

Circular #22

- 14 February 2006 -

This is to advise all insurance companies that the Insurance Board of Sri Lanka (IBSL) has reviewed the accounting and financial statement presentation practices of insurers with respect to the treatment of shortfalls in the Long Term Insurance Fund following the Actuarial Valuation.

The issue has arisen since certain Actuaries have advised insurance companies that the Solvency Margin (Long-Term Insurance) can either be maintained -

- (i) Within the Long Term Insurance Fund; or
- (ii) within the Shareholder's Funds (with the recommendation that an amount equivalent to the required Solvency Margin be reserved out of the Shareholders' Funds and invested in admissible assets as required under the Regulation of Insurance Industry Act).

Financial Statement presentation of any such Long Term Insurance Fund "Reserve" (set up to cover a shortfall in the assets required to support the liabilities and/or the required Solvency Margin of the Long Term Insurance Fund) as part of Shareholders' Equity, overstates Shareholders' Equity and understates Liabilities.

Amounts relating to the Long Term Insurance Fund "Reserve" should either be included in the Long Term Insurance Fund or presented as a separate Liability item after "Insurance Provision Life" in the Shareholders' Balance Sheet.

This Circular shall come into effect for all Financial Statements prepared (annual and quarterly), commencing with year ending December 31, 2005.

Mrs. Lasinee Seresinhe

DIRECT DIRECTOR OR GENERAL