with the said Circular. The Board had agreed to this proposal and requested the Audit Faculty of ICASL to develop the said guidelines to be implemented for the year ended 31st December 2010.

Insurance Brokers

1. Review of Quarterly Returns, Interim Financial Statements and Audited Financial Statements

The Board reviewed quarterly returns submitted by insurance brokers for all four quarters of 2010. New quarterly return formats were introduced by the Board during 2010 with the publication of Gazette Notification No. 1642/16 (First Schedule) of 25th February 2010 with the objective of improving the regulatory reporting of insurance brokers. The brokers were required to prepare and submit their quarterly returns as per the new formats with effect from the quarter commencing from 1st April 2010. If any discrepancies, errors, etc. were noted during the review of the returns, the respective brokers were instructed to take corrective action within the deadlines stipulated by the Board. The Board also scrutinized the interim financial statements of brokers which were submitted along with the quarterly returns.

The insurance brokers are required by the Act to furnish their audited financial statements within six months of the expiry of the accounting period. They were perused by the Board to ascertain the financial position of the insurance brokers and in order to renew their registration for year 2011.

2. Conducting onsite inspections at insurance broking companies

The Board conducted onsite inspections of eighteen insurance broking companies during 2010 to ensure compliance with Rules and Regulations of the Board. During the inspections, special attention was given to monitoring premium remittances to insurers since it is required by section 89 of the Act, that the premiums collected by insurance brokers on behalf of insurance companies should be remitted to the respective insurers within two weeks from collection. Corrective measures were recommended for those brokers that did not comply with this requirement.

3. Renewing licences

The applications received for the renewal of annual licences of insurance brokers to carry out operations during 2011 were approved after evaluating their financial stability. The audited financial statements and quarterly returns of brokers were evaluated to confirm that they fulfill the requirements of the Board prior to the renewal of licences.

4. Grant of new licences

The Board received eight new applications for registration as insurance broking companies during 2010. The Board evaluated the financial stability of the new applicants and the requirements that they have to fulfill in order to grant registration. Where the applicants did not satisfy the requirements, they were instructed to fulfill the same or submit additional documents for further analysis.

REGULATORY REVIEW

Registration of Insurance Companies

LOLC Insurance Company Limited, the 19th insurance company which comes under the purview of the Board is a fully owned subsidiary of Lanka ORIX Leasing Company PLC. The Board having considered its application to carry on long term insurance business and general insurance business granted registration to the company as an insurer under the Act in view of the company satisfying all requirements under the Act.

Appendix I: Names of all insurance companies registered with the Board and the class/classes of insurance business they are permitted to carry on.

Registration of New Insurance Broking Companies and Renewal of Registration of Insurance Broking Companies

Applications from 08 companies seeking registration as insurance brokers were received by the Board. However, the Board has not considered granting registrations to such companies during the year due to insufficient information provided by them.

Applications from 39 insurance broking companies seeking renewal of registration for year 2011 were received by the Board for which renewal of registrations were granted to all such companies in view of them fulfilling necessary requirements under the Act for renewal of registration.

During the year, Lanka ORIX Insurance Brokers Limited held by Lanka ORIX Leasing Company PLC informed the Board that they are taking steps to wind up business operations in order to facilitate LOLC Insurance Company Ltd. to commence its operations as an insurer. As the holding company of both Lanka ORIX Insurance Brokers Limited and LOLC Insurance Company Ltd. is Lanka ORIX Leasing Company PLC, Lanka ORIX Insurance Brokers Limited had to wind up its operations prior to the commencement of commercial operations by LOLC Insurance Company Ltd. in order to be in compliance with section 33 of the Act.

Registration of Visionwide Insurance Brokering & Financial Services (Pvt) Ltd. lapsed since they did not submit their renewal application as at 31st December 2010. The Board has informed the company to refrain from acting or holding themselves out as an insurance broker with effect from 1st January 2011.

Appendix II: Names of all insurance broking companies registered with the Board and the class of insurance business they are permitted to carry on.

Enforcement Action Insurance Companies

Suspensions

The Board has not imposed any suspensions on an insurer during the year. However, the suspension imposed on Ceylinco Takaful Limited continued during the year in terms of section 18 of the Act.

Registration of Ceylinco Takaful Limited was suspended in respect of general insurance business since 5th August 2009. Initially the Board suspended the registration of the company in view of the directors and the principal officer of the company being unable to carry out the functions required to be performed by them. Thereafter, the company failed to maintain the minimum solvency margin requirement stipulated in the Solvency Margin Rules. The Board having considered the interests of policyholders issued directions to the company, *inter alia*, restricting the company from performing any financial transaction without the prior written consent of the Board. The Board is also facilitating the company to settle all genuine insurance claims.

Directions

The Board issued a direction to an insurance company in terms of section 99(2) of the Act with regard to advertisements of such company, where the Board was of the opinion that information contained therein was misleading in nature. According to the direction the advertisements were amended.

Further, the Board issued a direction to Ceylinco Takaful Limited under section 57 of the Act. It was observed by the Board that Ceylinco Takaful Limited has failed to maintain the minimum amount required to be in Government Securities as per section 25(1) of the Act. Further, the company has failed to maintain the solvency margin requirement stipulated under section 26 of the Act. Accordingly, the said direction was issued to Ceylinco Takaful Limited requiring the company, *inter alia*, to refrain from selling, disposing or alienating the assets of the company without prior written approval of the Board and to submit to the Board all information submitted with quarterly returns on monthly basis. The company was required to demonstrate compliance with several other directions as well in order to ensure the financial stability of the company.

In addition to above, a close and continuous monitoring was carried out by the Board in respect of previously issued directions to insurance companies, in order to determine whether the respective insurers have adhered to same.

Review of Operations

Insurance Broking Companies

Warnings

The Board issued letters of warning in terms of section 84(1) (d) of the Act to 10 insurance broking companies since they failed to comply with section 89 of the Act.

Section 89 of the Act, *inter alia*, requires insurance brokers to remit insurance premia collected by them on behalf of insurance companies within two weeks of collection.

Section 84(1) (d) of the Act, empowers the Board to suspend, cancel or refuse to renew registration granted to an insurance broker if the Board has issued warnings on at least 3 separate occasions.

Regulatory/Advisory Measures

1. An insurer sought permission from the Board to underwrite title insurance for properties in United Kingdom. The Board contacted the Financial Services Authority (FSA), United Kingdom to determine if approval of FSA or any other regulator was needed in respect of above. The FSA informed that no authorization from FSA is required to underwrite title insurance although certain requirements needed to be satisfied by such insurers. The Board advised the company accordingly.
2. The Board issued several directions to an insurance company in year 2009, preventing them, *inter alia*, from opening of new branches without prior written approval of the Board. Therefore, the said insurer sought approval of the Board to open new branches in Mannar and in Uragasmanhandiya. Upon careful examination of all the information provided by the company regarding the matter, the Board informed the company that it has no objections to the opening of such branches.
3. An insurer sought permission of the Board to commence a project to underwrite weather index based crop insurance and livestock insurance. This product aimed at selling at village level. After careful examination of all the documents, the observations of the Board were informed to the company for them to effect necessary changes to policy documents prior to such issue.
4. According to section 14 of the Financial Transactions Reporting Act, No. 06 of 2006 (FTR Act), every insurance company is required to appoint a compliance officer who is responsible for ensuring the institution's compliance with the requirements under the FTR Act. The Board was informed by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka (CBSL) that two insurance companies had not complied with such requirement under the FTR Act. Accordingly, such insurance companies were informed to keep the FIU of the CBSL and the Board informed of the details of their compliance officers.
5. An insurer sought clarifications from the Board with regard to the applicability of Determination 1 dated 30th October 2002, issued by the Board, pertaining to an investment in a foreign company which is a fully owned subsidiary of such company. They have further informed that the external auditors of the company had raised a query in this regard stating that an investment made by the company from Shareholders' Fund is in violation of Determination 1 dated 30th October 2002, as it exceeds the maximum percentage of investments that could be held in any single investment. Upon careful examination of the facts, the Board informed the insurance company that they are not in violation as the said investment was made out of the Shareholders' Fund and such Determination only applies to investments from the Technical Reserve and the Long Term Insurance Fund.
6. An insurer sought the approval of the Board for the appointment of a foreign actuary who is a Fellow of the Society of Actuaries USA. In terms of the provisions of the Act, a person to function as an actuary in Sri Lanka should be a Fellow of the Institute of Actuaries in England or of the Faculty of Actuaries in Scotland or a Fellow of any other professional Actuarial Institute approved by the Board. Therefore, the Board inquired from the Institute of Actuaries in England whether a Fellow of the Society of Actuaries, USA is equivalent to a Fellow or an Associate of the Institute of Actuaries in England and they responded in affirmative. Accordingly, the Board accepted the "Fellow of the Society of Actuaries USA", within the scope of section 114 of the Act and the company was informed accordingly.
7. An insurer sought the approval of the Board to invest a further sum in a foreign subsidiary. Such foreign subsidiary was a registered insurer of a South Asian country who was granted with a licence by the respective regulatory authority of such country to carry on insurance business. Since the said regulatory authority required such foreign subsidiary to increase the paid up share capital of the company, the local insurer decided to make such investment from the Shareholders' Fund of such company. The company sought the approval of the Board in terms of section 25(3) of the Act to proceed with their decision of such investment. As the proposed investment was

in compliance with the Insurance Board Regulations, 2005 (Gazette No. 1414/19 - 12th October 2005) issued in terms of section 25(3) of the Act the Board granted approval for the said investment subject to obtaining clearance from the Exchange Control Department of the Central Bank.

8. An insurer sought the view and the consent of the Board for the mid year valuation and profit transfer to shareholders from the surplus of the long term operation of the company. Further, the company has informed the Board that they plan to declare an interim bonus to the policyholders upon the completion of an actuarial valuation. Having examined the request, the Board informed the said insurer to comply with sections 44 and 48 of the Act.

Section 44 of the Act states that no insurer who carries on long term insurance business shall, for the purpose of declaring or paying any dividend to shareholders or any bonus to its policyholders, or of making any payment in service of any debentures, loans or advances on account, utilize directly or indirectly any portion of the Long Term Insurance Fund or of the funds of such other class of insurance business, except a surplus shown in the valuation balance sheet submitted to the Board.

Further, section 48 of the Act states that every insurer shall, in respect of all long term insurance business transacted by such insurer, cause an investigation to be made by an actuary within such period after the close of the financial year as the Board may determine and shall cause an abstract to be made in accordance with Rules made in that behalf by the Board in order to find out whether the reserves of the insurer are adequate to meet all liabilities current and contingent of its policyholders and determine the surplus, and shall recommend the quantum of bonus that may be paid to policyholders.

Further, in terms of section 38(4) of the Act, the insurer was informed not to transfer or otherwise apply assets representing any part of that surplus, unless the company has allocated for the payment of bonuses to policyholders at least ninety per centum of such surplus.

9. The Registrar General of Companies sought the view of the Board regarding registration of a company that mentioned providing of services for insurers and reinsurers as the objective in the Articles of Association of the said company. After examination of the Articles of the company, the Board informed

the Registrar General of Companies that it has no objections to the registration of such company as the objectives of the company do not contemplate an intention to engage in insurance activities within Sri Lanka.

10. The Board has issued a direction to an insurer in the year 2009, preventing them from making any payments to its related companies. The said insurer sought the approval of the Board to purchase a land from a related company. Since there was a Supreme Court Order directing all companies of the group in which such insurer is a member to transfer to a Trust or a Special Purpose Vehicle all investments and assets of such group of companies excluding the assets and investments of all Registered Finance Companies, Registered Leasing Companies, Banks and the said Insurance Company subject to any rulings given by the regulatory authorities, the Board sought the opinion of the Hon. Attorney General regarding same. The Board also inquired from the Central Bank of Sri Lanka (CBSL), the respective regulatory authority of such company from which the said insurer intended to purchase the land whether they have imposed any rulings on such company preventing them from transfer of property. The CBSL has responded and confirmed that the said company has no legal impediment to transfer its assets to a third party during the course of its normal business operations. The Board is awaiting the response of the Hon. Attorney General to finalize the matter.
11. An insurer sought the approval of the Board to invest in Derivatives. Investing in Derivatives is not a permitted investment out of the Long Term Insurance Fund or the Technical Reserves of an insurer as per Determination 1 dated 30th October 2002 issued by the Board. Therefore, the Board informed the company that they may make such investment out of the Shareholders' Fund but not out of the Long Term Insurance Fund or the Technical Reserves of the company.
12. During the course of review of Audited Financial Statements of an insurer, it was noted that the company has not recognized a facultative reinsurance payable as a creditor of the company. The auditors of the insurer has also qualified the opinion that such reinsurance creditor should be recognized in the financial statements for the year ended 31st December 2009 and the loss for the year should be increased by the said amount. Having computed the impact of above on the solvency position of the company it was noted by the Board that the solvency

Review of Operations

ratio of the company had declined as a consequence and a solvency deficit had been identified.

Accordingly, the Board required the company to infuse capital immediately in order to remedy the solvency deficit emerged as a result of non-recognition of reinsurance creditors. Subsequently, the company infused capital and informed the Board.

13. An insurer, who has obtained registration only to carry on general insurance business, informed the Board that they have made arrangements to issue a Group Personal Accident Policy to a certain customer group for a period of one year covering accidental death and have further stated that this policy will be extended to include natural death cover for the same period. Upon examination of the related documents, the Board required the company to refrain from launching the product as the said policy intended to cover natural death which cannot be considered under general insurance business.
14. The Board received a proposal from a company established in London to form a company in Sri Lanka to carry on reinsurance business. After a preliminary study of the Act, it was observed that there were no specific provisions which permit the Board to register reinsurance companies. Therefore, the opinion of the Hon. Attorney General was sought on the possibility of registering a company as an insurer to carry on reinsurance activity in Sri Lanka under the powers vested with the Board in terms of the provisions of the Act and is awaiting the opinion.

Regulatory Reforms Amendments to the Act

The amendments to the Act were passed in Parliament in January 2011. The significant amendments are as follows:

- The Director General of the Securities and Exchange Commission of Sri Lanka who was a member of the Board was substituted by the Registrar General of Companies.
- Provisions are introduced to register persons as loss adjusters.
- Companies carrying on both classes of insurance business (i.e. long term insurance business and general insurance business) are required to segregate their business into two separate companies within a period of 4 years from the date of the coming into operation of the Amendment Act, being 7th February 2011.

- Existing insurers upon fulfilling the segregation requirements contained in the Amendment Act and other insurers are required within 5 years of the date of the coming into operation of the Amendment Act, to have itself listed on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No.36 of 1987.
- A company seeking registration as an insurer will be permitted to carry on only one class of insurance business and such company will have to list itself on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No.36 of 1987 within a period of three years from the date of registration.
- Directors, specified officers and principal officers of insurance companies are required to have fit and proper criteria for appointments and to continue in the Board of such company.
- Corporate bodies will become eligible to be registered as insurance agents.
- The Board is empowered to increase the capital of registered insurance companies and broking companies even after registration, by Rules made in that behalf.
- The National Insurance Trust Fund (NITF) is deemed to be an insurer registered under the Board on the date of coming into operation of the amendment. The NITF was established by Act, No. 28 Of 2006 and was initially established as an institution to implement insurance schemes introduced by the government from time to time to safeguard the public and local government service officials from problems they face. Since 2007 and 2009 they have extended their services to provide reinsurance and direct general insurance business respectively.

Regulating the Micro Insurance Sector

Studies have been carried out throughout the year in order to bring the unregulated micro insurance industry within the regulatory framework of the Board. Extensive research on the subject aimed at examining the operations of micro insurance market was carried out while studying the international trends in regulating the micro insurance industry. Suitable amendments to the Act have been identified to empower the Board to register and regulate micro insurance providers. However, the regulatory framework to regulate and supervise micro insurance providers are not yet completed.

Regulating the Superannuation Benefit Funds

According to the Central Bank of Sri Lanka (CBSL), there are about 171 Approved Provident Funds (APFs) and Contributory Pension Schemes (CPSs) operating in Sri Lanka as at June 2010, with about approximately 157,494 members and assets amounting to Rs. 125 billion. These funds are registered with the Commissioner of Labour in terms of section 27 of the Employees Provident Fund Act, No.15 of 1958.

As the EPF Act does not specifically refer to prudential regulation and supervision of APFs/ Pension Funds, the CBSL requested the Board to prepare necessary legal provisions to the Regulation of Insurance Industry Act No.43 of 2000 to enable the Board to regulate and prudentially supervise private superannuation funds.

Therefore, the Board has submitted the proposed changes to the Act to the Ministry of Finance and Planning to proceed with the introduction of regulation and the prudential supervision of private superannuation funds.

Gazetting of new Quarterly Returns of Brokers

Amended Rules on Broker's Quarterly Returns have been published in the Government Gazette No.1642/16 dated 25th February 2010 and subsequently all broking companies were informed of same. The amended Broker's Quarterly Returns introduces a more stringent reporting format. However, certain reporting requirements have been eliminated thereby making the Quarterly Returns format more user friendly and effective.

Qualifications to register as principal officers and directors of insurance broking companies

Amended Rules on qualifications of principal officers and directors of insurance broking companies have been published in the Government Gazette No.1642/16 dated 25th February 2010. The amendment has introduced fit and proper criteria for the appointments of principal officers and the scope of qualifications has been widened. Further, a qualification criterion which requires academic or professional qualifications or effective experience together with fit and proper criteria has been introduced for the appointment of directors of insurance broking companies. Prior to this amendment no qualifications were needed to be appointed as directors of insurance broking companies.

Revision of the paid up share capital requirement to be considered as an insurer

Regulations published in Gazette Extraordinary No.1414/19 of 12th October 2005 in respect of the paid up share capital of a company seeking registration as an

insurer has been revised by the Board from Rs. 100 million per class of insurance business to Rs. 500 million per class of insurance business.

Revision of Insurance Agents Qualification Rules

The Board has specified qualifications for individuals to function as insurance agents by Insurance Agent Qualification Rules, published in Gazette Extraordinary No.1255/3 of 23rd September 2002. Such Rules were amended by Insurance Agent Qualification (Amendment) Rule, 2004 published in Gazette Extraordinary No.1341/8 of 17th May 2004. These Rules have been further amended by the Board, by Gazette Extraordinary No.1674/4 dated 5th October 2010 in order to widen the criteria of qualifications specified in the previous Rules.

The previous Rules *inter alia* required individuals to possess at least six passes in the G.C.E (Ordinary Level) examination including an ordinary pass for Mathematics or Arithmetic in order to be registered as an insurance agent.

The amended Rule requires a pass in the G.C.E (Ordinary Level) examination with at least a simple pass in Mathematics or Arithmetic and at least a simple pass in Sinhala or Tamil or English language. The new amendment also caters for other similar or higher level relevant qualifications than that specified above, provided that the approval of the Board is obtained on a case by case basis.

Revision of Solvency Margin Rules and Determination 1

The Board has revised the Solvency Margin (General Insurance) Rules published in Gazette Extraordinary No.1341/8 of 17th May 2004 and the Solvency Margin (Long Term) Rules published in Gazette Extraordinary No.1255/12 of 24th September 2002. Accordingly, the Solvency Margin Rules of the Board have been revised to meet the varying requirements of the insurance industry and the trends of commercial affairs of the fast moving world. These revisions have been published in Gazette Extraordinary No.1697/27 of 18th March 2011 and came into effect from 1st April 2011.

Determinations

- Determination No. 2 of 30th October 2002 which stipulates the time period to be specified in the proviso to section 33 of the Act was repealed and replaced by Determination No. 2 of 23rd August 2010. According to the requirements stipulated in the previous Determination if an insurer or the holding or associate or subsidiary company of an insurer or director, principal officer or specified officer of an insurer or the director or chief executive officer of

Review of Operations

a holding or associate or subsidiary company of an insurer was a shareholder, director or employee of any company registered as an insurance broker, such insurer or person was required to relinquish such directorships or employment within a period of two weeks from the date of registration. The amendment extends this time period up to a period of three months and however grants the discretion to the Board to determine the time period on a case by case basis.

- Determination 1 dated 30th October 2002 stipulates the manner that should be followed in investing the balance assets of the Long Term Insurance Fund and of the Technical Reserve after investing in government securities. The Board has widened the scope of such investment parameters introduced by Determination 1 dated 30th October 2002 through an amendment. Such amendments are effective from 1st April 2011.

Guidelines to Auditors of Insurers - Circular 29

The Circular sets out reporting guidelines for auditors of insurers to be included in their reports. This is in addition to the requirements of section 47(2) of the Act. The scope of these guidelines are for auditors to verify certain compliance status of insurers when conducting its audit.

Measures to strengthen the confidence of the industry/general public (policyholders and potential policyholders) by expanding, strengthening and monitoring the regulatory process of the insurance industry

- Appropriate measures have been taken to raise public awareness on insurance through news paper articles and corrections have been effected to news items published on certain national news papers which could mislead the general public.
- The website of the Board was continuously updated with changes pertaining to information of the Board, revision of laws and important industry details.

INVESTIGATORY REVIEW

The Board inquires into matters concerning nonpayment of insurance claims, misappropriation of premium by agents and their qualifications and matters pertaining to various irregularities in the insurance industry. Hence, Investigation plays a vital role in ensuring confidence of policyholders, potential policyholders and the effectiveness

of the regulatory system. In order to handle complaints, the Board has in place a procedure that enables to maintain consistency in decisions.

Complaints

During the year under review, the Board examined a total of 214 complaints, details of which are given in Table 1 below:

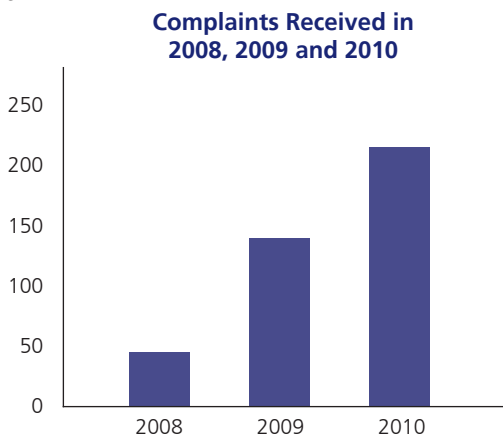
Table 1
Summary of Complaints

Nature of Complaint	Remarks
Life insurance claims and related matters	<p>Majority of matters referred in this category are with regard to non disclosure of material information at the time of obtaining the policy. All relevant information including verification from medical experts are examined in arriving at a decision.</p> <p>In this regard, an opinion from the Hon. Attorney General was sought with regard to the degree of proof required when applying section 41 of the Act in connection with challenging non disclosure after 2 years of obtaining the policy.</p>
Motor insurance claims	<p>In this category, the reasons for repudiation varies from non disclosure to deduction of sums, policy being lapsed due to non payment of premium during the Premium Payment Warranty period, pending court cases, information given being inconsistent with the accident, withholding of information and the policy not having adequate cover. When resolving motor claims, the Board does a comprehensive examination of documentation including investigation reports, assessment reports and where necessary opinion of automobile experts.</p> <p>With regard to non payment of premium during the Premium Payment Warranty period, the Board initiated a dialogue with the industry in order to ensure that the 3rd party liability in a motor policy is kept alive at all times in terms of the Motor Traffic Act. The decision arrived has been forwarded to the Commissioner General of Motor Vehicles for a possible amendment to the Motor Traffic Act.</p>
Fire insurance claims	<p>Claims in this category are mostly repudiated on ground of direct and/or indirect involvement of the insured concerned. The Board examines all the documents submitted in this regard.</p>
Issues relating to agent qualifications and related matters	<p>The Board directed an insurer to terminate a particular agent for not having the required qualifications.</p>
Marine insurance claims	<p>Generally few complaints are received in these categories. A comprehensive analysis of the documents available is done in arriving at a decision.</p>
Burglary insurance claims	
Travel insurance claims	
Advance payment and performance bonds	
Natural disaster insurance claims	
Electronic equipments	
Loan protection	
Transit	
Other (PAFI Policy/Traders Combined)	

Review of Operations

In the year 2009, the Board took a decision to create a separate Investigation Division. It is noted from Chart 1 given below, that the number of complaints received by the Board has increased considerably. This is evidence of the public base that the Board has been able to reach during the years and the confidence placed on the Board by the policyholders.

Chart 1



Charts 2,3 and 4 depicts the comparison of long term and general complaints received during 2008, 2009 and 2010.

Chart 2

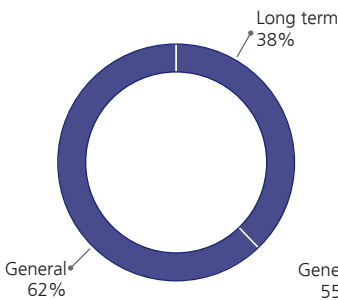


Chart 3

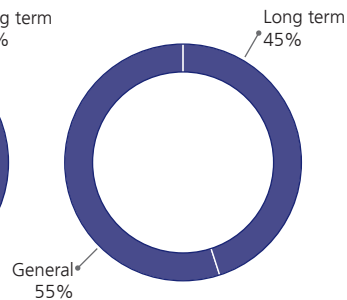
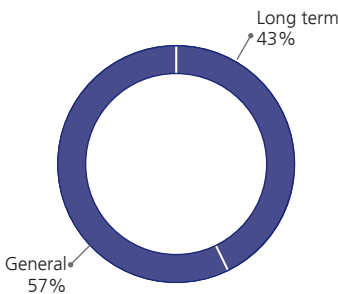


Chart 4



Other Investigations

During the period under review the Board inquired in to the accuracy of certain investments made by an insurance company. This investigation is currently at the conclusion stage.

A detailed investigation was also conducted regarding insurance business alleged to have been carried out by an entity not registered under the Act.

Matters of Public Interest

Awareness programmes to the public are initiated by categorizing types of complaints and identifying the key areas that needed to be addressed.

- As the number of complaints with regard to various issues on premium payment on long term insurance policies were on the increase, information was collected (from insurance companies conducting long term insurance business) with regard to cash based premium payments collected by agents without the issuance of receipts to policyholders.

The study conducted revealed the importance of obtaining a receipt/acknowledgment for the premium payments, effected by a policyholder whether by cash, cheque or other means.

The industry agreed to issue temporary receipt books to agents to overcome this issue.

A detailed public awareness was launched through print media in all three languages, stressing the importance of obtaining proof of payment.

- Attention was also given to the importance of making public aware of the requirements to be filled when entering into an insurance contract. A study was done by taking examples of complaints received.

Subsequently a public awareness campaign was carried out through print media highlighting the importance of making accurate disclosures at the time of obtaining a policy.

ADMINISTRATIVE REVIEW

Staff

The success of any regulatory authority largely depend on the expertise of people involved in its functions. As such, we believe that the human resource is the very backbone of the success strategy of the Board.

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

The Board took several key initiatives during the year under review to strengthen the human resource through timely recruitment of required professionals. One of the key highlights in this area is the establishment of a separate division to look into complaints and grievances of policyholders and matters pertaining to irregularities of insurance companies and insurance brokers. During the year the Board took measures to increase the total number of its staff to 31.

Training

The constantly changing external environment and the unique dynamics involved in insurance regulation, requires the Board to focus heavily on structured training for its employees. The training needs were focused on matching individual capabilities to expected business requirement and long term challenges. The Board allocated training not only for the senior management but also for the executive levels. Opportunities were given to participate in training programmes conducted locally as well as overseas.

In the year 2010, the staff participated in programmes conducted by the International Association of Insurance Supervisors (IAIS) held in India, Japan and Australia, EDHEC – Risk Institute in London, Financial Stability Institute in Lebanon and Switzerland, Toa Reinsurance Company in Japan, National Insurance Academy in India and Financial Services Authority in London.

Further, the staff participated in local programmes organized by the Colombo University, Institute of Personnel Management, Institute of Public Finance and Development Accountancy, Incorporated Council of Legal Education, Securities and Exchange Commission of Sri Lanka, Institute of Chartered Accountants of Sri Lanka, National Institute of Business Management and the Open University of Sri Lanka.

Table 1 below depicts the composition of training expenditure for 2009 and 2010:

Table 1

Category	2009 (Rs.)	2010 (Rs.)
Local training	929,688	1,648,253
Foreign training	1,486,171	2,792,679

Welfare

In order to maintain a high morale and motivate the staff in achieving the objectives of the Board, other than the provision of training facilities, the staff was provided with welfare benefits such as indoor and outdoor medical schemes, insurance covers and financial support schemes. The Board conducted its annual residential training programme on the theme of “Leadership Behavior Development”, for all staff during the year under review. The annual get together for the staff and their family members was held on aboard the “Jetliner”.

IT Infrastructure

During the period under review, an Automated Time and Attendance System was implemented in order to carry out the administration functions efficiently.

Installation of necessary updates, configurations, fine tuning the systems, and timely maintenance of the existing infrastructure were also carried out in order to maintain a high degree of accessibility and availability in the IT infrastructure.

Public Relations Training/Awareness Programmes and Seminars

1) Awareness Programmes conducted by the Board for the business community/general public/school children

The Board conducted several awareness and training programs during the year under review. The objective of the Board in conducting such awareness programmes is to enhance the knowledge on the subject of insurance, insurance industry and its latest developments.

The Board conducted an awareness programme for the members of the National Development Trust Fund in the Central Province on the “Role and Functions of the Insurance Board of Sri Lanka and the Importance of Insurance”.

2) Exhibitions

The Board participated in “Deyata Kirula” National Exhibition for the fourth consecutive year and put up a stall at the exhibition, at Pallekele, Kandy. The exhibition

Review of Operations

generated a vast influx of visitors, presenting the Board with a great opportunity to educate the public about the responsibilities and functions of the Board.

3) Publications

The Board prepared and distributed several publications in the year under review, with a view to facilitate public understanding about the important aspects of insurance that may assist them in obtaining insurance services.

The Board also published the following paper articles and press notices:

- a) paper articles were published regarding, "Insurance Board of Sri Lanka, its powers and functions" ,
- b) press notices on "list of registered insurance brokers"
- c) press releases on the following were published :
 - "An overview of Risk Sensitive Capital Model for the Insurance Industry Supervision" , and an article regarding the new registration granted to LOLC Insurance Company Limited
 - articles regarding enforcement actions initiated by the Board
 - a description regarding the forum facilitated by the Board to discuss industry issues under the heading "Insurance Regulator Meets the Industry"
 - a comprehensive analysis on half year insurance industry performance for 2010 which included information pertaining to the overall Gross Written Premium income for both classes of insurance (Long Term and General), growth rate of the insurance industry, total assets of insurance companies, investment in government securities, contribution of the insurance broking companies to the insurance industry, etc. with a comparison of the performance of the first half of 2009
- d) a full page newspaper supplement in Sinhala, Tamil and English on the occasion of His Excellency the President's swearing in for the second term of presidency.
- e) brochures -reprinted the brochure titled "Insurance Board of Sri Lanka" - The above brochure was reprinted with new information in Sinhala language. This provided information on diverse topics that are useful to policyholders both existing and potential, when dealing with matters relating to insurance

4) Press Conference

A press conference was organised in order to disseminate the information pertaining to the performance of the insurance industry during the year 2009. More than thirty journalists from print media, radio and television channels were present.

Other Activities

1) Insurance Agents' Database

In terms of section 78 (1) and (2) of the Act all insurance companies are required to maintain and updated database on a continuous basis in the individual websites of the companies giving agents' information with access to the Board. These databases were further modified to be user friendly.

2) Compliance with Directive 1 promulgated under section 99 of the Act

In terms of the above Directive insurance companies submit the compliance certification to the Board, whenever they issue a new advertisement to the media. During the period under review, eight (08) insurance companies submitted compliance certification for twenty four (24) advertising campaigns. The Board, having reviewed the advertisements, inquired into three (03) such advertising campaigns.

3) Filing of Insurance Policies

The Board received thirty six (36) new insurance policies from insurance companies during the year under review. After scrutinising these proposed products, the Board suggested improvements to be made to certain products.

4) Public Consultations

During the year under review, the Board attended to numerous inquiries and grievances from the insuring public as well as from other stakeholders requesting information relating to the industry and making inquiries on insurance related matters.

The Board, while identifying the importance of providing education on the subject of insurance to school children, took the initiative of distributing "Insurance and Insurance Market", a book authored in Sinhala by Mr. Nimal Perera, among schools offering Commerce stream for the Advanced Level Examinations.

FINANCIAL REVIEW

Policyholders' Protection Fund (PPF)

In terms of section 103 of the Act, the Board is required to establish a PPF with monies received from the Cess levy at such rates as may be determined by the Minister with the concurrence of the Board from time to time and to publish a notice in the Gazette as provided under section 7 of the Act.

Accordingly, an order was published in Gazette Notification No. 1244/5 dated 9th July 2002 for the levy of Cess at the rate of 0.2% of the annual net written premium for long term insurance business, and 0.4% of the annual net written premium for general insurance business. The Cess is received on a quarterly basis and falls due on or before the end of the first month following the end of each quarter.

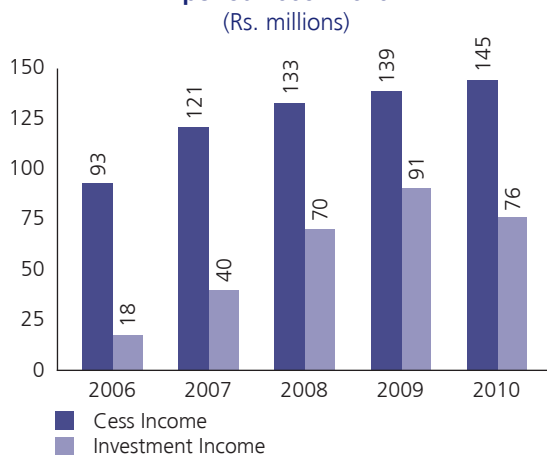
In terms of the Regulations, monies lying to the credit of the fund shall be utilized for general protection of the policyholders and for any other specific purpose as may be determined by the Board.

According to section 103(3) of the Act, any money which is not immediately required for any of the purpose referred to in subsection (2) shall be invested by the Board in a prudent manner to yield good returns.

Chart 1 depicts the Cess income received and investment income earned by the PPF for the period 2006 to 2010:

Chart 1

Cess Income and Investment Income of the Policyholders' Protection Fund for the period 2006 - 2010

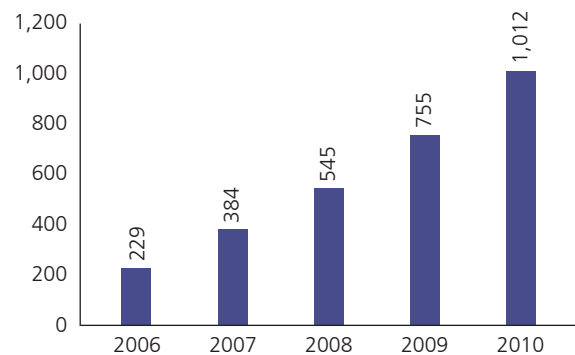


The above Chart illustrates the growth of the Cess income over the last five years. The investment income has also shown a steady increase from 2006 to 2009 though it has decreased in 2010 compared to 2009 due to the drop in interest rates during 2010.

Value of the PPF has increased over the last five years and the following Chart depicts the same:

Chart 2

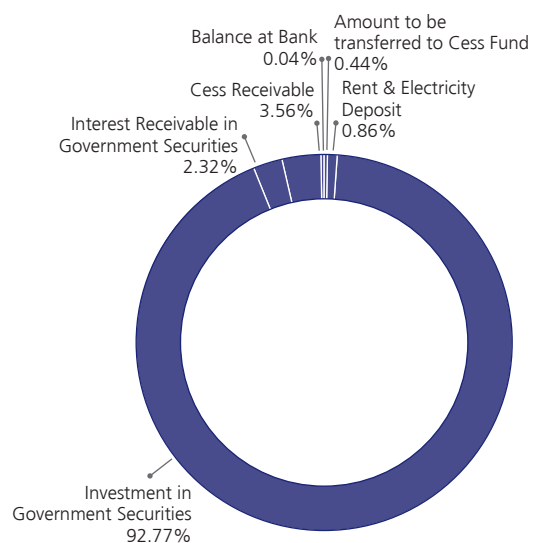
Policyholders' Protection Fund Values for the period 2006 - 2010
(Rs. millions)



PPF is invested to obtain the maximum return and composition of assets of the Fund as at 31st December 2010 is depicted in Chart 3 below.

Chart 3

Asset Composition of Policyholders' Protection Fund as at 31st December



Review of Operations

Income of the Board

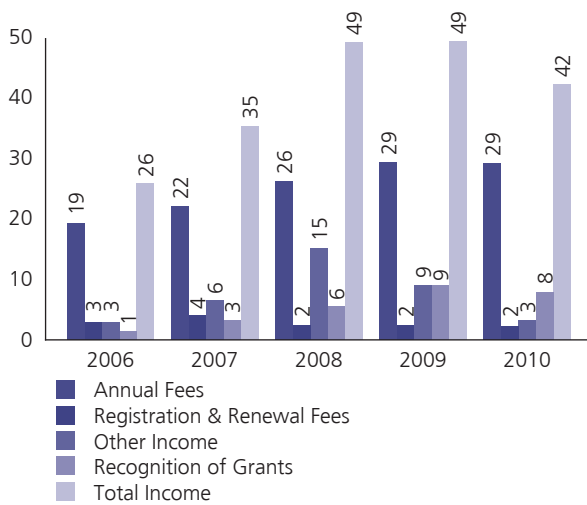
The overall income of the Board is derived from the following sources.

- Annual Fee levied on insurance companies
- Registration fees received from insurers and insurance broking companies
- Fees charged annually for the renewal of registration of insurance broking companies
- Interest income received by investing surplus funds

Chart 4 depicts the breakup of overall income received for the period 2006 to 2010:

Chart 4

Breakup of Income of the Board for the period 2006 - 2010
(Rs. millions)



Expenses of the Board

Chart 5 depicts the total expenses of the Board for the period 2006 to 2010:

Chart 5

Total Expenses of the Board for the period 2006 - 2010
(Rs. millions)

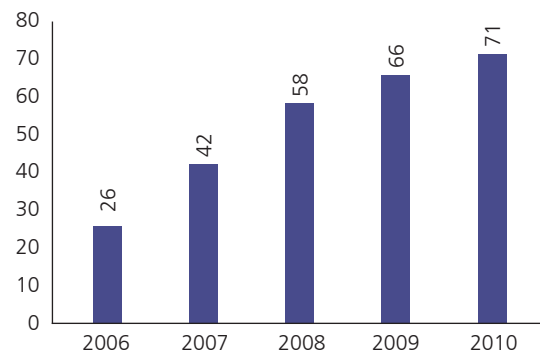


Chart 5 indicates that the total expenses of the Board had increased from 2006 to 2010. The deficit between income and the expenses had been financed from the PPF in accordance with the provisions of the Act.

Financial Information

Content

Balance Sheet	48
Income & Expenditure Statement	49
Statement of Changes in Reserves	50
Cash Flow Statement	51
Policyholders' Protection Fund	
Cash Flow Statement	52
Accounting Policies	53
Notes to the Financial Statements	55


Balance Sheet

As at 31st December 2010	Notes	As at 31.12.10 Rs.	As at 31.12.09 Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	1	16,818,661	23,560,924
Policyholders' Protection Fund-Rent and Electricity Deposits	2	8,728,590	7,732,116
Current Assets			
Inventories	3	312,131	248,920
Policyholders' Protection Fund-Investments and Others	2	1,003,081,520	747,341,427
Other Current Assets	4	7,211,192	23,071,083
Investments in Government Securities		5,000,000	50,181,430
Cash and Cash Equivalents	5	1,606,283	1,573,717
Total Assets		1,042,758,377	853,709,617
Reserves and Liabilities			
Reserves			
Accumulated Fund	6	-	67,828,254
Policyholders' Protection Fund	7	1,011,810,110	755,073,543
Liabilities			
Non Current Liabilities			
Grant	8	15,906,644	21,949,005
Retirement Benefit Obligation	9	1,444,533	876,171
Interest Bearing Borrowings	10	361,872	1,124,441
		17,713,049	23,949,617
Current Liabilities			
Receipt in Advance		2,350,018	1,873,602
Other Current Liabilities	11	10,122,631	4,244,020
Current Portion of Interest Bearing Borrowings	10	762,569	740,581
		13,235,218	6,858,203
Total Reserves & Liabilities		1,042,758,377	853,709,617

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

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes appearing on pages 53 to 59.

For and on behalf of the Insurance Board of Sri Lanka



Mrs. Indrani Sugathadasa
Chairperson



Mr. D. Widanagamachchi
Member

Colombo, Sri Lanka
21st February 2011

Income & Expenditure Statement

For the Year Ended 31st December 2010

	Notes	Year Ended 31.12.10 Rs	Year Ended 31.12.09 Rs
Income			
Revenue	12	31,496,975	31,848,752
Government Grants	-	-	-
Recognition of Grant	8	7,520,440	8,534,921
Interest Income		3,064,491	8,745,652
Other Income	13	224,167	275,196
Total Income		42,306,073	49,404,521
Less:			
Expenditure			
Staff Costs		28,974,292	26,514,536
Professional Charges		1,076,189	585,000
Administration and Establishment Expenses		41,190,501	38,616,711
Finance and Others		242,115	181,491
Total Expenditure		71,483,097	65,897,738
Net Deficit Before Tax	14	(29,177,024)	(16,493,217)
Transfer from Policyholders' Protection Fund	7	30,472,838	17,126,937
Taxation	15	(1,295,814)	(633,720)
Net Deficit After Tax		-	-
Net Surplus for the Year		-	-

The Accounting Policies and Notes appearing on pages from 53 to 59 form an integral part of the Financial Statements.

Statement of Changes in Reserves

For the Year Ended 31st December 2010	Year Ended 31.12.10 Rs.	Year Ended 31.12.09 Rs.
Accumulated Fund		
Balance at the beginning of the year	67,828,254	67,828,254
Adjustment made within the year - Note A	(67,828,254)	
Net Surplus/(Deficit) for the year	-	-
Balance at the end of the year	-	67,828,254

Note A

The amount of Rs. 67,828,254 appeared in the Accumulated Fund was the total of transfers in excess from Policyholders' Protection Fund since 2003. This amount was transferred back to the Policyholders' Protection Fund in the year 2010.

The Accounting Policies and Notes appearing on pages 53 to 59 form an integral part of the Financial Statements.

Cash Flow Statement

For the Period Ended 31st December 2010

	Note	Year Ended 31.12.10 Rs	Year Ended 31.12.09 Rs
Cash Flows from Operating Activities			
Net Increase/(Decrease) for the Period		-	-
Adjustment for Depreciation		8,220,340	8,365,646
Provision for Retirement Benefit		568,362	83,045
Loss on Disposal		-	54,048
Recognition of Grant		(7,520,440)	(8,534,921)
Income Tax		1,295,814	633,720
Interest Income		(3,064,491)	(8,745,652)
Net Increase before Working Capital Changes		(500,415)	(8,144,114)
Change of Working Capital			
(Increase)/Decrease in Inventories		(63,210)	37,458
(Increase)/Decrease of Receivables		10,990,533	(14,790,080)
Increase/(Decrease) of Receipt in Advance		476,416	129,852
Increase/(Decrease) of Creditors and Accruals		5,878,611	1,897,516
Cash Flow used in Operating Activities		17,282,350	(12,725,254)
Net Cash Flows from Operating Activities		16,781,935	(20,869,368)
Cash Flows from/(used in) Investing Activities			
Investment in Government Securities		(22,646,824)	10,607,916
Interest Income		6,638,036	8,520,014
Proceeds from Sale of Property, Plant and Equipment		-	128,900
Purchase of Property Plant and Equipments		(1,478,079)	(3,012,658)
Net Cash used in Investing Activities		(17,486,867)	16,244,172
Cash Flow from Financing Activities			
Capital transfer from Policy Holders Protection Fund		1,478,079	3,012,658
Increase in Finance Lease		(740,581)	(982,525)
Net Cash Flows from Financing Activities		737,498	2,030,133
Net Increase/(Decrease) in Cash and Cash Equivalents		32,566	(2,595,062)
Cash and Cash Equivalents at the beginning of the year		1,573,717	4,168,779
Cash and Cash Equivalents at the end of the year		1,606,283	1,573,717
Cash at Bank and In Hand	5	1,606,283	1,573,717

The Accounting Policies and Notes appearing on pages 53 to 59 form an integral part of the Financial Statements.

Policyholders' Protection Fund

Cash Flow Statement

For the Year Ended 31st December 2010		Year Ended 31.12.10 Rs	Year Ended 31.12.09 Rs
	Note		
Cash Flows from Operating Activities			
Net Increase of Policyholders' Protection Fund		256,736,567	209,726,083
Net Increase before Working Capital Changes		256,736,567	209,726,083
Change of Working Capital			
(Increase)/Decrease of Interest Receivable on Government Securities		19,821,349	(25,995,593)
(Increase)/Decrease of Cess Receivable		3,636,910	(5,014,466)
(Increase)/Decrease of Rent Deposit		(996,474)	(314,676)
Increase/(Decrease) of Amount to be Transferred from Cess Fund		(17,133,531)	12,639,596
		5,328,254	(18,685,139)
Net Cash from Operating Activities		262,064,821	191,040,944
Cash Flow into Investing Activities			
Investments in Government Securities		(266,982,178)	(189,022,637)
Net Cash from Investing Activities		(266,982,178)	(189,022,637)
Net Increase/(Decrease) in Cash and Cash Equivalents		(4,917,357)	2,018,307
Cash and Cash Equivalents at the beginning of the year		5,344,637	3,326,330
Cash and Cash Equivalents at the end of the year		427,280	5,344,637
Cash at Bank	2	427,280	5,344,637

The Accounting Policies and Notes appearing on pages 53 to 59 form an integral part of the Financial Statements.

Accounting Policies

1. Significant Accounting Policies

1.1 Basis of Preparation

The Financial Statements of the Board are presented in Sri Lanka Rupees rounded to the nearest Rupee and prepared on the historical basis.

Where appropriate accounting policies are disclosed in the succeeding notes.

1.2 Statement of Compliance

The financial statements of the Insurance Board of Sri Lanka have been prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

1.3 Events After the Balance Sheet Date

All material events after the Balance Sheet date are considered and appropriate adjustments or disclosures are made in the financial statements where necessary.

1.4 Comparative Figures

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

1.5 Taxation

The provision for income tax has been computed in accordance with the provision of the Inland Revenue Act, No. 10 of 2006.

The Board communicated with the Ministry of Finance and Planning to list under the section 7 (b) of the Inland Revenue Act, No. 10 of 2006.

1.6 Conversion of Foreign Currency

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

2. Assets & Bases of Valuation

2.1 Property, Plant & Equipment

Owned Property Plant & Equipment

Properties, Plant & Equipment are stated at cost less accumulated depreciation. The cost of Property, Plant & Equipment is the cost of acquisition with any expenses incurred in bringing the assets to their working condition for the intended use.

Lease Assets

The assets on finance lease which effectively transfer to the Board substantially all of the risk and benefits incidental to ownership of the leased item is capitalized at cost. Assets acquired by way of finance lease are stated at their cash price less accumulated depreciation and the

resulting lease obligations are included in creditors net of finance charges. Depreciation and finance charges arising out of such leasehold assets are charged to the Income & Expenditure account whilst the payments of lease rental are recognized to reduce the lease liability.

As part of the remuneration package the managerial staff is entitled to a vehicle under the contributory lease scheme. Whilst the Board pays the lease rental, the staff concerned contributes towards the lease rental. In addition, the staff should bear all expenses in full pertaining to comprehensive insurance, licenses and maintenance. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period, i.e. after 48 months or upon settlement of the lease liability by the staff concerned in full.

Depreciation

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

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

Depreciation is provided from the date of purchase of the asset. Depreciation is also provided up to the date of disposal.

Assets held under finance leases are depreciated over the shorter of lease term or the useful lives of the assets.

2.2 Investments

Investments in Government Securities are stated at cost and interest is accrued up to the year-end.

2.3 Inventories

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

2.4 Receivables

Receivables are stated at estimated realizable value.

2.5 Cash and Cash Equivalents

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

Accounting Policies

3. Liabilities And Provisions

3.1 Retirement Benefits

3.1.1 Defined Benefit Plans - Gratuity

Full provision has to be made on account of gratuity from the first year of service of the employee in conformity with Sri Lanka Accounting Standard No. 16 "Retiring Benefit Cost".

The Board provides gratuity on the completion of the 1st year of employment. However, the provision is adjusted according to the liability.

According to the payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

3.1.2 Defined Contribution Plans – EPF and ETF

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

3.2 Liabilities

Liabilities classified as current liabilities in the balance sheet are those, which fall due for payment on demand or within one year from the balance sheet date. The non-current liabilities are those balances that fall due for payment after one year from the balance sheet date.

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

3.3 Grant

Capital Expenditure transferred from Policyholders' Protection Fund and assets received from Micro Insurance Project are treated as grant and recognized on the estimated useful life of the asset.

4. Income & Expenditure

4.1 Revenue Recognition

Revenue is recognized on accrual basis.

4.2 Government Grants

No Government grants were received during the period under review.

4.3 Expenditure Recognition

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

4.4 Cash Flow Statement

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

Notes to the Financial Statements

1. Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Assets on Finance Lease Motor Vehicles Rs.	Total Rs.
Cost						
Balance as at 1st January 2010	9,473,243	13,858,882	16,927,640	141,450	2,800,000	43,201,215
Additions	-	347,352	1,130,726	-	-	1,478,078
Balance as at 31st December 2010	9,473,243	14,206,234	18,058,366	141,450	2,800,000	44,679,293
Accumulated Depreciation						
Balance as at 1st January 2010	5,342,235	4,064,206	8,904,319	141,450	1,188,082	19,640,292
Charge for the Year	2,368,311	1,767,022	3,385,007	-	700,000	8,220,340
Balance as at 31st December 2010	7,710,546	5,831,228	12,289,326	141,450	1,888,082	27,860,632
Written Down Value						
As at 31st December 2010	1,762,697	8,375,006	5,769,040	-	911,918	16,818,661
Written Down Value						
As at 31 December 2009	4,131,008	9,794,676	8,023,321	-	1,611,918	23,560,924

	Notes	As at 31.12.10 Rs.	As at 31.12.09 Rs.
2. Policyholders' Protection Fund Investments and Others			
Non Current Assets			
Rent and Electricity Deposits		8,728,590	7,732,116
Current Assets			
Investment in Government Securities		938,637,942	671,655,764
Interest Receivable on Government Securities		23,507,545	43,328,893
CESS Receivable		36,014,817	39,651,728
Balance at Bank		427,280	5,344,637
Amount to be Transferred to Cess Fund		4,493,936	-
Less			
Amount to be transferred from Cess Fund		-	12,639,595
		1,003,081,520	747,341,427
Total Assets		1,011,810,110	755,073,543
3. Inventories			
Printing, Stationery and Computer Accessories		171,186	202,340
Publications		51,100	-
Stamps		89,845	46,580
		312,131	248,920

Notes to the Financial Statements

Notes	As at 31.12.10 Rs.	As at 31.12.09 Rs.
4. Other Current Assets		
Deposits	162,000	103,000
Other Receivables	5,416	96,040
WHT Recoverable	841,728	1,517,928
VAT Control	1,423,033	952,850
Interest Receivable - Treasury Bills	8,036	3,888,030
Staff Loans *	4,025,087	3,112,003
Advance and Pre-payments	745,892	761,637
Amount to be Transferred from Cess Fund	-	12,639,595
	7,211,192	23,071,083
*Loans Granted to Staff		
Balance as at 1st January	3,112,003	2,355,407
Loans Granted during the Year	3,282,500	2,142,500
	6,394,503	4,497,907
Repayments during the Year	(2,369,416)	(1,385,904)
Balance as at 31st December 2010	4,025,087	3,112,003
5. Cash & Cash Equivalents		
Cash at Banks		
People's Bank	-	950,566
Bank of Ceylon	1,600,313	569,216
Hongkong and Shanghai Banking Corporation Ltd.	-	50,142
Cash in Hand	5,970	3,793
	1,606,283	1,573,717
6. Accumulated Fund		
Balance at the beginning of the Period	67,828,254	67,828,254
Adjustment made within the Year	(67,828,254)	-
Net Surplus/(Deficit) for the Period	-	-
Balance at the end of the Period	-	67,828,254
7. Policyholders' Protection Fund		
Opening Balance	755,073,543	545,347,461
Cess Received during the Year	144,666,577	138,941,320
Interest on Treasury Bill Investment	31,740,107	45,447,095
Interest on Repo and Call Account	44,466,546	45,485,710
Adjustment made within the Year	67,828,254	-
	1,043,775,027	775,221,586
Less:		
Transfers for Operational Expenses	30,472,838	17,126,937
Transfers for Capital Expenses	1,478,079	3,012,658
Total Transfers- Policyholders' Protection Fund	31,950,917	20,139,595
Debit Tax	-	-
Bank Charges	14,000	8,448
	31,964,917	20,148,043
Closing Balance	1,011,810,110	755,073,543

Notes	As at 31.12.10 Rs.	As at 31.12.09 Rs.
8. Grant		
Balance at the Beginning of the Year	21,949,005	27,471,268
Capital Expenditure from Policyholders' Protection Fund	1,478,079	3,012,658
Assets from Micro Insurance Project	-	-
Less: Amortized during the Year	(7,520,440)	(8,534,921)
Balance at the end of the Year	15,906,644	21,949,005
Note - Recognition of Grant		
The above grant has been accounted for in accordance with the SLAS 24. The grant is recognized in the income statement at the following rates.		
Motor Vehicle	25%	Per annum
Office Equipment - Others & EDP	25%	- do -
Furniture Fixtures & Fittings	12.5%	- do -
9. Retirement Benefit Obligations		
Balance at the Beginning of the Year	876,171	793,126
Provision made during the Year	568,362	83,045
Balance at the end of the Year	1,444,533	876,171
10. Interest Bearing Borrowings		
Finance Lease Liability		
Lease Creditor	1,268,352	2,274,720
Less: Interest in Suspense	(143,911)	(409,698)
	1,124,441	1,865,022
Current Portion of Finance Lease Liabilities	(762,569)	(740,581)
	361,872	1,124,441
11. Other Current Liabilities		
VAT Payable	-	4,615
Others	10,122,631	4,239,405
	10,122,631	4,244,020
12. Revenue		
Annual Fees from Insurance Companies	29,186,084	29,372,877
Registration and Renewal Fees	2,310,891	2,475,875
	31,496,975	31,848,752
13. Other Income		
Interest on Vehicle Loan	61,934	51,977
Interest on Distress Loan	106,300	106,583
Sale of Publications	32,880	37,907
Sundry Income	23,053	78,729
	224,167	275,196

Notes to the Financial Statements

14. Excess/ (Deficit) Income over Expenditure

Deficit for the year is arrived at after charging all expenses including the following:

Notes	As at 31.12.10 Rs.	As at 31.12.09 Rs.
Staff Salaries	15,322,247	14,429,214
EPF and ETF	2,285,409	2,150,088
Provision for Retiring Gratuity	568,362	83,045
Staff Training - Overseas	2,792,680	1,486,171
Local Consultants	503,511	585,000
Foreign Consultants	572,678	-
Auditors Remuneration	200,000	100,000
Depreciation	8,220,340	8,365,645
Chairperson's Expenses - Allowance	356,000	360,000
Chairperson's Expenses - Fuel	158,010	-
Attendance fee for Board Members	66,000	55,000
Public Awareness	3,677,305	4,255,457
Bank Charges	61,101	31,729
Debit Tax	151,807	149,762

15. Taxation

The provision for income tax has been computed in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 as at 31st December 2010.

15.1 Notional Credit For Withholding Tax On Government Securities On Secondary Market Transactions

In terms of the provisions of section 137 of the Inland Revenue Act, No. 10 of 2006, the Board is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities provided such interest income which form part of the statutory income of the Board for that year of assessment.

Accordingly, the net income earned by the Board from the secondary market transactions in Government Securities had been grossed up in the Financial Statements and the resulting notional tax credit amounting to Rs. 306,449/09 for the year 2010 has been recognized in the Financial Statement for the year ended 31st December 2010.

Interest income from the secondary market transactions in Government Securities of the Cess Fund has been accounted at the net value.

16. Capital Commitments

There were no capital commitments as at 31st December 2010.

17. Contingent Liabilities

There were no contingent liabilities as at 31st December 2010.

18. Events After The Balance Sheet Date

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

19. Related Party Disclosures

Mrs. Indrani Sugathadasa was appointed as the Chairperson of the Insurance Board of Sri Lanka on 13th May 2010 with the resignation of Mr. Udayasri Kariyawasam on 07th May 2010.

Mr. G. Gunawardhana, Mr. U. S. Abeyaratna, Mr. Kamal R. Goonesinghe, Mr. Nawaz Rajabdeen & Mr. Gamini Kohona held office as members of the Board during the year 2010.

Mrs. Sujatha Cooray of Ministry of Finance & Planning ceased to be an Ex-officio Member of the Board since 2nd November 2010 and Mr. D. Widanagamachchi assumed duties on 28th December 2010.

Mr. Channa de Silva ceased to be an Ex-officio Member of the Board since 30th April 2010.

Mr. P.D.J Fernando of the Central Bank of Sri Lanka was reappointed to be an Ex-officio Member of the Board on 17th June 2010.

Mr. U.S. Abeyaratna and Mr. Kamal R. Goonesinghe ceased to be Members of the Board from 7th May 2010.

The following Table depicts the corporate relationship of the Members of the Board during the year:

Name of the Member	Name of Related Institution	Relationship
Mrs. Indrani Sugathadasa	Securities & Exchange Commission of Sri Lanka	Chairperson (w.e.f. 13th May 2010)
Mr. Udayasri Kariyawasam	Securities & Exchange Commission of Sri Lanka	Chairman (till 07th May 2010)
Mr. G. Gunawardhana	Securities & Exchange Commission of Sri Lanka	Member (till April 2010)
Mrs. Sujatha Cooray	Securities & Exchange Commission of Sri Lanka	Member (March – November 2010)
Mr. P.D.J Fernando	Securities & Exchange Commission of Sri Lanka	Member (w.e.f. May 2010)
Mr. Channa De Silva	Securities & Exchange Commission of Sri Lanka	Ex-officio Member (till 31st May 2010)

Other than the transactions in the ordinary course of business at market rates no other transactions were recorded with the said institutions during the year.

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No

EF/I/2/2010/4

මගේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

16 June 2011

The Chairman,
Insurance Board of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Insurance Board of Sri Lanka for the year ended 31 December 2010 in terms of Section 14 (2) (c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2010 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 comments and 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was forwarded to the Chairman of the Board on 03 May 2011.

1:2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

1:3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and 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 to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. 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.

හිදිතේ වතුරලය,
කොළඹ 07, ශ්‍රී ලංකාව
දුරකථනය
தொலைபேசி } 2691151
Telephone.

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை
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E-mail.

2. Financial Statements

2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Insurance Board of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Insurance Board of Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2.2 Emphasis of Matters

Without qualifying my opinion I draw attention to Note No. 7 to the financial statements. The operations of the Board for the year under review had resulted in a deficit of Rs.29,177,025 and for normalizing this situation a sum of Rs. 30,472,838 from the Policy Holders Protection Fund had been transferred to the Profit.

2:3 Comments on Financial Statements

2:3:1 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following laws, rules, regulations and management decisions observed during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non - compliance
(a) Chapter 8 of the National Procurement Agency Circular of 25 January 2006	
(i) Section 6:2:2	Instead of minimum time period limit of 21 days, 08 days only had been allowed for bid submission for obtaining internal audit services.
(ii) Section 8:9	An agreement entered into between the Board and the private audit firm which provides internal audit services had not been furnished to audit.
(b) Financial Regulation 134 (3)	The copies of Internal Audit Reports on financial operations were not submitted to the Auditor General.
(c) Public Finance Circular No. PF/PE3 of 19 January 1999 and Financial Regulation 134 (2)	The Auditor General had not been consulted in the preparation of Internal Audit Programmes.

2.3.2 Irregular Transactions

The following payments had been made by the Board without the approval of the Treasury.

- (a) Payment of more than one increment to officers in one year.
- (b) Payment of Rs.50,000 as the Festival Advances.
- (c) Reimbursement of outdoor medical bills up to Rs.40,000

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

The operations of the Board for the year under review had resulted in a net deficit of Rs.29,177,025 as compared with the corresponding net deficit of Rs.16,493,217 for the preceding year thus indicating a deterioration of Rs.12,683,808 or 76 per cent in the financial result.

A sum of Rs. 30,472,838 from the Policy Holders Protection Fund had been transferred to the profit for normalizing this situation. Nevertheless, a sum of Rs. 17,126,938 only from the Policy Holders Protection Fund had been transferred in the preceding year.

Auditor General's Report

3.1.2 Analytical Review

The total income of the Board, as compared with the preceding year, had decreased by 14 per cent while the total expenditure had increased by 8.4 per cent. A summary of the financial results is given below.

Year ended 31 December	2010 Rs.	2009 Rs.
Total Income	42,306,072	49,404,521
Total Expenditure	(71,483,097)	(65,897,738)
Net Deficit before Tax	(29,177,025)	(16,493,217)
Transfers from Policy Holders Protection Fund	30,472,838	17,126,937
Income Tax	(1,295,814)	(633,720)
Net Surplus/(Deficit) after Tax	--	--

3:2 Uneconomic Transactions

Head Office of the Board has been established in the 11th floor of the World Trade Centre and a sum of Rs.18,245,106 had been paid in the year 2008 as rent for it. An agreement for the payment of a rent of Rs.38,842,095 for the period 01 October 2010 to 30 September 2012 had been entered into.

The relevant payments had been made for its rent for a floor area of 8,741 square feet for a staff of about 22 officers and for services and parking fees.

The directive of the Committee on Public Enterprises made at the meeting held on 17 November 2008 to reduce the floor area allocated for the office had not been complied with.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- Procurements
- Internal Audit
- Preparation of the Corporate Plan and the Action Plan



H.A.S. Samaraweera
Acting Auditor General.

Responses of the Board to the Matters Raised by the Auditor General

Matters Raised by the Auditor General	Responses of the Board
<p>2.3 Comments on Financial Statements</p> <p>2.3.1 Non Compliance with Laws, Rules, Regulations and Management Decisions</p> <p>a. Chapter 8 of the National Procurement Agency Circular of 25th January 2006</p> <p>i Section 6:2:2- Instead of a minimum time period limit of 21 days, 08 days only had been allowed for bid submission for obtaining internal audit services.</p> <p>ii Section 8:9 - An agreement entered into between the Board and the private audit firm which provides internal audit services had not been furnished to audit.</p> <p>b. Financial Regulation 134(3) The copies of Internal Audit Reports on financial operations were not submitted to the Auditor General.</p> <p>C. Public Finance Circular No. PF/PE3 of 19th January 1999 and Financial Regulation 134 (2) The Auditor General had not been consulted in the preparation of Internal Audit Programmes.</p> <p>2.3.2 Irregular Transactions The following payments had been made by the Board without the approval of the Treasury</p> <p>a. Payment of more than one increment to officers in one year.</p> <p>b. Payment of Rs.50,000 as the Festival Advances</p>	<p>Tenders were called for the Internal Audit for the year 2009 by providing a shorter time period to bid since it was urgently needed to appoint an Audit Firm due to a cash fraud identified within the period.</p> <p>The agreement that was presented for the audit called the "Letter of Engagement" is similar to the agreement signed by the Board & Audit Firm. As this document had been signed by both parties, it is similar to an agreement reached.</p> <p>The Board has already presented the copy of the Internal Audit Report of 2009 for the audit on 04th April 2011.</p> <p>Instructions were given to the relevant officers to obtain instructions from the Auditor General when preparing the Internal Audit Programme and to file a copy of the Internal Audit Programme with the Auditor General in the future.</p> <p>As mentioned at the meeting of the Committee on Public Enterprises (COPE) on 09th December 2010, members of the Board decided at the Board Meeting held on 02nd November 2010 to grant only one salary increment per employee other than in exceptional circumstances in future. Therefore, only one salary increment was granted per employee for the year 2010.</p> <p>Members of the Board decided to enhance the festival advance amount, up to Rs. 50,000/- at the Board Meeting held on 17th December 2009. Board considers the criteria that total deductions should not exceed 60% of the total salary and festival advance amounting to Rs. 25,000/- was paid since the year 2006 when deciding the same.</p> <p>Although the amount of the festival advance was increased, there is no alteration in the repayable period and it is charged in 10 monthly instalments. Accordingly, before completion of one year period it is charged from the respective employee.</p> <p>Further, as mentioned at the meeting of the COPE held on 9th December 2010, the Administration Manual of the Board has been prepared. Financial benefits given to the employees are also included in this Manual and after obtaining the approval of the Board, we are planning to obtain the approval from the Treasury as well.</p>

Responses of the Board to the Matters Raised by the Auditor General

Matters Raised by the Auditor General	Responses of the Board
<p>c. Reimbursement of outdoor medical bills up to Rs.40,000</p>	<p>The Board had reimbursed the medical bills up to Rs. 30,000/- from the inception, and members of the Board decided to increase this limit up to Rs. 40,000/- at the Board meeting held on 07th August 2007 considering increase of doctors fees, medicines and medical tests.</p> <p>Further, as per the section 10 (2) of the Regulation of Insurance Industry Act, No.43 of 2000 the Board has been given the authority to recruit the employees for the Board and to decide their remuneration. Such payments are included in the Administration Manual of the Board as well.</p>
<p>3 Financial and Operating Review 3.1 Financial Review 3.1.1 Financial Results The operations of the Board for the year under review had resulted in a net deficit of Rs.29,177,025 as compared with the corresponding net deficit of Rs.16,493,217 for the preceding year thus indicating a deterioration of Rs.12,683,808 or 76 per cent in the financial result.</p> <p>A sum of Rs. 30,472,838 from the Policy Holders Protection Fund had been transferred to the profit for normalizing this situation. Nevertheless, a sum of Rs. 17,126,938 only from the Policy Holders Protection Fund had been transferred in the preceding year.</p> <p>3.2 Uneconomic Transactions Head Office of the Board has been established in the 11th floor of the World Trade Centre and a sum of Rs.18,245,106 had been paid in the year 2008 as rent for it. An agreement for the payment of a rent of Rs.38,842,095 for the period 01 October 2010 to 30 September 2012 had been entered into.</p> <p>The relevant payments had been made for its rent for a floor area of 8,741 square feet for a staff of about 22 officers and for services and parking fees.</p> <p>The directive of the Committee on Public Enterprises made at the meeting held on 17 November 2008 to reduce the floor area allocated for the office had not been complied with.</p>	<p>The operational deficit of the Board for the year 2010 increased by Rs. 12,683,808/- compared to the previous year. The reasons were, decrease of total income and increase of total expenditure by Rs. 7,098,449/- and Rs. 5,585,359/- respectively.</p> <p>Accordingly, total transferred from the Policyholders' Protection Fund amounted to Rs. 30,472,838/- and it recorded an increase of Rs. 12,683,808/- compared to the previous year.</p> <p>Further, the main reason for reduction of the income of the board was due to the decrease of the interest income and it is beyond the control of the Board.</p> <p>Presently, from the approved cadre, 33 employees have been recruited and steps are being taken to recruit the balance.</p> <p>However, out of the total floor area 8,741 square feet space for an auditorium, reception desk, library, lunch room, store room, cupboards, photo copy machines and fax machines are also included. After deducting the space allocated for the above mentioned areas, 6,170 square feet is available for the staff members and it represents 187 square feet for an employee and is in optimum level.</p> <p>Also, office premises are planned for approved carder of 43 employees and when recruitments are finalized space allocated per employee as mentioned above will be further reduced.</p> <p>Further, this matter was discussed at the meeting of the COPE on 09th December 2010 and deliberations of the Board given to support this matter was accepted by the committee.</p>

Appendix I

Insurance Companies Registered Under The Regulation Of Insurance Industry Act, No. 43 Of 2000 as at 31st December 2010

1	Allianz Insurance Lanka Ltd.	General Insurance
2	Allianz Life Insurance Lanka Ltd.	Long Term Insurance
3	Amana Takaful PLC	Long Term Insurance General Insurance
4	Asian Alliance Insurance PLC	Long Term Insurance General Insurance
5	AVIVA NDB Insurance PLC (Formerly Eagle Insurance PLC)	Long Term Insurance General Insurance
6	Ceylinco Insurance PLC	Long Term Insurance General Insurance
7	Ceylinco Takaful Limited*	General Insurance
8	CHARTIS Insurance Limited (Formerly Hayleys AIG Insurance Company Ltd.)	General Insurance
9	Continental Insurance Lanka Ltd.	General Insurance
10	Cooperative Insurance Co Ltd.	Long Term Insurance General Insurance
11	HNB Assurance PLC	Long Term Insurance General Insurance
12	Janashakthi Insurance PLC	Long Term Insurance General Insurance
13	Life Insurance Corporation (Lanka) Ltd.	Long Term Insurance
14	LOLC Insurance Company Limited	Long Term Insurance General Insurance
15	MBSL Insurance Company Ltd.	Long Term Insurance General Insurance
16	People's Insurance Ltd.	General Insurance
17	Seemasahitha Sanasa Rakshana Samagama	Long Term Insurance General Insurance
18	Sri Lanka Insurance Corporation Ltd.	Long Term Insurance General Insurance
19	Union Assurance PLC	Long Term Insurance General Insurance

* is prohibited from engaging in insurance business since 5th August 2009.

Appendix II

Insurance Broking Companies Registered Under the Regulation of Insurance Industry Act, No. 43 of 2000 as at 31st December 2010

No	INSURANCE BROKER	CLASS OF BUSINESS
1	A. M. W. Insurance Brokers (Pvt) Ltd.	Long Term and General
2	ADZ Insurance Brokers (Pvt) Ltd.	Long Term and General
3	Aitken Spence Insurance Brokers (Pvt) Ltd.	Long Term and General
4	Alfinco Insurance Brokers (Pvt) Ltd.	Long Term and General
5	Allion Insurance Brokers (Pvt) Ltd.	General
6	Assetline Insurance Brokers Limited. (Formerly DP Insurance Brokers Ltd.)	General
7	Brilliance Insurance Brokers Co. (Pvt) Ltd.	Long Term and General
8	Ceyexxe Insurance Brokers Ltd.	General
9	Ceylan Insurance Brokers Co. (Pvt) Ltd.	General
10	CF Insurance Brokers (Pvt) Ltd.	Long Term and General
11	Commercial Insurance Brokers (Pvt) Ltd.	Long Term and General
12	Delmege Insurance Brokers (Pvt) Ltd.	Long Term and General
13	Equity Insurance Brokers (Pvt) Ltd.	Long Term and General
14	Essajee Carimjee & Co. (Pvt) Ltd.	Long Term and General
15	Finlay Insurance Brokers (Pvt) Ltd.	Long Term and General
16	Global Insurance Services (Pvt) Ltd.	General
17	Industrial & Commercial Insurance Brokers (Pte) Ltd.	Long Term and General
18	Jay Insurance Consultants (Pte) Ltd.	Long Term and General
19	JF Insurance Brokers (Pvt) Ltd.	General
20	L M & A Insurance Brokers & Consultants (Pvt) Ltd.	Long Term and General
21	Lak Insurance Brokers (Pvt) Ltd.	Long Term and General
22	Lanka ORIX Insurance Brokers Limited*	Long Term and General
23	Mackwoods Insurance Brokers (Pvt) Ltd.	Long Term and General
24	Maxwell Enterprises (Private) Ltd.	Long Term and General
25	Nations Insurance Brokers Ltd.	Long Term and General
26	Placid Insurance Brokers (Pvt) Ltd.	Long Term and General
27	Procure Insurance Brokers (Pvt) Ltd.	Long Term and General
28	Protection & Assurance Insurance Brokers (Pvt) Ltd.	Long Term and General
29	Protection & Utmost Insurance Brokers (Pvt) Ltd.	Long Term and General
30	Reliance Insurance Brokers (Pvt) Ltd.	Long Term and General

No	INSURANCE BROKER	CLASS OF BUSINESS
31	Ro-Pa Insurance Brokers (Pvt) Ltd.	Long Term and General
32	Samson Insurance Brokers (Pvt) Ltd.	General
33	Senaratne Associates (Pvt) Ltd.	Long Term and General
34	Strategic Insurance Brokers (Pvt) Ltd.	Long Term and General
35	Sun Insurance Brokers Lanka (Pvt) Ltd	Long Term and General
36	United Insurance Brokers (Pvt) Ltd.	General
37	Veracity Insurance Brokers (Pvt) Ltd.	Long Term and General
38	Victor Emmanuel Insurance Brokers (Pvt) Ltd	Long Term and General
39	Visionwide Insurance Brokering & Financial Services (Pvt) Ltd.	Long Term and General
40	Volanka Insurance Services (Pvt) Ltd	Long Term and General
41	Zenith Insurance Brokers (Pvt) Ltd	Long Term and General

* The company has informed the Board that they are winding up the business operations of the company.

Glossary

Accumulation

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

Acquisition Expenses

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

Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investments, financial management and demography.

Administrative Expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000.

Annuity

A long term insurance product that pays periodic income benefits for a specific period of time or over the course of the annuitant's lifetime. There are two basic types of annuities: deferred and immediate. Deferred annuities allow assets to grow tax - deferred over time before converted to payments to the annuitant. Immediate annuities allow payments to begin within about a year of purchase.

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Cedent

Client of a reinsurance company (primary insurance company).

Claims

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

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

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

Claims Outstanding Reserve - General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims.

Co-insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportion at a specified premium.

Commission

A payment made to a broker or an insurance agent in return for selling and servicing an insurer's products.

Deferred Acquisition Cost - General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Earned Premiums

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

General Insurance Business

Fire, marine, motor or miscellaneous insurance business carried on singly or in combination with one or more of them. Total premium received or due from all sources, including premiums for reinsurance assumed in respect of general insurance business, during an accounting period.

Insurance Risk

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurer

A company incorporated as a public company under the Companies Act, No. 7 of 2007 and registered as an insurer under the Regulation of Insurance Industry Act, No.43 of 2000.

Long Term Insurance Business

The business of entering into or maintaining contracts of assurance on human lives, such contracts including contracts whereby the payment of money is assured on death or on the happening of any contingency dependent on human life and contracts which are subject to payment of premiums for a term dependent on human life.

Maturity

The time at which payment of the sum assured under a long term insurance policy falls due at the end of its term.

Net Claims Ratio or Net Loss Ratio

A formula used by insurers to relate net loss expenses to net income (i.e. after deducting relevant reinsurances).

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

Net Combined Ratio - General Insurance Business

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

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

Net Earned Premium - General Insurance Business

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

Net Expense Ratio - General Insurance Business

A formula used by insurance companies to relate income to acquisition and administrative expenses (e.g. commission, taxes, staff, selling and operating expenses).

Net Loss Ratio - General Insurance Business

A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurances).

Non - Participating Policy - Long term Insurance Business

Long term insurance business where policyholders are not contractually entitled to share in the surplus of the relevant life fund.

Policy

A document setting out the terms and conditions of a contract of insurance.

Policyholder

The person who for the time being is the legal holder of the policy for securing the contract with the insurer.

Policy Loan

A loan from the insurer to a policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premium

The consideration payable by an insured for an insurance policy obtained.

Primary Insurer

Insurance Companies that assume risks in return for an insurance premium and have direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

Operating Profit

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

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent-the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance Commission

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

Reinsurance Inwards

The acceptance of risks under contract of reinsurance.

Reinsurance outwards

The placing of risks under contract of reinsurance.

Glossary

Reinsurance Profit Commission

Commission received or receivable by the cedent (reinsured - primary insurer) from the reinsurer based on the net profit (as defined in the reinsurance treaty) made by the reinsurer on the reinsurance treaty.

Retention

The part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net for own account.

Solvency Margin - Long term Insurance

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on long term insurance business as defined in Solvency Margin (Long term Insurance) Rules, 2002 made under section 26 of the Regulation of Insurance Industry Act, No.43 of 2000.

Solvency Margin - General Insurance

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under section 26 of the Regulation of Insurance Industry Act, No.43 of 2000.

Surrender Value

The amount payable by an insurer to a policyholder in respect of long term insurance on termination of an insurance policy before the expiry of its term. In order to attain a surrender value, the policy should have been in force continuously for a period of at least three years.

Underwriting Profit

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

Unearned Premium

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

Unearned Premium Reserve

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

Unexpired Risk Reserve

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

General Information

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Web site : www.ibsl.gov.lk

Legal Form

A Statutory Board established in Sri Lanka in terms of the Regulation of Insurance Industry Act, No. 43 of 2000, which came into operation with effect from 1st March 2001 by Government Gazette Notification No. 1172/27 dated 23rd February 2001.

The Object and Responsibility of the Board

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

Accounting Year

31st December

Auditors

The Auditor General

Bankers

Bank of Ceylon

Audit Committee

Mr. D. Widanagamachchi – Chairman

Mr. Nawaz Rajabdeen

Mr. Gamini Kohona



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