

The Chairman of Conference
Distinguished delegates,
Ladies and gentlemen,

Let me begin by thanking the Asia Insurance Review, the organizers of the 2nd Asian Motor Insurance and Claims Management Conference, for inviting me to deliver the key note address and also for selecting Sri Lanka as the venue of the conference.

On behalf of the Insurance Board of Sri Lanka, the regulator of the insurance industry, let me warmly welcome you all to Sri Lanka, the Pearl of the Indian Ocean. After 30 years of a war against terrorism which ended in 2009, we are now experiencing and enjoying the benefits of peace. Having this conference in Sri Lanka is timely, and therefore I request you to take time to enjoy the beauty of our country.

The theme chosen for the conference “Real Challenge of Making Motor Insurance Profitable: Price Selectivity or Claims Control”, I would say, is more relevant to the present day scenario not only in Sri Lanka but in other countries as well.

The objective of selecting this theme, as I understand, is to review progress of various motor insurance markets, in tackling the challenge of profitability, price and claims control.

I believe it is important to find sustainable solutions for a healthy motor insurance industry from a stand point of regulation and underwriting, in both emerging and sophisticated markets.

In this backdrop, I would touch upon two areas. Firstly, on the general background on Motor accidents and motor insurance in Sri Lanka and then I would highlight some key issues from a regulator's point of view.

Similar to many other countries, the usage of motor vehicles by Sri Lankan population is increasing rapidly. These users can be categorized as Government and Non-Government Institutions, Private Companies, Families, Individuals such

as white collar and middle class workers, small entrepreneurs and better-off rural people.

Three main reasons for this upward trend can be cited, that is, the emerging middle class, the influence of globalization and the paradigm shift in development and thus changing attitudes of the people.

The emergence of the middle class is truly one of the most important phenomena across the Asian region. Increasingly these middle class segments are found in second and third tier cities and even in rural areas as well as in established large cities. This newly emerging middle class population is a fundamental force in shaping the motor insurance industry.

We cannot forget the impact of globalization which has enormously changed the economic outlook of developing countries. In motor vehicle industry the rapid increase of all types of motor vehicles and the introduction of different but similar models is unimaginable. The strong competition between and amongst the multinational motor vehicle manufacturers through marketing and promotional campaigns and the advancement of technology have immensely contributed to the high flow of motor vehicles to the local market.

The obvious paradigm shift in development has also resulted in a massive number of vehicles we could see on the roads today. Owning a motor vehicle by a family or an individual is no more a luxury today whereas it was considered an indicator of one's wealth a couple of decades ago.

Out of the total vehicle population in Sri Lanka, the majority is motor cycles, followed by motor cars. Slide 1 depicts the total vehicle population in Sri Lanka from 2001 to 2010. Today we have nearly 4 million vehicles. Consistently, during this 10 year period, you would see that motor cycles dominate. Slide 2 shows over 200,000 new registrations of motor cycles in year 2010 , over 85,000 three wheelers, and around 23,000 motor cars among the total vehicles registered.

Now let us look at nature of road accidents caused by motor vehicles.

It is reported that around 150 accidents occur daily, which cause loss of 5 – 6 lives. Over a period of 30 years, over 40,000 people have died of road accidents.

Slide 3 shows the numbers of non-grievous, grievous and fatal accidents that had been reported to Police during the period, 1977 - 2009. This issue became so severe that a Parliamentary Select Committee also has been appointed to look into the alarming increase in traffic accidents.

It is evident that the motor insurance market is extremely dynamic and it's a challenge to serve the increasing demands for cover at affordable prices while trying to maintain underwriting surplus.

Insurance industry in Sri Lanka is still growing. Insurance Premium is only 1.28% of the GDP. There are 18 licensed commercial insurance Companies of which 7 are listed on the Colombo Stock Exchange.

If we now look at motor insurance claims, in the year 2010 approximately 352,695 motor claims have been submitted to Insurance Companies, out of which approximately a total of 346,721, which is 98.3%, have been honoured. Claims ratio for motor insurance in this year was over 60%, which is the highest for a single sub-class.(Slide 4 gives these details)

The Governing law with regard to motor vehicles in Sri Lanka is the Motor Traffic Act No. 14 of 1951 as amended. This law requires a motor vehicle to have an insurance policy as a pre condition to obtain the revenue license. Further, the law makes it obligatory for the driver /owner to report any motor accident to the nearest Police station.

With regard to motor insurance, the Motor Traffic Act mandates at least to have 3rd party insurance cover in respect of motor vehicles, which I believe is the minimum specified cover in most jurisdictions. Accordingly, only bodily injured or death of a third party has been covered under the motor traffic law of Sri Lanka. This process however requires action to be filed in accordance with common law for the recovery of damages.

Irrespective of the above mentioned mandated provision to obtain 3rd party insurance cover, the insurers provide a comprehensive insurance with other covers to customers. Broadly, there are the "act only" covers, which provide the minimum cover required by law, "3rd party only" cover which extends further to

the minimum requirement, and 3rd party fire and theft and of course the 'comprehensive' motor insurance cover.

I believe you would discuss at length issues surrounding motor insurance claims over the next few days, sharing the wealth of knowledge amongst you.

Let me now highlight a few regulatory issues with specific reference to motor insurance.

It is imperative to examine IBSL's role as the regulator in this realm. The Insurance Board of Sri Lanka was established in 2001 with a view to safeguard the interests of policy holders and potential policy holders. Further, it has a mandate for the development, supervision and regulation of the local insurance industry.

Under section 98 of the Regulation of Insurance Industry Act as amended, any policy holder upon a rejection of a claim by an insurer can complain to the IBSL. Having examined the complaint, the IBSL is empowered by law to make an appropriate order.

IBSL receives a large number of complaints from policy holders, majority of which is in relation to non payment of motor claims. When we analyse these complaints, two key areas are visible for us to focus on, that is, for most people contract terms are unclear and for some, the claims payment procedure is not clear.

For example, I relate an incident where a policy holder has been denied the claim for the damage of his insured vehicle, caused by floods. In the investigation we realized that in the policy, provision for floods has been deleted. Similarly, there are instances where the payment procedure of the insurer is not clear to the policyholder. There are numerous complaints due to these reasons. In my opinion, both sides, the insurer and the insured are responsible.

As a remedial measure, the IBSL has launched several awareness campaigns through print media as well as at different public forums. Although it is a first step, we have seen very positive outcomes.

I would like, at this forum, to request all insurance companies along with the Insurance Association, to work hand in hand with us, to educate the public to remedy these issues.

I must emphasize another important factor. At present there are no industry-wide standards for certain terms of motor insurance policies as well as for certain procedures. We wish to work closely with the industry in order to standardize and simplify the terms used in policy documents to make them more user friendly. The IBSL is in the process of identifying these areas and suggesting reforms so that we can remedy this situation.

Apart from the aforementioned activities, the IBSL has been working very closely with the Commissioner of Motor Traffic in order to further modify the Motor Traffic Act with suitable provisions for the protection of the policy holders.

I would like to briefly mention some of those envisaged amendments.

1. 3rd party liability has been extended to 3rd party property and psychological harm. Already there is a debate on the definition of psychological harm. I hope that this would be resolved soon without any ambiguity.

2. To distinguish between the cover note and the insurance certificate, specifically in the case of public vehicles, where a route permit is issued on the strength of either a cover note or the certificate.

3. An alternate claim settlement, procedure for 3rd party has now been suggested as the court procedure is cumbersome and time consuming. As we all know a person who claims damages for 3rd party liability needs to enforce an action in a District Court, which requires a considerable period of time. Therefore, an optional but a voluntary scheme has been suggested instead of the court procedure. However, this will have to be formalized with proper compensation formulae, reviewed by a panel of experts periodically.

I believe the above facts and information would stimulate a fruitful discussion during the 2 days of this conference. The IBSL strongly believes that an ongoing healthy dialogue is a necessity which will ensure sustainability of the insurance industry.

Let me in conclusion wish this Conference every success and I must congratulate the Asia Insurance Review for all the arrangements.

Thank you and good luck.