

Circular #29

- 23rd August 2010 -

Auditors' Report

Auditors of all Insurance Companies are hereby advised to state in their Audit Report, inter alia, the following in addition to the requirements of section 47(2) of the Regulation of Insurance Industry Act, No. 43 of 2000 (Act), commencing from the financial year ending 31st December 2010.

Accordingly all Insurers are instructed to keep their Auditors informed of this Circular.

1. Compliance with Section 12(4) of the Act –

Whether the Insurer has,

- a) refrained from carrying on any form of business at all times during the financial year under consideration other than insurance business in which registration has been obtained for; and
- b) obtained the prior written approval of the Board, if the insurer has carried on any financial services business, which is ancillary or associated with insurance business, during the financial year under consideration.

2. Compliance with Section 25 of the Act –

Whether the Insurer has maintained at all times during the financial year under consideration,

- a) not less than Twenty per centum of the assets of the Technical Reserve being maintained for General Insurance Business under section 24 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto;
- b) not less than Thirty per centum of the assets of the Long Term Insurance Fund being maintained under subsection (1) of section 38 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto; and
- c) the balance assets of the Technical Reserve and the Long Term Insurance Fund in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.

3. Compliance with Section 26 of the Act –

Whether the Insurer has maintained at all times during the financial year under consideration,

- a) in respect of General Insurance Business the minimum required solvency margin published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto; and
- b) in respect of Long Term Insurance Business the minimum required solvency margin published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.

4. Compliance with Section 26 of the Act –

Whether the Insurer has kept separate accounts of all receipts and payments in respect of each class of insurance business and maintained separate accounts in respect of each sub-class of General Insurance Business at all times during the financial year under consideration.

5. Compliance with Section 29 of the Act –

Whether the Insurer has acted in compliance with Section 29 of the Act at all times during the financial year under consideration when a loan has been granted to a director of the Insurer or to a company in which a director of the Insurer holds the position of a director.

Any other loan (other than a loan granted by mortgaging a life insurance policy) not falling within the scope of section 29 of the Act, may fall within section 12(4) of the Act.

6. Compliance with Section 30 of the Act –

Whether the Insurer had legal title and ownership to all assets of the Insurer and whether assets considered in respect of section 25 and section 26 of the Act have been free from encumbrances.

7. Compliance with Section 38 of the Act –

- a) Whether the Insurer has maintained a separate fund called the “Long Term insurance Fund” at all times during the financial year under consideration and has credited all money received in respect of the long term insurance business carried on by such insurer to the Fund ;
- b) Whether the Insurer has kept assets in respect of Long Term Insurance Business separate from assets in respect of any other class of insurance business at all times during the financial year under consideration; and
- c) Whether the Long Term Insurance Fund maintained by the Insurer has not been liable for any contracts of the insurer for which it would not have been liable had the business of the insurer been only that of long term insurance business, and has not applied these funds directly or indirectly for any purpose other than those of the long term insurance business carried on by the Insurer.

Auditors are further advised to disclose in the report any other matter observed during the course of the Audit, which is considered to have an impact on the interest of policyholders.

Indrani Sugathadasa

Chairperson