Statistical Review 2022

Insurance Regulatory Commission of Sri Lanka

Statistical Review

Abbreviations for Insurance Companies		
	Insurance Company Full Name	**Abbreviation**
1	AIA Insurance Lanka Ltd.	AIA Life
2	Allianz Insurance Lanka Ltd.	Allianz Gen.
3	Allianz Life Insurance Lanka Ltd.	Allianz Life
4	Amana Takaful PLC	Amana Gen.
5	Amana Takaful Life PLC	Amana Life
6	Arpico Insurance PLC	Arpico
7	Ceylinco General Insurance Ltd.	Ceylinco Gen.
8	Ceylinco Life Insurance Ltd.	Ceylinco Life
9	Continental Insurance Lanka Ltd.	Continental
10	Continental Insurance Life Lanka Ltd.	Continental Life
11	Cooperative Insurance Company PLC	Cooperative Gen.
12	Cooplife Insurance Ltd.	Cooplife
13	Fairfirst Insurance Ltd.	Fairfirst
14	HNB Assurance PLC	HNB Life
15	HNB General Insurance Ltd.	HNB Gen.
16	Janashakthi Insurance PLC	Janashakthi Life
17	Life Insurance Corporation (Lanka) Ltd.	LIC
18	LOLC General Insurance Ltd.	LOLC Gen.
19	LOLC Life Assurance Ltd.	LOLC Life
20	MBSL Insurance Company Ltd.	MBSL
21	National Insurance Trust Fund	NITF
22	Orient Insurance Ltd.	Orient
23	People’s Insurance PLC	People’s
24	Sanasa Life Insurance Company PLC	Sanasa Life
25	Sanasa General Insurance Company Ltd.	Sanasa Gen.
26	Softlogic Life Insurance PLC	Softlogic Life
27	Sri Lanka Insurance Corporation Ltd.	SLIC
28	Union Assurance PLC	Union Life

Following General Notes supplement when interpreting the data of Tables and Charts of the Statistical Review:

1. Tables and Charts depicted in this report are based on the statistics provided by the Insurance Companies and Insurance Brokering Companies.
2. Janashakthi General Insurance Ltd. was acquired by Allianz Insurance Lanka Ltd. in year 2018 and amalgamated with effect from 28th September 2018 and known as "Allianz Insurance Lanka Ltd."
3. Softlogic Life Insurance PLC was known as Asian Alliance Insurance PLC prior to 2016.
4. Asian Alliance General Insurance Limited was acquired by Fairfax Asia Limited in year 2015 and known as "Fairfirst Insurance Limited".
5. Union General Limited has been amalgamated with Fairfirst Insurance Limited with effect from 28th February 2017 and known as "Fairfirst Insurance Limited".
6. Seemasahitha Sanasa Rakshana Samagama has segregated its long term insurance business and general insurance business with effect from 01st July 2019. Accordingly, "Sanasa Life Insurance Company PLC" and "Sanasa General Insurance Company Ltd" continue to carry on long term and general insurance businesses respectively.
7. Data submitted by NITF with regard to the Risk Based Capital had not been considered in order to maintain the comparability since NITF handles both reinsurance and insurance business.
8. Financial data of crop & loan protection scheme of NITF has been eliminated from statistics from 2014 onwards since the said operation has not been considered as 'Insurance'.
9. Figures in some tables have been rounded off to the nearest final digit. Hence, there may be a slight discrepancy between the total as shown and the sum of its components.
10. Differences as compared with previously published figures are due to subsequent revisions.
11. Values indicated within parenthesis are negative values.
12. The following symbols have been used throughout: -

(a) = Reinstated and Audited figures

(b) = Provisional figures

\- = nil

Global Insurance Market at a Glance

With three years of unceasing adverse shocks due to COVID-19 pandemic and the impacts of ongoing war between Russia and Ukraine, the world economy currently remains at an extremely uncertain position. The war in Ukraine has disrupted global energy and food markets and accordingly the food security has been threatened in many developing nations. Energy prices dramatically increased due to deliberate reduction of gas supplies by Russia which caused record high prices for electricity in many parts of Europe. The rising cost of living has put millions of people throughout the world into economic hardship. The high inflationary pressure has prompted central banks to adopt tight monetary policies in many developed and developing countries. The resultant increase in interest rates has significantly impacted financial markets including the insurance sector. These economic headwinds and geopolitical trends have induced numerous challenges to insurance industry, forcing insurers to revisit their strategic planning and forecasting in order to be more resilient and to preserve stability and sustainable growth.

Driven by the adverse impacts of subdued economic growth and elevated inflation, global insurance premiums were expected to decline slightly in 2022. Cost-of-living crisis increased lapses and delaying of insurance purchases which resulted in long term insurance premiums to reduce in real terms. As the high inflation reduces the value of future fixed payouts, the attractiveness of long term insurance products depletes. Decreased disposable income and resultant reduction in affordability caused many customers to limit to mandatory insurance covers such as motor or professional liability. However, there was a divergence observed in premium growth momentum between advanced and emerging markets. According to Swiss Re, the general insurance industry in emerging markets such as China has shown positive signs of premium growth due to relatively strong economic progress and rapid growth in insurance classes such as health, liability and agro. Premiums of long term insurance also improved in emerging markets mainly driven by the steps such as digitalization of processes, risk awareness and public sector support for expansion of long term insurance. Nevertheless, the global underwriting performance and investment outcomes have gotten worse over the past year but are anticipated to improve with potential premium increases and interest rate tailwind. Especially the nominal premiums in the motor and property insurance classes are expected to further increase if the inflationary environment persists.

Inflationary shocks heightened the claim costs particularly in the general insurance sub classes relating to construction, health care and motor segments. Material prices, vehicle spare parts prices, medical and healthcare costs, prices of medicines and drugs, and wage rates have gone up consequent to inflation which has directly caused the claims costs to elevate. Claims of the liability insurance classes will also be affected in the long run due to wage increases and rising healthcare expenditures. Similar to year 2021, significant catastrophic losses continued to hit hard insurer's stability. According to the publications of Swiss Re, Hurricane Ian in USA which made landfall in Florida, triggered estimated insured losses of USD 65 billion in 2022 which turned out to be one of the largest single peril events to push insurance losses significantly. The year was further associated with number of winter storms, convective storms and devastating floods throughout the world, which resulted in USD 125 billion worth of global insured losses from natural catastrophes in 2022. Inflationary environment had a limited impact to claims of long term insurance business as in most cases the benefits are determined at the initiation of the insurance policy. Normalization of pandemic related death claims further strengthened the combined ratio of long term insurers.

Many markets have experienced sharp interest rate rises in 2022 corresponding to tight monetary policies adopted in order to counter the inflation. This has created more opportunistic environment for investments as the insurers were able to generate higher investment returns which eased the pressure of higher claims. However, the interest rate volatility has produced adverse results on fixed income investments in terms of mark-to-market losses. The consequential unrealized losses condensed the overall capital position of insurers and eventually impacted the solvency ratios in adverse manner.

While higher interest rate trajectory provides earning opportunities, it requires proper assessments, careful hedging and timely decision making by insurers to maximize the investment returns. Optimal asset allocations and diversified portfolios are another important requisites for lower risks and robust yields. Hence, the key takeaway is that insurers will need to monitor a variety of indicators, such as liquidity and asset valuations, and be poised to adjust asset and liability management (ALM) policies in response to changes in the market.

Insurance regulators around the world continue to be cautious due to concerns over the effects of the conflict in Ukraine, persistent inflationary environment and market volatility, and further worsening macroeconomic outlook, all of which may lead to more hazardous implications to insurers in the future. Accordingly, regulators have strengthened their monitoring and surveillance of risks in the insurance industry pertaining to the impact of inflation, higher interest rates, and pressure from economic downturn on the solvency and profitability of insurers. Future actions of regulators will include concluding more thorough quantitative analyses, stress-testing scenarios including sensitivity analyses of high inflation and interest rate movements, in-depth risk assessments, and more frequent prudential interactions with senior management of insurers.

Current Sri Lankan Economic Context

Sri Lankan economy has been undergoing numerous challenges during the last few years due to enduring factors such as increasing government debt levels, depreciation of Rupee value, depletion of foreign currency reserves, and political instability etc. The economy has turned to its highest turmoil in year 2022 where the country's Gross Domestic Product (GDP) reported a contraction of 7.8% which is the record lowest economic performance Sri Lanka has exhibited in post-independence era. Untimely tax cuts, a disorganized attempt to quickly transition to organic farming, the depletion of the nation's official foreign exchange reserves amid unproductive efforts to maintain a perfect record of debt servicing, the delay in the exchange rate adjustment, and the failure to act on several early warning signals caused devastating impacts on the economy. Consequently, people and businesses were severely affected by acute shortage of foreign exchange liquidity, rapid depreciation of rupee value and resulting hyperinflation, disruption of economic activity, shortage and rationing of essential commodities, soaring cost of living and cost of production, and the loss of employment and welfare. These circumstances led to widespread social unrest in the country which required authorities to take immediate policy reforms to control further economic distress. Accordingly, the Central Bank of Sri Lanka tightened the monetary policy aggressively in April 2022 in order to contain the high inflation induced by demand pressures. This was further aimed at stabilizing the exchange rate in the face of depleted levels of usable foreign reserves. Priority was given to import of essential commodities while restricting foreign currency outflow through adequate control measures. (Source: Central Bank of Sri Lanka - Annual Report 2022)

In order to bring the country back to the path of restoring social and economic stability, the government started taking action in early 2022 to request help from the International Monetary Fund (IMF). As a result, a staff level agreement for an Extended Fund Facility (EFF) from the IMF was reached in September 2022. In March 2023, EFF was approved by the executive board of IMF, amounting to approximately USD 3 billion. This included an economic adjustment program targeting to put Sri Lanka back on a recovery path while tackling structural barriers that have limited the nation's capacity for growth over the years. One of the proposed adjustments will be the government debt restructuring mechanisms aiming to restore the public debt sustainability. This gained extensive concerns among the financial sector including the insurance industry regarding the potential impact on the financial, capital and solvency positions of financial institutions and insurance companies. However, the Government and relevant authorities have taken measures to address the challenges to the financial sector in order to strengthen the stability of the financial system going forward.

Sri Lankan Insurance Market

Twenty eight insurance companies are currently functioning in Sri Lanka which include fourteen long term insurers, twelve general insurers and two composite insurers. During 2022 one long term insurance company entered the market after obtaining the license to carry on long term insurance business in Sri Lanka. In terms of the ownership, six insurance companies operated with major foreign shareholdings. Ten insurers are listed on the Colombo Stock Exchange.

Adverse economic environment prevailed in the country affected the overall financial sector in Sri Lanka in many ways. Similarly, the insurance industry was subjected to numerous challenging conditions edged on by the macroeconomic pressures during 2022. Mounting cost of living and contracted disposable income influenced general public to lower their spending on insurance products and accordingly the demand for insurance services narrowed. Similarly, the consequent results of inflation elevated the claim expenses, operational and administrative expenses of insures compelling insurance companies to increase the premium rates in order to cope with the profitability targets. This has further eroded the premium payment capacity of both existing and potential policyholders. Although tight monetary policy and resultant high interest rate environment positively affected the investment income of insurers, it has produced substantial mark-to-market losses to many insurance companies during 2022. The outlook will be more challenging for insurance industry considering the impacts of ongoing economic instability and constantly evolving insurance market setting.

As illustrated in Table 1 and Chart 1, the total gross written premium income of insurance industry increased to LKR 258,100 million in 2022, yet demonstrated a subdued growth of 10.5% in comparison to previous year's overall premium growth of 12.1%. Hindrance observed in overall premium growth was largely contributed by the passive progress in premium income of long term insurance business as it displayed the lowest premium growth rate reported in the last five years. Rising interest rates hampered the loan granting and adversely affected the premium growth of loan protection insurance covers. Depleted real income of households due to soaring inflation has resulted in a significant drop in new long term insurance policies issued during the year, ultimately impacting to the subdued premium growth.

In terms of premium income, the general insurance business demonstrated a significant improvement during the year by posting 11.9% growth rate in comparison to 3.5% growth reported in last year. While overall premium income of general insurance business reached to LKR 121,829 million, the major share of the reported premium income was attributed to motor class. Increase in premium rates together with the mounting motor vehicle prices mainly pushed the premium income of motor class to grow by 7.2% in 2022 after consecutive two years of negative premium growth. In addition to motor insurance, all other sub classes of general insurance business except for health insurance demonstrated positive premium expansion during the year. Reinsurance premium income demonstrates the reinsurance premium ceded by general insurance companies to NITF and the same has decreased to LKR 3,107 million from LKR 3,549 million in 2022 mainly as a result of decreased participation to treaty reinsurance arrangements by NITF.

Insurance penetration declined to 1.1% from 1.3% year-over-year mainly as a result of subdued total premium growth and relative increase in gross domestic product at current market price. Nevertheless, the protection gap is considerably wide in the country which requires proactive measures such as spreading awareness about the benefits of insurance, increasing the accessibility and affordability of insurance services, development of innovative products, improved customer service through technological advancements etc. to bridge the gap and enhance the penetration level. Yet, the implications of current macro-economic turbulences would hamper the path to grow insurance penetration in the country. However, the amount of insurance premium per person exhibited positive movement from LKR 10,540 to LKR 11,636 during the year on account of comparatively stable population growth in the country in 2022.

Table 1

Premium Income and Penetration

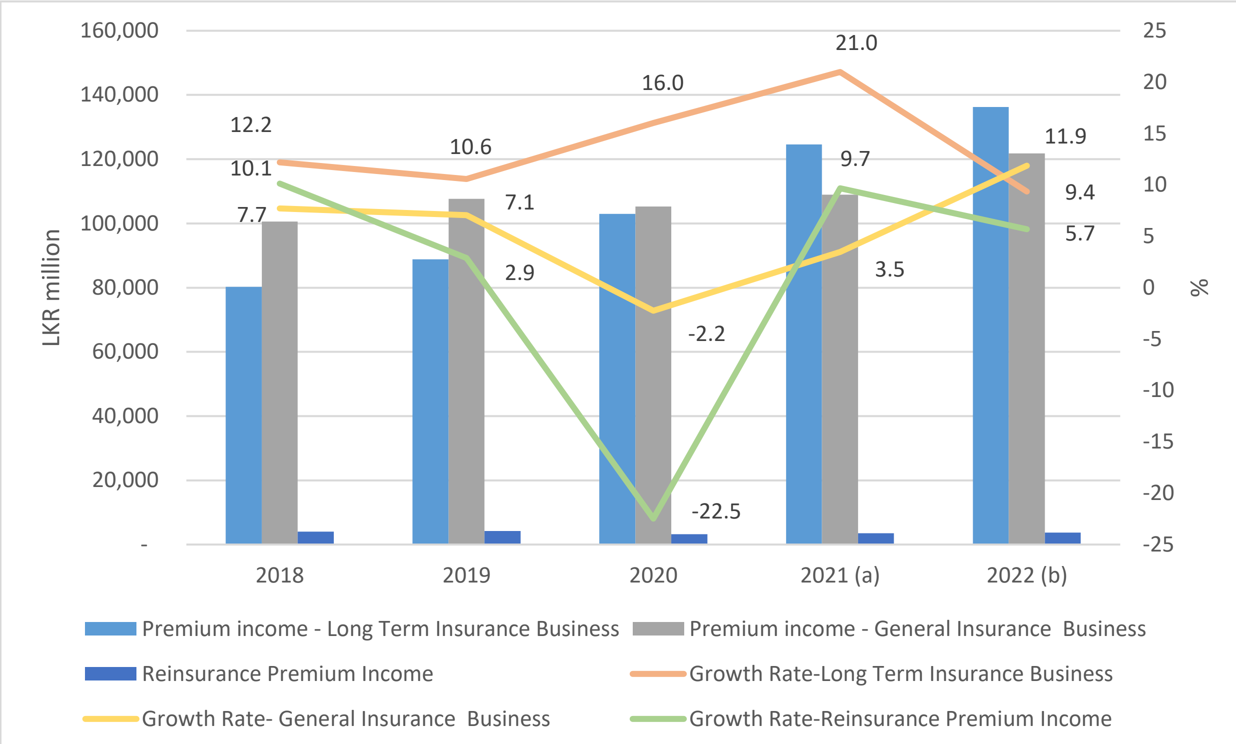
Item	Insurance Business	2018	2019	2020	2021(a)	2022(b)	Trend
Premium Income (LKR million)	Long Term Insurance Business	80,294.0	88,787.0	103,000.0	124,616.0	136,271.0	
	General Insurance Business	100,586.1	107,684.7	105,265.0	108,905.2	121,829.4	
	Total Premium Income- Insurance Business	**180,880.1**	**196,471.8**	**208,265.0**	**233,521.2**	**258,100.4**	
Growth Rate in Premium Income (%)	Long Term Insurance Business	12.2	10.6	16.0	21.0	9.4	
	General Insurance Business	7.7	7.1	-2.3	3.5	11.9	
	Growth Rate in Total Premium Income -Insurance Business (%)	**9.7**	**8.6**	**6.0**	**12.1**	**10.5**	
Penetration % (Premium Income of Insurance Business as a % of GDP)	Long Term Insurance Business	0.6	0.6	0.7	0.7	0.6	
	General Insurance Business	0.7	0.7	0.7	0.6	0.5	
	Penetration % (Total Premium of Insurance Business as a % of GDP)	**1.3**	**1.3**	**1.4**	**1.3**	**1.1**	
Reinsurance Premium Income (LKR million)		4,056.4	4,173.7	3,235.5	3,548.8	3,107.3	
Insurance Density - (Total Premium Income - Insurance Business/ population) LKR.		8,347.0	9,011.2	9,501.6	10,539.9	11,636.1	
Gross Domestic Product at current market price (LKR. billions)*		15,352	15,911	15,672	17,600	24,148	
GDP Growth Rate % *		2.3	-0.2	-4.6	3.5	-7.8	
Population '000 (Mid Year) *		21,670	21,803	21,919	22,156	22,181	

** Source: Central Bank of Sri Lanka and Department of Census and Statistics. Gross Domestic Product at current market price updated from 2018 onwards based on the Annual Report of Central Bank of Sri Lanka 2022.*

*** Reinsurance premium income represents the compulsory cession of reinsurance premiums of General Insurance Business ceded to NITF.*

Chart 1

Premium Income & Growth Rate of the Insurance Industry



Total Assets of Insurance Companies

Table 2 outlines the overall asset position of insurance industry and the progress of same over the last five years. As illustrated, the value of total assets reached to LKR 962,299 million by the end of year 2022 reporting a year-over-year growth of 8.2%. Total assets grew in parallel to the business growth but at a comparatively reduced rate than the preceding years. This was largely due to the effect of depleted asset values of insures in the face of high interest rate environment prevailed in the year.

Long term insurance business accounted for LKR 671,611 million worth of assets, representing the major contribution to assets of insurance industry. Subdued business growth and significant mark-to-market losses in financial investments depressed the growth of long term insurance assets to 6.2% in 2022, making it the lowest growth rate reported in the last five years. However, general insurance business managed to maintain favorable progress in total asset portfolio, marking a 12% growth in 2022. This was largely backed by the increased financial investments, particularly the government debt securities due to significant high yield rates offered during the year. After two years of repeated contraction, total assets of reinsurance business of NITF displayed a significant turnaround by recording LKR 9,182 million assets in 2022 which is an increase of LKR 3,649 million in comparison to preceding year (2021: LKR 5,533 million). Financial investment portfolio of the reinsurance business of NITF entirely consists of government securities and demonstrated a notable increase during the year, where investments in treasury bills and bonds almost doubled. Furthermore, the rupee value of the foreign currency denominated Sri Lanka Development Bonds substantially increased owing to the rapid appreciation of US dollar.

In terms of the composition, Financial Investments represented nearly 80% of the overall assets of insurance industry and out of same, Government Securities, Corporate Debts and Deposits remained as the leading asset types.

Table 2

Total Assets of Insurance Companies

		2018	2019	2020	2021 (a)	2022 (b)	Trend
Total Assets (LKR millions)	Long Term Insurance	430,759.0	485,121.0	562,706.0	632,687.1	671,610.8	
	General Insurance	196,005.0	205,130.0	227,639.5	251,417.5	281,506.1	
	Reinsurance	3,683.0	6,690.0	6,065.8	5,532.9	9,182.4	
	Industry Total	**630,463.0**	**696,958.0**	**796,411.3**	**889,637.5**	**962,299.2**	
Growth Rate of Assets (%)	Long Term Insurance	9.9	12.6	16.0	12.4	6.2	
	General Insurance	5.6	4.7	11.0	10.4	12.0	
	Reinsurance	-12.5	81.6	-9.3	-8.8	66.0	
	Industry Growth	**8.4**	**10.6**	**14.3**	**11.7**	**8.2**	

Distribution of Total Assets of Major Financial Sectors

Sri Lankan financial sector exhibited a commendable expansion in overall asset volume by reporting 17.5% growth in 2022, despite the country was voyaging through one of the deepest economic recessions in the history. As displayed in Table 3, the improvement in overall asset base was predominantly driven by the Banking Sector and followed by Contractual Savings Institutions. However, the assets of Specialized Financial Institutions contracted by 11% in 2022 primarily on account of shrinkage in leasing portfolio due to continual restriction on motor vehicle imports and reduced demand driven by high leasing rates.

Banking Sector continued its dominance in the overall asset composition of the financial sector in Sri Lanka by holding 74% of total assets in 2022 (2021: 74.7%). It comprised of 24 Licensed Commercial Banks and 6 Licensed Specialized Banks in 2022 and was able to preserve the stability of the sector irrespective of the constant challenges arising from declining credit quality, severe pressure on liquidity, low level of profitability and weakening capital levels. Accordingly, the asset base of the banking sector expanded by 20.4% reaching LKR 23.9 trillion mark. Despite the deceleration of loans and advances growth due to tight monetary policy, the investments portfolio grown at notable pace.

Other deposit taking financial institutions, comprised of licensed finance companies, co-operative rural banks and thrift and credit co-operative societies, managed to maintain a moderate growth of 11.2% in total asset base during 2022 despite subdued growth in leasing facilities due to continuation of vehicle import restrictions. The overall growth in asset base was largely supported by acceleration in pawning/gold loans coupled with the enhanced investment portfolio of the sector. Assets of specialized financial institutions reported a decline during the year mainly as a result of contraction in asset base of unit trusts due to change in investor preferences.

Contributing for the second largest share of total assets in major financial sectors, the other contractual savings institutions reported LKR 5.3 trillion worth of assets as of the end 2022. Employees' provident fund (EPF), employees' trust fund (ETF) and other approved pension and provident funds were included in the sector and the expansion in assets during the year was a result of the combined effect of the net contributions of EPF and ETF members, and the income generated through investments of the funds. (Source: Central Bank of Sri Lanka - Annual Report 2022). Driven by the passive growth in assets of insurance sector during the year, the overall contribution made by insurance companies to the assets of major financial sectors declined from 3.2% to 3%.

Table 3

Distribution of Total Assets of Major Financial Sectors

Financial Sectors	2018		2019		2020		2021 (a)		2022 (b)	
	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%	LKR billions	%
Banking Sector	13,711.4	72.2	14,442.1	71.9	17,087.9	72.9	19,872.5	74.7	23,926.9	74.0
Other Deposit Taking Financial Institutions	1,603.2	8.4	1,553.2	7.7	1,536.5	6.6	1,646.2	6.1	1,830.9	5.7
Specialized Financial Institutions	241.1	1.3	286.7	1.4	386.5	1.6	369.4	1.4	328.9	1.0
Contractual Savings Institutions	2,807.4	14.8	3,097.9	15.4	3,635.9	15.5	4,758.2	14.5	5,292.3	16.4
Insurance Companies*	630.4	3.3	696.9	3.5	796.4	3.4	889.6	3.2	962.3	3.0
Total	**18,993.5**	**100.0**	**20,076.8**	**100.0**	**23,443.2**	**100.0**	**27,535.9**	**100.0**	**32,341.3**	**100.0**

Source: Central Bank of Sri Lanka Annual Report - 2022

** Assets of insurance companies were reinstated based on data received from insurance companies.*

Profitability of Insurance Industry

As illustrated in Table 4, the profitability of insurance industry in Sri Lanka unveiled a moderate growth of 16.4% by reporting LKR 53,990 million profitability for the year 2022. This was supported by enhanced performance of general insurance business and rebounded profitability of reinsurance business of NITF. Despite the growth reported in preceding year, the profitability of long term insurance business declined from LKR 27,360 million to LKR 24,836 million in 2022. All long term insurers except two, achieved favorable profitability results for the year amidst hectic socio-economic environment existed in the country. However, profits were notably lesser than preceding year primarily owing to weak GWP growth and substantial mark-to-market losses induced by high interest rate environment. Consequently, the earnings of long term insurance business as a percentage of the average assets have fallen to 3.8% in 2022 as depicted in Chart 2.1.

Recovering from the reduced profitability exhibited in last year, the general insurance business demonstrated a remarkable year-over-year profit growth of 43.2% in 2022 which was largely influenced by promising expansion in overall premium income and noteworthy foreign exchange gains reported by several general insurers which emerged from foreign currency denominated investments. Correspondingly, the return on assets of general insurance companies displayed a surge from 8.2% to 10.5% in 2022. Reinsurance business of NITF displayed a commendable recovery in terms of the profitability which was again mainly supported by foreign exchange gains from US dollar denominated financial investments and the overall increase in investment income.

Table 4

Profitability of Insurance Industry

	2018	2019	2020	2021 (a)	2022 (b)	Trend
Long Term Insurance Business (LKR '000)	26,026,617.7	21,119,627.1	19,143,355.1	27,360,476.5	24,836,062.1	
General Insurance Business (LKR '000)*	11,736,739.2	11,317,738.3	23,360,482.0	19,548,731.8	27,992,365.3	
Reinsurance Business (LKR '000)**	1,342,480.5	(662,401.9)	1,230,410.0	(525,548.0)	1,161,827.0	
Total (LKR '000)	**39,105,837.4**	**31,774,963.5**	**43,734,247.1**	**46,383,660.3**	**53,990,254.4**	
Growth (%)	**-17.8**	**-18.7**	**37.6**	**6.1**	**16.4**	

**Includes SRCC business and general NITF business*

***Includes the exclusive NITF Reinsurance business.*

Chart 2.1

Profitability and Return on Assets – Long Term Insurance Business

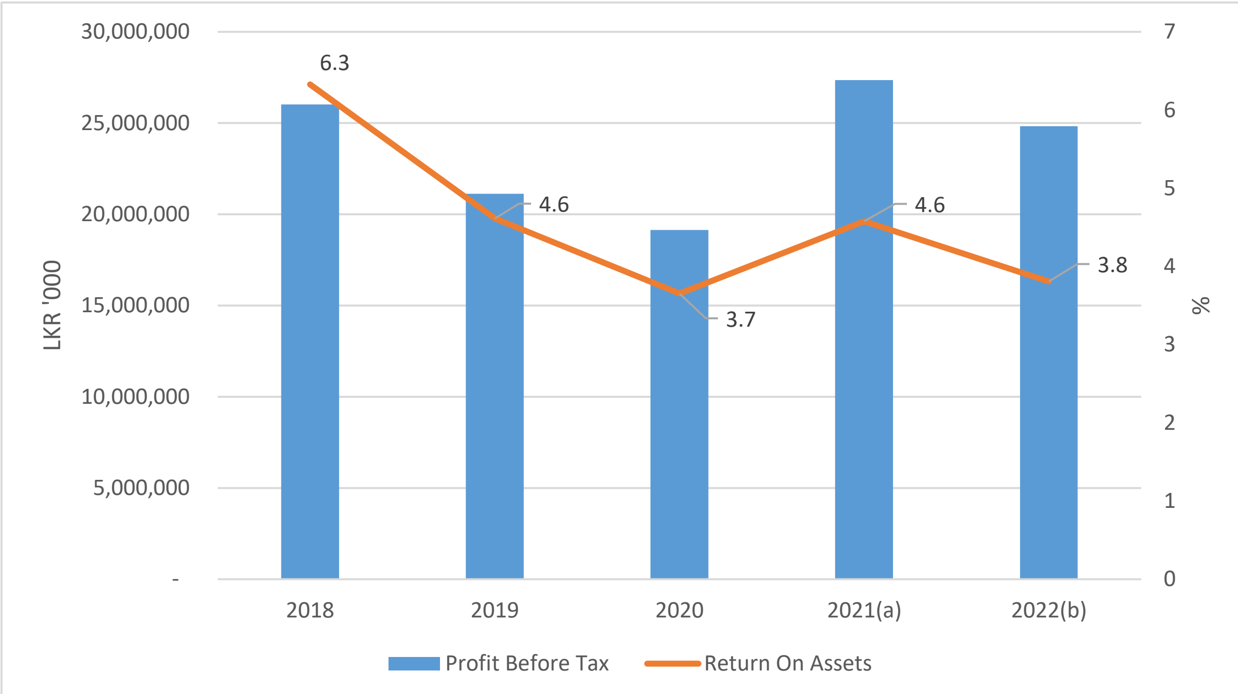
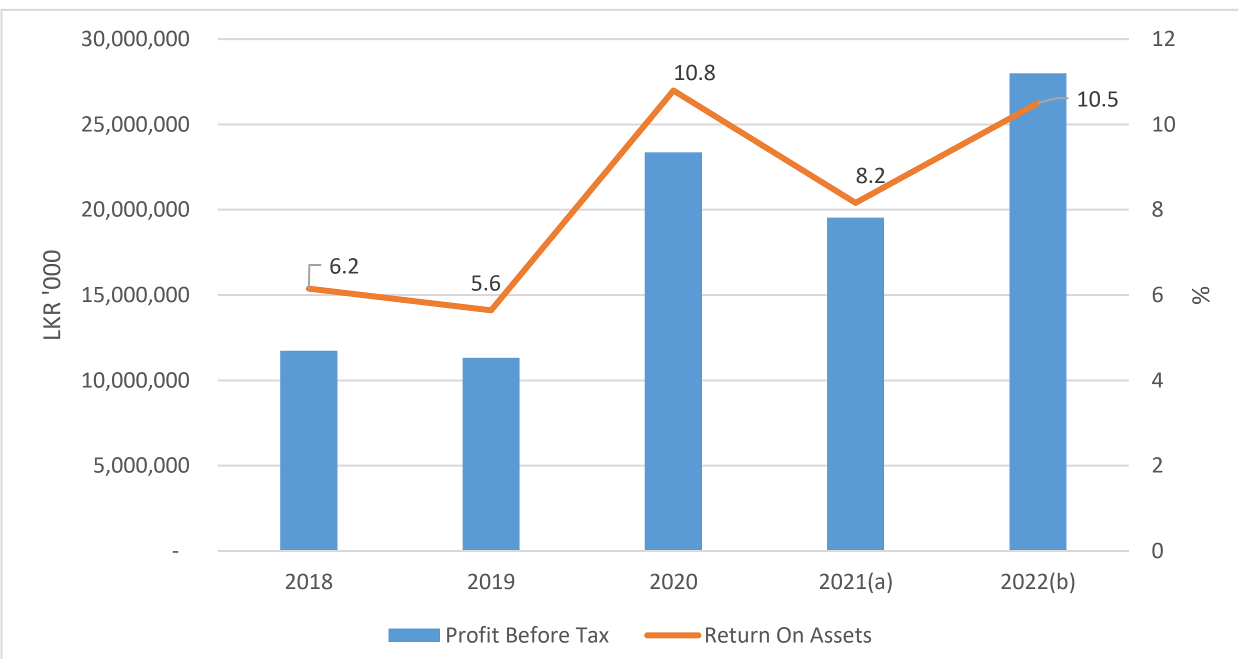


Chart 2.2

Profitability and Return on Assets – General Insurance Business



Shareholders’ Funds of Insurers

Movements in the shareholders’ funds of insurance companies for the preceding five years have been exhibited in the Table 5. Accordingly, the total shareholders’ funds of insurers reached to LKR 272,986 million as of the end of year 2022, displaying a passive growth of 2.4% compared to previous year (2021: 12.5% growth). Substantial mark-to-market losses generated from financial investments during the year had an adverse impact on total other reserves of insurers, particularly affecting the long term insurance companies. However, the increased profitability of general insurance companies had counterbalanced the overall impact to shareholders’ funds.

Overall stated capital of insurance companies expanded during the year by 7.1% mainly as a result of two long term insurers increasing their share capital in order to strengthen the capital and solvency position. Further, the share capital issue of newly registered long term insurer also contributed to expansion in overall stated capital of the industry. Total other reserves which comprised of retained earnings, revaluation reserves, and other general reserves, displayed a marginal increase of 1.5% mainly as a consequence of subdued profits of long term insurance business and the mark-to-market losses arisen from financial investments. One-off surplus is maintained under the ‘Restricted Regulatory Reserve’ which amounted to LKR 16,248 million.

Table 5

Total Shareholders' Funds of Insurance Industry

Insurance Business Category		2018 (LKR '000)	2019 (LKR '000)	2020 (LKR '000)	2021 (a) (LKR '000)	2022 (b) (LKR '000)	Trend
Long Term	Stated Capital	13,649,754.8	14,354,342.6	14,504,345.0	14,793,860.6	18,014,843.5	
	Total Other Reserves	56,640,512.4	67,894,168.4	78,871,012.7	85,583,931.5	83,752,294.2	
	One Off Surplus	16,150,089.4	16,150,089.7	16,150,088.7	16,150,089.0	16,150,089.4	
	Total Shareholders' Funds	**86,440,356.5**	**98,398,600.7**	**109,525,446.4**	**116,527,881.1**	**117,917,227.0**	
General	Stated Capital	20,700,820.3	20,911,875.1	20,911,875.0	22,194,434.0	22,194,434.0	
	Total Other Reserves	26,790,621.4	27,086,660.7	42,274,886.0	51,695,239.4	55,319,136.4	
	Total Shareholders' Funds	**47,491,441.7**	**47,998,535.9**	**63,186,761.0**	**73,889,673.4**	**77,513,570.4**	
Composite Insurance Companies	Stated Capital	7,080,021.9	8,280,021.9	8,280,022.0	8,280,022.0	8,280,022.0	
	Total Other Reserves	54,396,837.2	55,298,972.5	55,880,435.0	67,835,937.5	69,177,395.7	
	One Off Surplus	133,667.6	98,236.6	98,237.0	98,237.0	98,236.6	
	Total Shareholders' Funds	**61,610,526.8**	**63,677,231.0**	**64,258,694.0**	**76,214,196.5**	**77,555,654.3**	
Total Shareholders' Funds (Long term + General + Composite)		**195,542,325.0**	**210,074,367.6**	**236,970,901.4**	**266,631,751.0**	**272,986,451.0**	

Analyses of Branches, Employees and Agents of Insurance Companies

Table 6 and Chart 3 demonstrate the provincial-wise dispersal of branches, employees and agents of the insurance industry in Sri Lanka for years 2021 and 2022. Many insurers have expanded their branch network during the year 2022 covering all nine provinces and accordingly the total number of branches increased to 2,046 from 1,896. Similar to previous years, majority of the branches were located in Western Province, followed by Southern Province and North Western Province. By end 2022 there were 1,014 long term insurance branches, 844 general insurance branches and 188 composite branches in the country.

The overall workforces employed at insurance companies almost remained unchanged totaling to 20,057 by end 2022. Despite new recruitments made during the year, certain insurance companies have taken strategic decisions to layoff of employees for economic reasons. Further, rapid migration of workforce in the country also had an impact for number of employees in insurance sector.

The agency force employed at insurance companies improved to 47,102 by end 2022 and out of them 55.99% were represented by long term insurers, 7.78% by general insurers and 36.23% by composite insurance companies. Corresponding to the expansion in branch network, the agency force of many insurers have also increased with the new recruitment of agents during the year. Nevertheless, there were terminations of agents mainly due to poor performance, resignations and financial misappropriations.

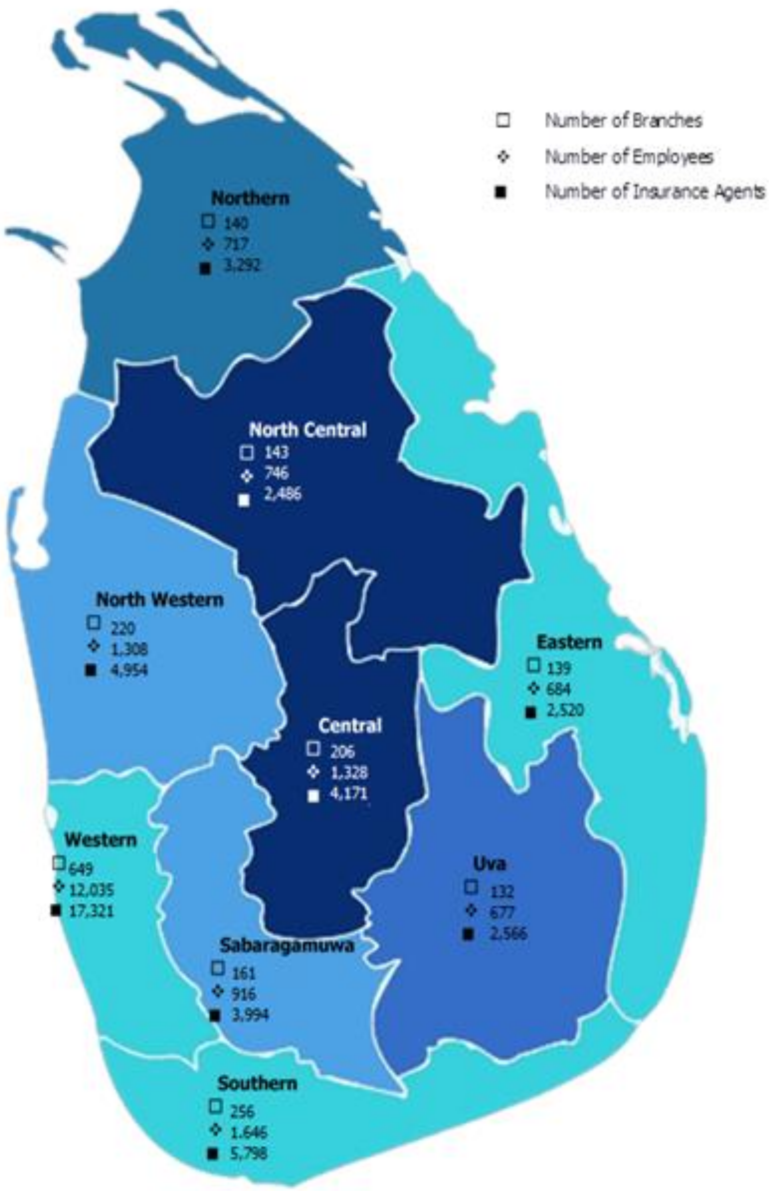
Table 6

Number of Branches, Employees and Agents as at 31st December 2021 and 2022

Province	No of Branches		No.of Employees		No. of Agents	
	2021	2022	2021	2022	2021	2022
Central Province	197	206	1,327	1,328	3,705	4,171
Eastern Province	130	139	665	684	2,401	2,520
North Central Province	134	143	736	746	2,472	2,486
North Western Province	207	220	1,221	1,308	4,414	4,954
Northern Province	130	140	689	717	3,513	3,292
Sabaragamuwa Province	145	161	907	916	3,527	3,994
Southern Province	238	256	1,599	1,646	5,162	5,798
Uva Province	117	132	742	677	2,087	2,566
Western Province	598	649	12,146	12,035	16,539	17,321
Total	**1,896**	**2,046**	**20,032**	**20,057**	**43,820**	**47,102**

Chart 3

Number of Branches, Employees and Agents as at 31st December 2022

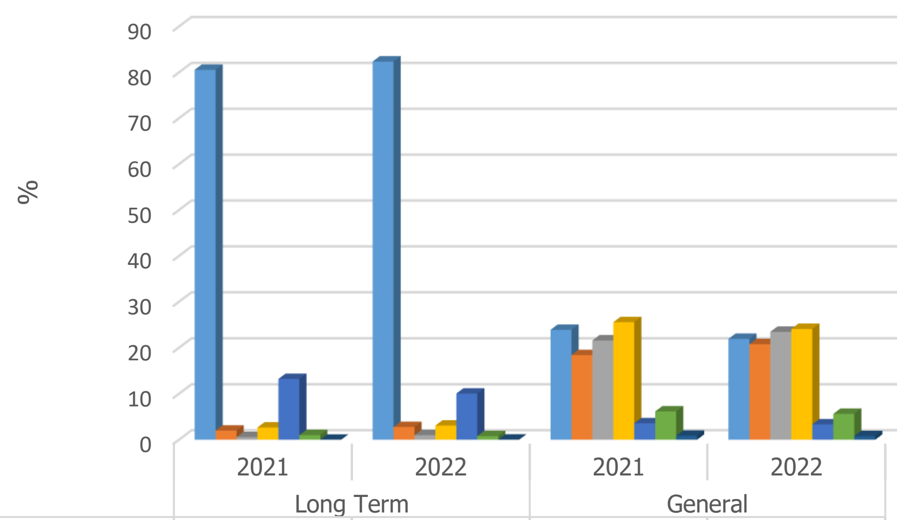


Distribution Channels of Insurance Companies

Over the preceding years there had been several developments in insurance channel diversification as the customized, innovative, and technology-based selling methods were becoming highly popular among the insurance companies and customers. Accordingly, insurance premium generated through internet, social media and mobile applications (included in 'Direct' category) demonstrated a promising growth. Similar to prior years, the long term insurance policies were primarily sold through the agency network which accounted for 82.4% of overall premium distribution in 2022. The contribution of bancassurance channel for insurance premium generation has declined in 2022 mainly as a result of rapid decrease in issue of loan protection insurance covers due to high interest rate environment and resultant drop in loan disbursements during the year. Brokers' presence in both long term insurance business and general insurance business enhanced during the year in correspondence to the enlargement of insurance brokering industry in the country during the recent years. GWP of general insurance business were primarily catered through direct channel, exclusive sales force, agents and brokers whose individual contributions exceeded over 20% in 2022. Direct channel claimed the highest involvement of 24.1% which mainly comprised of premium collected from walking customers, internet including social media and government insurance schemes implemented through NITF.

Chart 4

Distribution Channels of Insurance Companies



	Long Term 2021	Long Term 2022	General 2021	General 2022
Agents	80.56	82.36	23.89	21.93
Brokers	1.99	2.76	18.40	20.78
Exclusive Sales Force except agents	0.57	0.99	21.59	23.47
Direct	2.66	3.07	25.56	24.08
Bancassurance	13.22	10.03	3.57	3.34
Related/Group Companies	1.00	0.78	6.14	5.62
Others	0.01	0.01	0.85	0.78

Long-Term Insurance Business

Gross Written Premium

Regardless of the formidable challenges that unfolded in the post-pandemic era of the year 2022, the long-term insurance industry sustained by recording a moderate growth of 9.4% (2021: 21%) with an overall gross written premium of LKR 136,271 million. The year 2022 passed by as one of the most arduous and extremely volatile years in Sri Lankan history, as the economy shrank by 7.8% year on year and struggled with sky-high inflation, depleted forex reserves, shortages of energy, and a debt crisis that aggravated after the government defaulted on international debt.

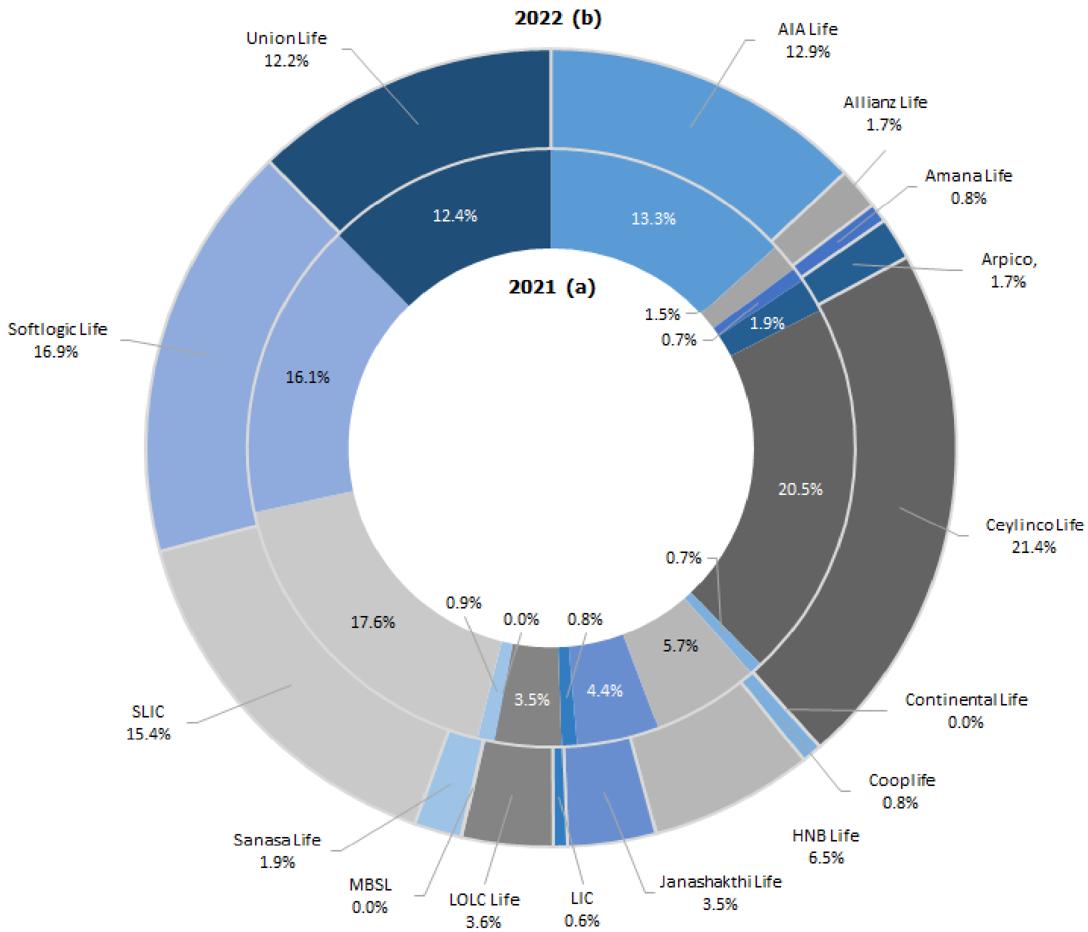
Life insurers faced enormous challenges with the macroeconomic negativities that existed. Rising interest rates impacted bank lending rates which resulted in a dead end to loan granting which directly obstructed decreasing term assurance business and credit insurance. On the other hand, the overall reduction of disposable income levels in the country undermined the propensity of buying new insurance policies which further deteriorated the long-term insurance business. Further, due to prevailed forex crisis, long-term insurers faced difficulties to pay reinsurance premiums.

Even though the insurance industry's long-term penetration rate further depreciated with the contraction of GDP, which is ominously below compared to the regional peers, there are growing opportunities for sector expansion and the industry can turn around along with the recovery of the economy. A lower life insurance penetration rate shows the potential for development with the right business models, customer value propositions, and awareness. Considering the current context, the commercial and distribution models of long-term insurance businesses must advance to offer relevant and innovative customer value propositions.

The long-term insurance industry in Sri Lanka consisted of 14 long-term insurers and 2 composite insurers that provide both long-term and general insurance services as of the end of 2022. Three companies have collaborations with foreign insurance companies. Continental Insurance Life Lanka Ltd. entered the long-term insurance market in the year 2022 as a new license granted to carry on long-term insurance business.

Chart 5

Company-wise Market Share of GWP - Long Term Insurance Business for the year ended 31st December 2021 and 2022



Ceylinco Life continued to be the market leader in the long-term insurance industry, occupying 21.4% of the market share in 2022 compared to the 20.5% reported in the previous year. Softlogic Life had acquired the second place in terms of market share surpassing SLIC, who was the second largest contributor to GWP for many years, with a market share of 16.9% (2021: 16.1%). Softlogic Life had performed successfully over the past years to enable the company to exceed four market positions in the span of five years and captured its highest market share during the year 2022 as a result of being proactive and focusing on investment-related products in the high-interest rate environment.

SLIC, which is the third largest contributor, accounted for 15.4% (2021: 17.6%) of the total GWP and lost 2.3% market share during the year 2022. These three companies' contribution towards total GWP has slightly dropped to 53.7% in 2022 compared to 54.2% in the year 2021.

AIA and Union Life affirmed the fourth and the fifth positions in terms of market share by recording 12.9% (2021: 13.3%) and 12.2 (2021: 12.4%) respectively. Both companies have experienced a slight drop in the market shares in the year 2022.

Chart 5 demonstrates the company-wise market share of gross written premium for long-term insurance companies.

Table 7

Category-wise Analysis of GWP and Growth Rate - Long-Term Insurance Business

<table>
<tr><th rowspan="2">Class</th><th colspan="2">2018</th><th colspan="2">2019</th><th colspan="2">2020</th><th colspan="2">2021 (a)</th><th colspan="2">2022 (b)</th></tr>
<tr><th>GWP (LKR '000)</th><th>Growth Rate (%)</th><th>GWP (LKR '000)</th><th>Growth Rate (%)</th><th>GWP (LKR '000)</th><th>Growth Rate (%)</th><th>GWP (LKR '000)</th><th>Growth Rate (%)</th><th>GWP (LKR '000)</th><th>Growth Rate (%)</th></tr>
<tr><td>Participating</td><td>20,560,064.3</td><td>7.2</td><td>21,394,969.5</td><td>4.1</td><td>21,501,412.3</td><td>0.5</td><td>24,177,731.1</td><td>12.4</td><td>25,200,628.6</td><td>4.2</td></tr>
<tr><td>Non Participating</td><td>30,922,561.3</td><td rowspan="2">14.6</td><td>32,370,493.2</td><td>4.7</td><td>42,817,108.7</td><td>32.3</td><td>52,426,743.1</td><td>22.4</td><td>58,744,260.7</td><td>12.1</td></tr>
<tr><td>Universal Life</td><td>26,751,609.5</td><td>33,129,498.5</td><td>23.8</td><td>37,007,344.0</td><td>11.7</td><td>46,224,154.7</td><td>24.9</td><td>50,516,666.9</td><td>9.3</td></tr>
<tr><td>Linked Long Term</td><td>2,059,725.2</td><td>0.2</td><td>1,892,079.3</td><td>(8.1)</td><td>1,674,362.9</td><td>(11.5)</td><td>1,787,378.5</td><td>6.7</td><td>1,809,456.0</td><td>1.2</td></tr>
<tr><td>Total</td><td>80,293,960.4</td><td>12.2</td><td>88,787,040.5</td><td>10.6</td><td>103,000,227.9</td><td>16.0</td><td>124,616,007.3</td><td>21.0</td><td>136,271,012.2</td><td>9.4</td></tr>
</table>

The long-term insurance industry saw a slowdown in gross written premiums in 2022 compared to rebounding growth in gross written premiums in 2021. The growth rate of the long-term insurance industry has fallen to a single digit of 9.4% (2021: 21%) recording LKR 136,271 million (2021: LKR 124,616 million) GWP in terms of value. The social and economic hurdles that prevailed throughout the year 2022 exerted a significant burden on the long-term insurance business. Soaring interest rates directly impacted the disposable income of policyholders, which in turn wedged premium payments and discouraged potential policyholders from buying new policies, ultimately putting the industry on moderate growth trajectory in 2022. Moreover, the higher interest rates dejected the demand for loans and borrowings in the banking sector, which, in turn, adversely affected the demand for decreasing term assurance.

The growth is mainly visible in non-participating business, which recorded 12.1% (2021: 22.4%). universal life and participating businesses have recorded modest growth of 9.3% (2021: 24.9%) and 4.2% (2021: 12.5%), respectively.

The composition of GWP is almost parallel to previous years, comprising 18.5% (2021: 19.4%) of participating business, 43.1% (2021: 42.1%) of non-participating business, 37.1% (2021: 37.1%) of universal life and 1.3% (2021: 1.4%) of linked long-term business. SLIC owned 51% worth of participating business portfolio out of the total participating business and SLIC, Ceylinco Life, and Softlogic Life collectively own 95.1% of the total participating business reported in the year 2022.

Product-wise Policies in Force and Sum Insured - Long-Term Insurance Business

Detailed information on product–wise policies in force and the sum insured for the years 2021 and 2022 are summarized in Table 8. Primarily, products are categorized into endowment, universal life, term, whole, and others which include health plans, unit linked, mortgage protection, group life, etc.

The total sum assured amounted to LKR 7,197,378 million in 2022 and grew by 14.8% compared to LKR 6,270,175 million recorded in 2021. Nevertheless, the number of policies in force recorded a substantial negative growth of 4.1% in 2022, compared to the positive growth of 6.3% reported in 2021. The total number of policies in force scaled down to 4,139,420 as of the end of the year 2022, compared to 4,317,695 recorded in the year 2021.

While each product category recorded a drop in policies in force, the decline was mainly driven by term insurance policies, which fell by 8.1% to 867,034 policies (2021: 943,845), mainly due to the decreased demand for loans in the financial sector as a result of increased interest rates. However, in terms of sum assured, term insurance demonstrated 9.8% growth, resulting in LKR 1,862,767 million in the year 2022.

Endowment products represent the majority of policies in force, amounting to 1,240,041 (2021: 1,276,647), and have followed the declining trend over the years and recorded a 2.9% drop in the year 2022 as well. However, in terms of sum assured, the endowment category claims only LKR 522,187 million (2021: LKR 500,420 million) out of the total sum assured for the year 2022. The number of universal life policies also marginally decreased by 3.5%, which is the second largest category, recorded as 1,019,735 (2021: 1,057,060) in 2022, with a total sum assured amounting to LKR 668,850 million (2021: LKR 621,682 million).

The category of 'others' represented a significant portion of the sum assured and substantially increased by 20% in terms of sum assured and recorded as LKR 4,142,040 million (2021: LKR 3,450,693 million) though the relevant policies in force slightly dropped by 2.7% in the year 2022. This was improved by a few life insurers as a result of the sum insured of riders, mortgage protection plans, healthcare plans and group life policies, unit-linked policies etc.

Similar to previous years, the category of whole life insurance depicted a diminishing trend in terms of both policies in force and sum assured, continuing the declining trajectory in the business.

Table 8

Product-wise Policies In force, Sum Insured and GWP for 2021 and 2022 - Long Term Insurance Business

Type of Product	2021 (a)			2022 (b)		
	No: of Policies in Force	Sum Insured (LKR '000)	Gross Written Premium (LKR '000)	No: of Policies in force	Sum Insured (LKR '000)	Gross Written Premium (LKR '000)
Term Insurance	943,845	1,695,825,322.8	13,514,004.1	867,034	1,862,766,826.5	10,962,261.8
Universal Life	1,057,060	621,682,111.8	48,483,761.0	1,019,735	668,850,051.7	54,234,497.7
Whole Life Insurance	23,539	1,554,973.0	54,503.7	23,422	1,534,537.4	74,430.1
Endowments	1,276,647	500,419,677.9	35,832,428.4	1,240,041	522,186,674.2	38,273,684.3
Others	1,016,604	3,450,692,538.2	16,532,370.9	989,188	4,142,039,755.3	18,877,926.6
Total	**4,317,695**	**6,270,174,623.6**	**114,417,068.1**	**4,139,420**	**7,197,377,845.2**	**122,422,800.5**
Growth Rate (%)	**6.3**	**30.0**	**19.4**	**-4.1**	**14.8**	**7.0**

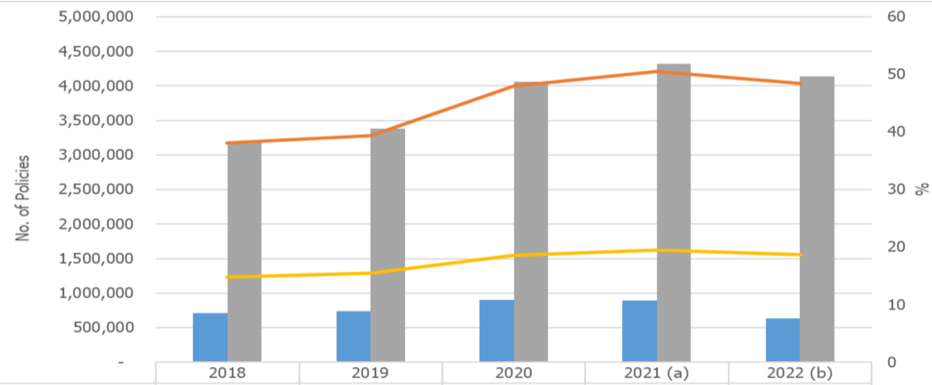
Number of Insurance Policies Issued and Policies in Force – Long-Term Insurance Business

At the end of the year 2022, the total number of long-term insurance policies in force was 4,139,420 and contracted by 4.1% as elaborated above. Continuing the previous year's tendency, the new life policies issued exhibited a significant drop of 28.5% (2021: -1.3%), amounting to 637,912 (2021: 892,660), contributed by all insurers except three insurance companies, which demonstrated an increase in new policies issued during the year. This demarcates the severe economic downturn that prevailed throughout the year, which pressurized and undermined the penetration of the insurance sector.

The number of life insurance policies in force as a percentage of the total population was 18.7% in 2022, compared to 19.5% recorded in 2021. Further, the number of life insurance policies in force as a percentage of the labor force fell to 48.4% in 2022 from 50.5% in the previous year.

Chart 6

Number of Insurance Policies Issued and Policies in Force – Long-Term Insurance Business



	2018	2019	2020	2021 (a)	2022 (b)
No. of New Life Policies issued	711,126	734,896	904,224	892,660	637,912
No. of Life Policies in Force	3,199,354	3,383,290	4,063,568	4,317,695	4,139,420
No. of Life Policies in Force as % of the Total Population*	14.8	15.5	18.5	19.5	18.7
No. of Life Policies in Force as % of the Labour Force*	38.1	39.4	48.0	50.5	48.4

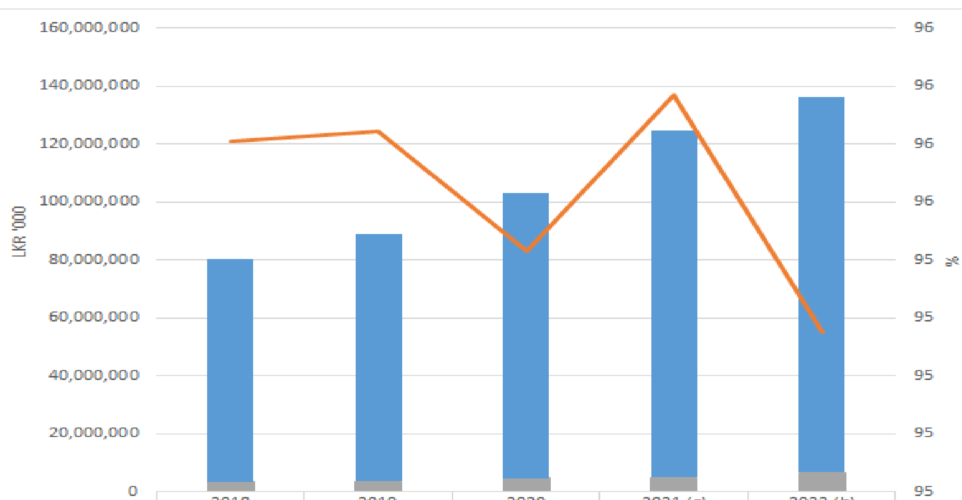
Premium Ceded to Reinsurers and Retention by Insurers - Long-Term Insurance Business

Reinsurance arrangements of long-term insurers intervene as a risk management mechanism in the industry, wherein a component of the risks undertaken by the long-term insurers is transferred to reinsurers. During the year, premium ceded to reinsurers substantially increased by 31.5% (2021: 6.8%) reaching LKR 6,610 million (2021: LKR 5,026 million) and the premium increase is basically due to escalated exchange rates in Sri Lanka.

The overall retention ratio of long-term insurance business dropped by 0.9% to 95.1% year on year, as depicted in Chart 7.

Chart 7

Reinsurance Premium and Retention by Insurers - Long-Term Insurance Business



	2018	2019	2020	2021 (a)	2022 (b)
Total Retained Premium (LKR' 000)	76,928,174.9	85,094,803.5	98,294,984.8	119,590,451.1	129,661,453.3
Total Reinsurance Premium (LKR' 000)	3,365,785.5	3,692,237.0	4,705,243.1	5,025,556.2	6,609,558.8
Overall Retention Ratio (%)	95.8	95.8	95.4	96.0	95.1

Number of Insurance Claims and Claims Incurred by Insurance Companies – Long-Term Insurance Business

There was a notable increase in claims incurred in terms of value during the year 2022, which amounted to LKR 61,642 million (2021: LKR 45,970 million). The growth rate was recorded at 34.1% (2021: 17.5%), which is the highest growth rate recorded for the past five years. The increase emanated basically from maturity benefits, surrenders, and others.

The number of insurance claims reported also recorded a modest increase of 11.1% (2021: 7.8%), escalating to 605,485 (2021: 544,834) for the year ended 2022. The increase was visible in each category except surrender claims.

Maturity benefits, with a rapid growth of 28.7% in terms of value, accounted for LKR 28,897 million (2021: LKR 22,452 million) by occupying a significant share of 46.9% of the total claims incurred. Other benefits which consist of health benefits, advance payments, bonuses, critical illness claims, cancellations, and refunds, etc. amounted to LKR 12,761 million which is 20.7% of the total claims incurred and recorded a noteworthy increase of 54.7% in terms of value. Health claims occupy the biggest portion of the 'other' category which is the ultimate reason for the substantial increase reported during the year 2022. Continuing the rising trend, the number of claims recorded under the 'other' category showcased the highest growth rate of 32.3% year on year.

Surrenders, allotting a share of 20% to total claims incurred, increased to LKR 12,357 million, posting a notable growth rate of 51.2%. However, conversely, the number of claims reported under surrenders declined by 31.2% year over year.

Table 9 depicts the category-wise breakdown of the number and amount of insurance claims incurred for the years 2018 to 2022.

Table 9

Number and amount of Insurance Claims Incurred by Insurance Companies - Long-Term Insurance Business

	2018		2019		2020		2021 (a)		2022 (b)	
	No: of Insurance Claims	Amount (LKR '000)	No: of Insurance Claims	Amount (LKR '000)	No: of Insurance Claims	Amount (LKR '000)	No: of Insurance Claims	Amount (LKR '000)	No: of Insurance Claims	Amount (LKR '000)
Disability Benefits	10,737	984,922.7	12,251	731,803.5	11,036	705,887.5	13,986	917,143.1	14,050	974,091.0
Death	11,935	2,842,974.6	12,958	2,991,518.3	12,105	2,646,832.4	14,460	6,176,844.4	17,938	6,652,938.9
Surrenders	70,412	7,004,688.5	75,988	7,141,731.1	155,718	6,951,595.3	126,686	8,173,050.4	87,196	12,356,866.2
Maturity Benefits	153,856	18,343,284.8	130,723	18,485,420.0	153,491	21,702,672.5	157,206	22,452,063.8	178,666	28,896,793.6
Others	166,745	5,240,493.1	205,076	5,788,921.6	173,183	5,902,181.4	232,496	8,250,866.2	307,635	12,761,070.2
Total	**413,685**	**34,416,363.7**	**436,996**	**35,139,394.5**	**505,533**	**37,909,169.1**	**544,834**	**45,969,967.9**	**605,485**	**61,641,759.9**

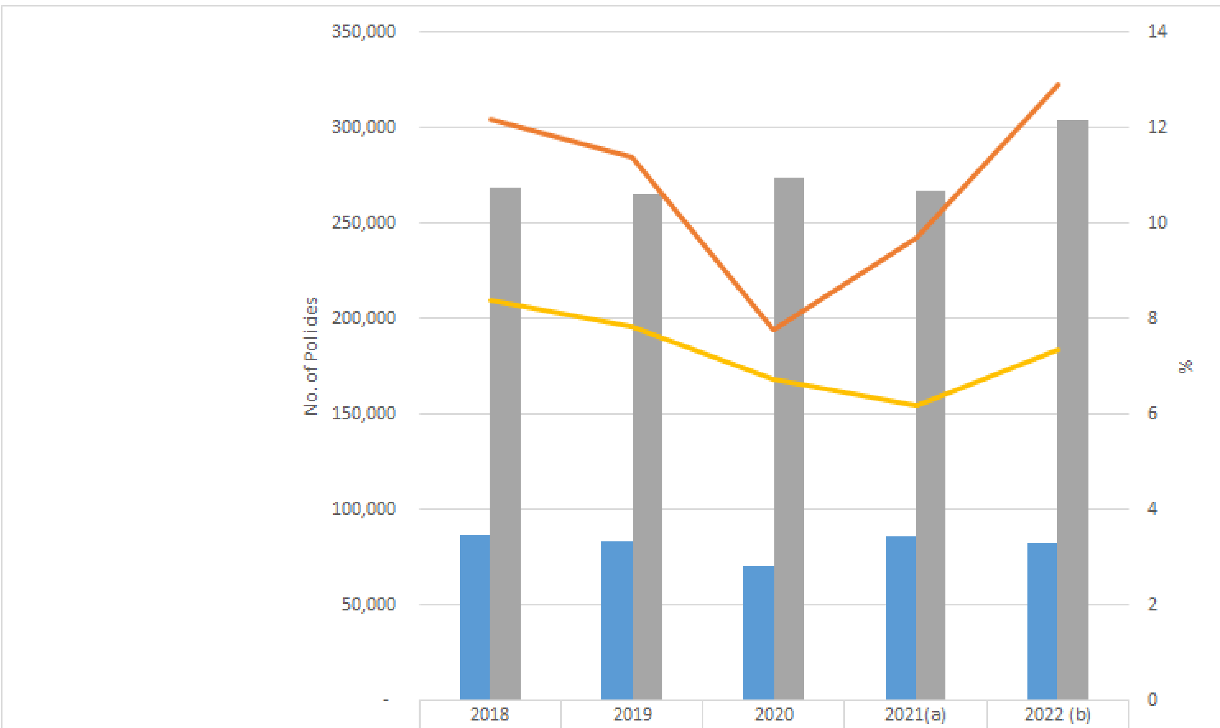
Insurance Policy Lapses – Long-Term Insurance Business

Insurance policy lapses due to non-payment of premiums before the policy acquires a surrender value, increased at a notable pace from both new policies issued and total policies in force in the year 2022. With the prevailing boisterous external environment, almost all the life insurers experienced mounting policy lapsations during the year 2022. Chart 8 depicts the upward trajectory of lapse rates and the new policy lapsed as a percentage of new policies issued was 12.9% (2021: 9.7%) in 2022 while total policies lapsed as a percentage of total policies in force was 7.3% (2021: 6.2%).

Total lapsed life insurance policies amounted to 304,125 (2021: 267,306) in the year 2022. Out of the same, new lapsed policies constituted 82,071 (2021: 86,170), which accounts for more than 25% of the total lapses.

Chart 8

Insurance Policy Lapses – Long-Term Insurance Business



	2018	2019	2020	2021(a)	2022 (b)
New Insurance Policies Lapsed	86,484	83,547	70,152	86,170	82,071
Total Insurance Policies Lapsed	268,339	265,256	273,879	267,306	304,125
New Insurance Policies Lapsed as a % of New Policies Issued	12.2	11.4	7.8	9.7	12.9
Total Insurance Policies Lapsed as a % of Total Policies in Force	8.4	7.8	6.7	6.2	7.3

Chart 9

Product Category-wise Details on Lapsation - Long-Term Insurance Business

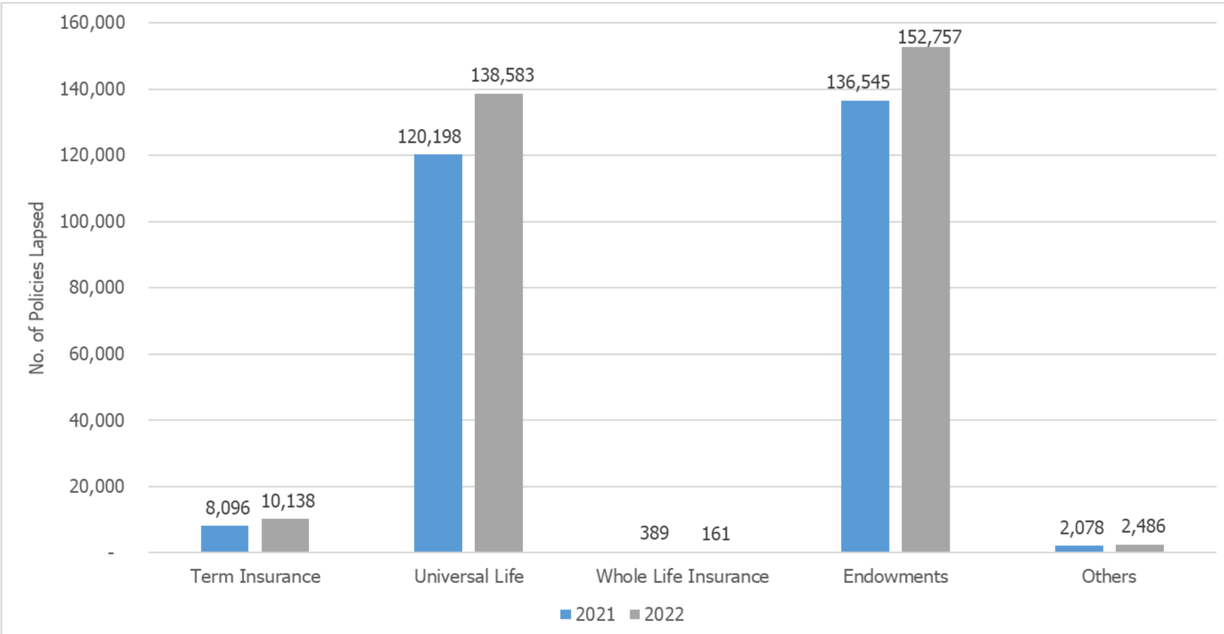


Chart 9 provides detailed information on product–wise policy lapsation for the years 2021 and 2022. A total of 304,125 policies had been lapsed which is a 13.8% increase compared to the previous year.

Endowments accounts for the largest percentage of the total policy lapses, accounting for 50.2% of total policy lapsation and recorded as 152,757 policies (2021: 136,545) for the year 2022. The second largest lapsed policies reported from the product category of universal life, which is 45.6% of total policies lapsed. Both product types recorded an 11.9% and 15.3% upsurge compared to the previous year.

A distinguished increase in policy lapsation was reported from term insurance as well, which is 25.2% growth and increased to 10,138 (2021: 8,096) in the year 2022. The category of 'other' which represents a significant portion of the sum assured of long-term insurance business, reports lesser lapses which occupy 0.8% of the total lapse number of lapsed policies and stood at 2,486 in the year 2022.

Table 10

The Concentration of Assets, Investment Income, and Average Investment Yield- Long-Term Insurance Business

Type of Assets	2021 (a)		2022 (b)	
	Total Value (LKR '000)	Investment Income (LKR '000)	Total Value (LKR '000)	Investment Income (LKR '000)
Government Debt Securities	274,545,008.6	22,337,587.9	326,662,243.1	39,594,624.1
Equities	49,049,127.2	9,035,987.9	47,714,165.7	(3,563,357.6)
Corporate Debt	140,753,423.3	15,516,498.7	134,798,503.4	15,891,916.6
Land & Buildings for Investment Purposes	4,493,200.0	162,960.4	4,840,730.0	172,770.3
Deposits	88,122,138.3	7,612,389.7	73,047,156.8	10,128,752.8
Unit Trusts	13,426,656.3	740,306.0	6,809,831.7	884,017.1
Gold	142,731.3	15,605.8	211,500.0	42,399.5
Sub Total	**570,532,285.0**	**55,421,336.5**	**594,084,130.6**	**63,151,122.8**
Average Investment Yield (%)		**10.4**		**10.8**
Other Assets				
Reinsurance receivables	3,152,479.2		3,470,229.8	
Premium receivable from policyholders and intermediaries	3,300,604.3		4,866,342.6	
Property Plant and Equipment	17,932,791.6		19,929,946.5	
Cash and cash equivalents	4,747,326.4		5,586,292.9	
Policy Loans	6,719,018.7	401,199.6	8,942,800.7	434,076.3
Other Loans	1,280,015.8		1,257,158.4	
Other Assets	25,022,555.9	69,058.6	33,473,896.7	64,005.1
Total Assets	**632,687,076.9**	**55,891,594.7**	**671,610,798.1**	**63,649,204.2**

The total assets of long-term insurers in 2022 were LKR 671,611 million, which increased by 6.2% over 2021. In 2022, the share of government debt securities rose by 19.1% over 2021 and took the most significant portion of the total assets of long-term insurers, and it was composed of Treasury Bonds, REPO, Treasury Bills, Development Bonds, and International Sovereign Bonds.

Irrespective of the tumultuous external negativities, long-term insurers managed to record a 13.9% growth in investment income for the year 2022 amounting to LKR 63,151 million compared to LKR 55,421 million reported in 2021. The investment income surge was supported by both an effective asset reallocation strategy and a high-interest rate trajectory that prevailed throughout the year 2022.

The growth was largely driven by government debt securities due to the elevated interest rates that existed and the increase of investment income from the same recorded as 77.3%. Similarly, in 2022, the total value of investment in government debt securities increased by 19.1% and stood at LKR 326,662 million, which accounts for 55% of total investments representing the largest portion of total investments. The previous year's government debt securities own 48% of the total investment portfolio which significantly improved by the year 2022 due to attractive rates provided as a result of tightening monetary policies of the economy.

Conversely, the investment income reported from equity investments was pointedly reduced and turned to loss-making by demonstrating a negative income of LKR 3,563 million due to the dismal performance in the equity market during 2022 with the negative market sentiments against the backdrop of prevailed adverse macroeconomic conditions. Many insurers recorded equity losses when listed equity instruments were measured at fair value, with, one insurer recording a substantial unrealized loss which impacted the whole industry status and turned into an investment loss.

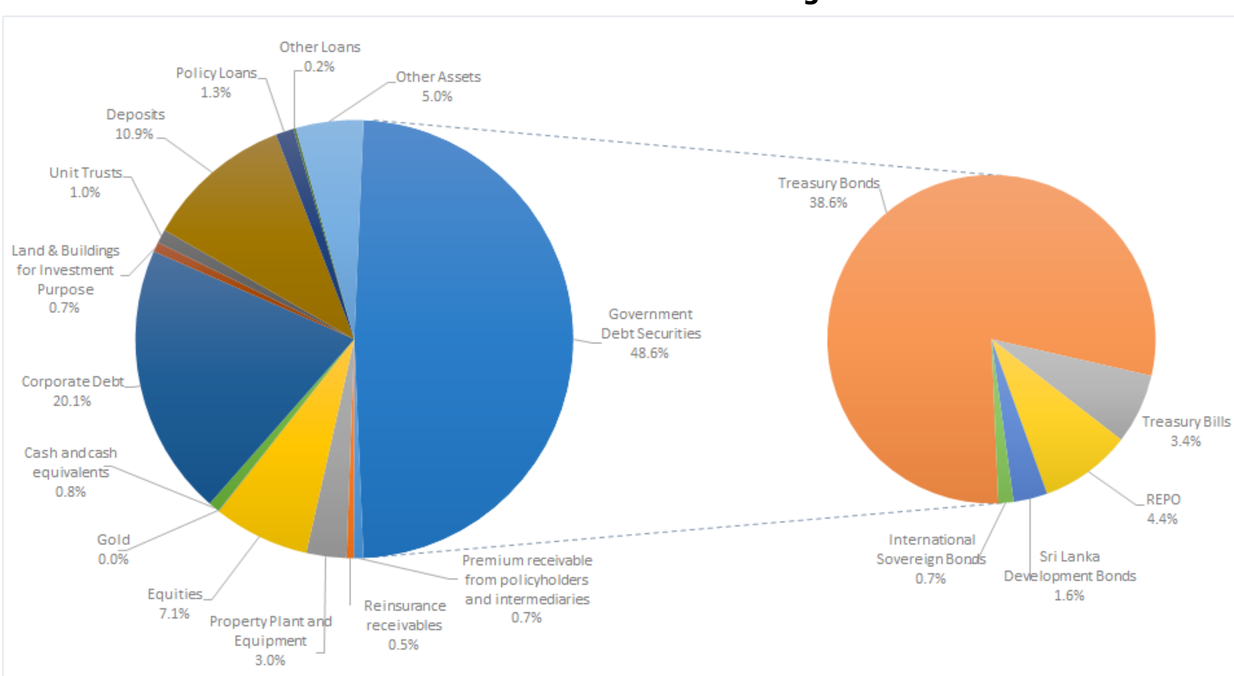
Corporate debt which represents a significant portion of the investment portfolio had generated investment income of LKR 15,892 million (2021: LKR 15,516 million) and grew by 2.4% year on year. However, the total investment value of corporate debt declined by 4.2% and was reported as LKR 134,799 million.

Deposits generated an investment income of LKR 10,129 million (2021: LKR 7,612 million) counting interest income from banks and finance companies showcasing a growth of 33.1%. Nevertheless, the total investment value of deposits decreased attentively by 17.3% and stood at LKR 73,047 million by the end of the year 2022.

The overall average investment yield was 10.8% in 2022 compared to 10.5% in 2021.

Chart 10

The Concentration of Assets as of 31st December 2022 - Long Term Insurance Business



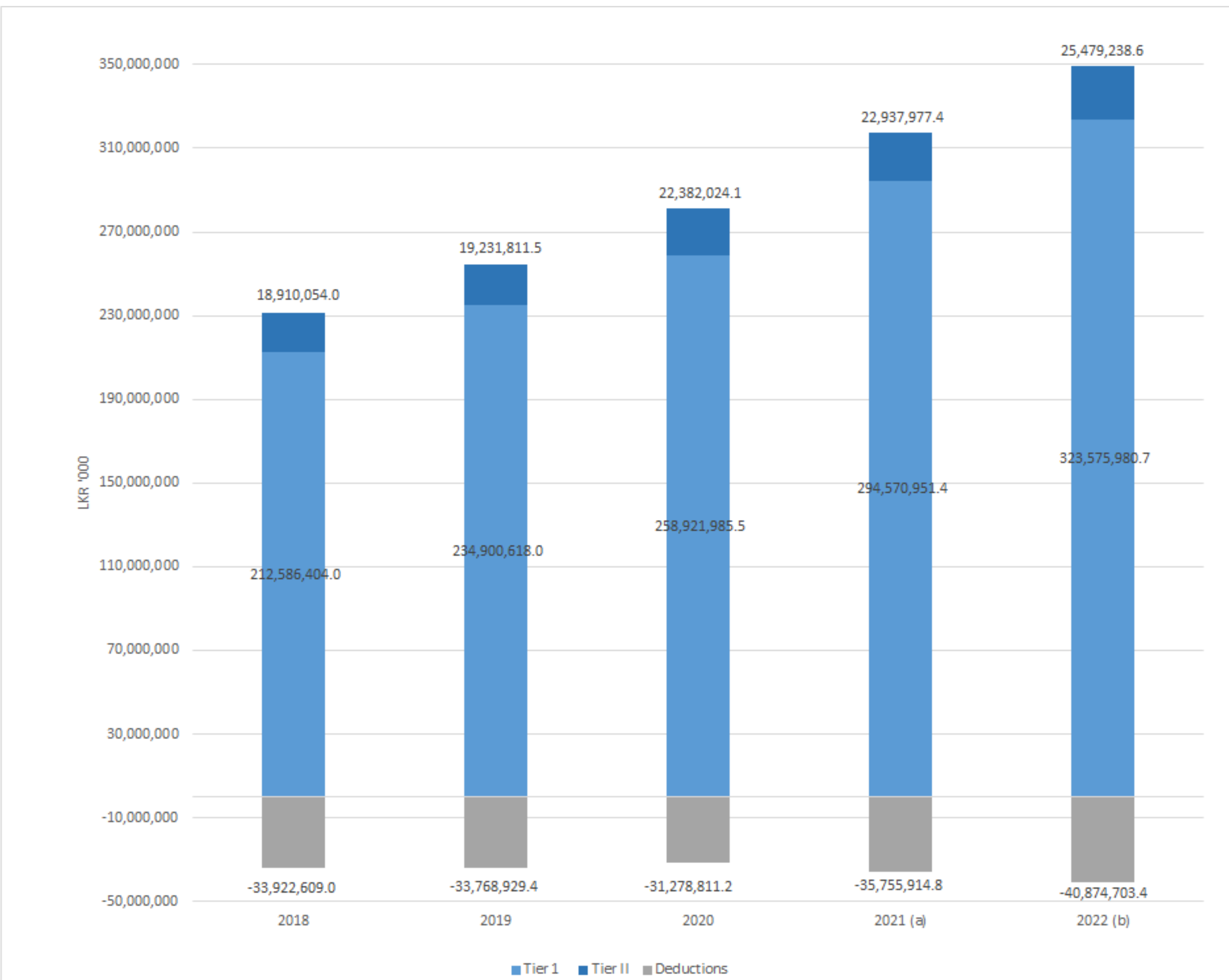
Solvency Positions of Insurance Companies -Long-Term Insurance Business

Under Solvency Margin (Risk-Based Capital) Rules, insurers take a risk-centered approach to assess capital adequacy and pursue reflect relevant risks to enhance both policyholder and insurer protection and ensure operational sustainability. Risk-Based Capital (RBC) functions as a minimum regulatory capital for insurance companies to be determined based on the risks to which an insurance company is exposed. It is expressed as a ratio of available capital to required capital. Timely and appropriate regulatory and supervisory measures ensured the overall stability of the industry with no major concerns during the year.

Under Solvency Margin Rules, insurers are required to maintain a minimum Total Available Capital (TAC) of LKR 500 million and a Capital Adequacy Ratio (CAR) of 120% to comply with capital adequacy requirements. Charts 11, 12, and Tables 11, and 12 demonstrate details relating to the RBC of life insurers.

Chart 11

Total Available Capital (TAC) Requirement of Insurance Companies - Long-Term Insurance Business



TAC of long-term insurers accumulated up to LKR 308,181 million (2021: LKR 281,753 million) as of 31st December 2022 and recorded a marginal growth of 9.4% against the previous year. As per Solvency Margin (Risk Based Capital) Rules, TAC is figured by adding 'Tier 1' and 'Tier 2' capital and subtracting items specified as 'Deductions'.

Tier I capital which can be defined as the permanent capital fully available to cover the losses, comprised of share capital, retained earnings, any adjustments to retained earnings, unallocated valuation surplus, and 50% of future projected bonuses for participating business. Tier 1 capital amounted to LKR 323,576 million and grew by 9.8% year on year.

Tier II capital which is the supplementary capital contains cumulative irredeemable preference shares, redeemable preference shares, etc., and improved by 11.1% against the previous year 2021. The deductions which mainly comprised intangible or illiquid assets amounted to LKR 40,875 million (2021: LKR 35,756 million) also increased by 14.3%.

All life insurers except one insurer have complied with the minimum TAC of LKR 500 million as of 31st December 2022. Accordingly, necessary actions had been taken in terms of the Solvency Margin (Risk Based Capital) Rules 2015.

Chart 12

Total Available Capital (TAC) and Capital Adequacy Ratio (CAR) - Long-Term Insurance Business

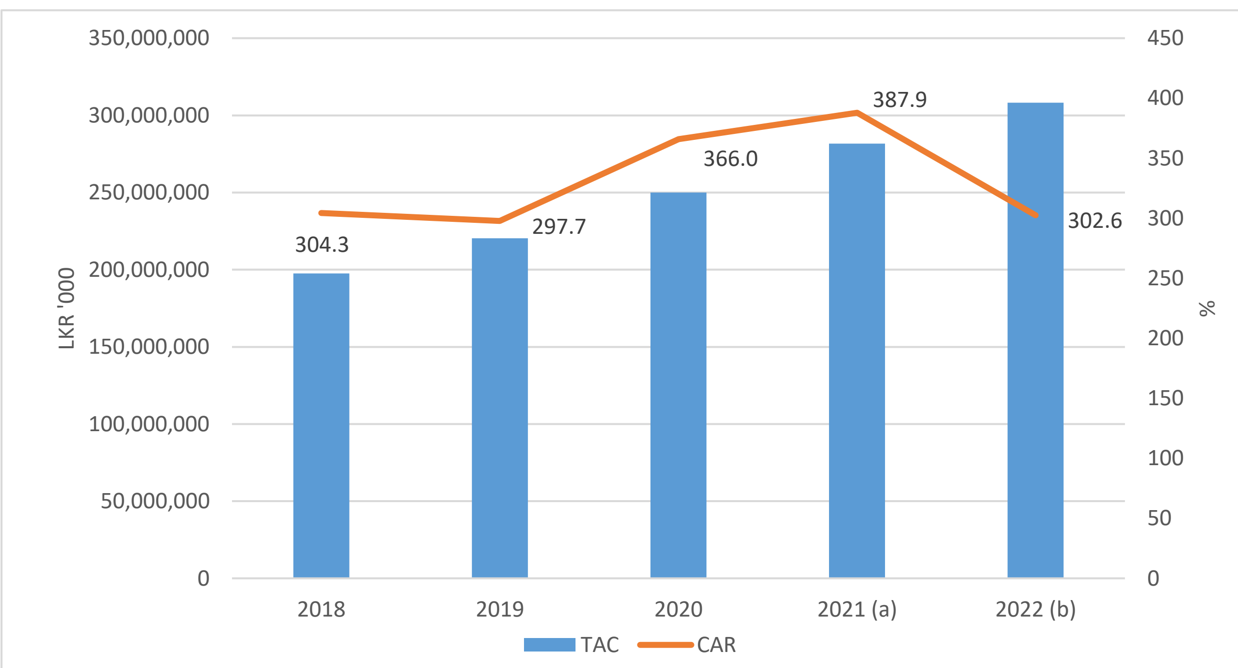


Table 11

Company-wise Analysis of Solvency Position - Long-Term Insurance Business

Insurer	CAR (%)				
	2018	2019	2020	2021 (a)	2022 (b)
AIA Life	655.1	638.9	488.5	547.1	401.5
Allianz Life	406.4	307.0	709.2	422.1	198.7
Amana Life	174.4	190.0	204.4	201.4	182.9
Arpico	391.1	371.5	415.4	434.5	182.0
Ceylinco Life	363.6	346.8	420.9	393.4	298.0
Cooplife	241.0	188.6	250.0	294.7	342.6
HNB Life	318.7	321.8	337.9	276.9	305.9
Janashakthi Life	336.7	300.0	304.1	386.6	312.2
LIC	192.0	144.0	143.5	181.9	48.5
LOLC Life	139.1	217.6	184.9	480.2	252.4
MBSL	244.7	272.2	731.5	906.1	417.5
Sanasa Life	204.7	182.1	198.0	169.3	176.1
SLIC	437.0	436.1	458.6	500.7	416.6
Softlogic Life	199.0	181.6	301.6	395.3	286.8
Union Life	261.2	368.0	340.8	228.0	193.9
Continental Life					825.4
Average CAR in Long Term Insurance Business	**304.3**	**297.7**	**366.0**	**387.9**	**302.6**

CAR under the Risk-Based Capital (RBC) regime measures the adequacy of the Total Available Capital as against the Risk Capital Required which indicates the capability of insurers to absorb risk concerning its capital position. The average CAR of long-term insurance business recorded for the year 2022 was 303% (2021: 388%) which declined attentively by 85% basically due to higher interest rates prevailing during the year 2022.

All long-term insurance companies had satisfied the minimum CAR requirement as of 31st December 2022 except one insurer.

Industry Analysis of Risk Capital Required (RCR) - Long-Term Insurance Business

RCR demarcates as cumulative of the capital required to address relevant and material categories of risk. Table 12 describes the industry analysis of RCR which comprises of main risk categories computed under the RBC framework termed credit risk, concentration risk, market risk, reinsurance risk, liability risk, and operational risk for five years period.

Total risk capital charges after diversification grew at an elevated rate of 28.9% to LKR 90,123 million primarily driven by concentration risk and market risk of the industry. Market risk continues to be the major risk encountered by the long-term insurers in the year 2022 similar to preceding years, occupying 62.8% of total RCR before diversification and totaled to LKR 71,020 million. Conversely, the liability risk of the long-term insurance industry had decreased by 16.8% and stood at LKR 19,967 million. Similarly, other risk categories of operation risk, reinsurance risk, and credit risk also showcase marginal decreases compared to the previous year 2021. The aggregate surrender value of insurance products exceeded the market value of insurance contract liability as a result of deteriorated insurance liability value due to rapid increase in interest rates during the year. Consequently, the surrender value capital charge increased dramatically in 2022.

Table 12

Industry Analysis of Risk Capital Required (RCR) as of 31st December 2021 and 2022 - Long Term Insurance Business

	2018 (LKR '000)	2019 (LKR '000)	2020 (LKR '000)	2021 (a) (LKR '000)	2022 (b) (LKR '000)
Credit Risk	4,165,104.4	5,162,954.4	5,947,425.4	6,615,683.0	5,976,406.0
Concentration Risk	5,960,347.4	6,868,391.4	7,171,081.4	6,341,390.6	10,092,699.0
Market Risk	38,896,492.9	41,848,034.6	43,534,817.2	50,247,333.0	71,019,955.5
Reinsurance Risk	11,050.3	16,514.0	22,150.1	14,815.0	9,198.4
Liability Risk	15,653,460.4	17,837,278.2	23,017,944.4	23,996,690.1	19,967,109.2
Operational Risk	4,229,299.3	4,846,855.7	5,817,151.4	6,273,029.9	5,961,619.1
Total Risk Capital Charge (RCR) before diversification	**68,915,754.6**	**76,580,028.3**	**85,510,569.9**	**93,488,941.6**	**113,026,987.2**
Total Risk Capital Charge (RCR) after diversification	**52,829,802.1**	**58,666,156.1**	**62,675,845.3**	**69,913,809.7**	**90,123,494.2**
Surrender Value Capital Charge (SVCC)	**5,610,174.8**	**3,852,790.3**	**2,611,550.9**	**8,131,792.3**	**61,074,719.0**

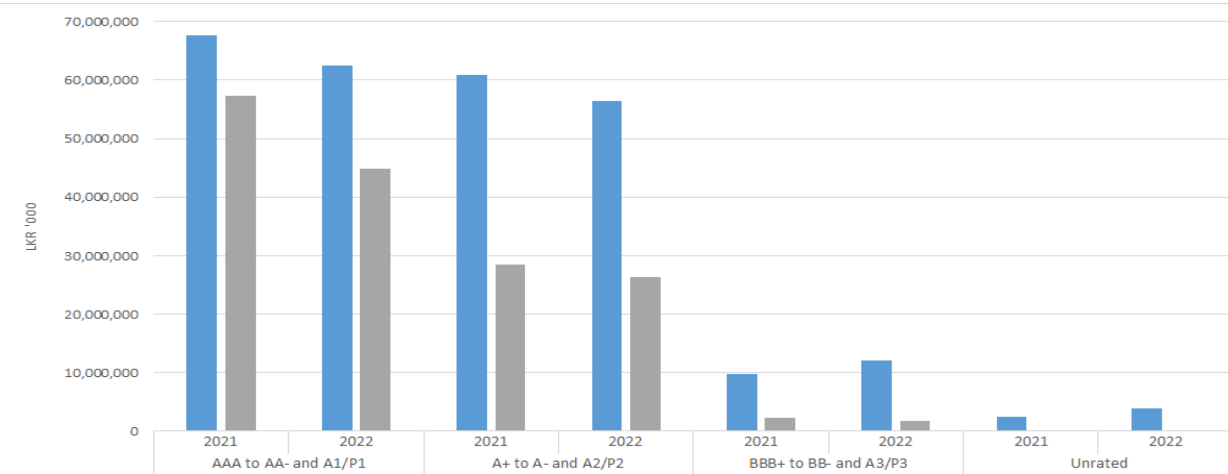
Credit Quality of Financial Assets - Long-Term Insurance Business

Insurers are exposed to credit risk through financial investments, and the creditworthiness of the financial instruments is assessed using the credit ratings assigned to each security. With the gloomy economic environment prevailing throughout the year 2022, the deterioration of the credit quality of financial investments was a rising concern in Sri Lanka.

Under Solvency Margin (Risk-Based Capital) Rules, every insurer shall determine a credit risk capital charge by adding together each credit risk exposure multiplied by the prescribed credit risk factor when determining the capital adequacy ratio. An analysis of the credit quality of financial investments in the long-term insurance market is illustrated in Chart 13.

Chart 13

Credit Quality of Financial Assets as of 31st December 2021 and 2022 - Long Term Insurance Business



	AAA to AA- and A1/P1 2021	AAA to AA- and A1/P1 2022	A+ to A- and A2/P2 2021	A+ to A- and A2/P2 2022	BBB+ to BB- and A3/P3 2021	BBB+ to BB- and A3/P3 2022	Unrated 2021	Unrated 2022
Corporate Debts	67,663,986.6	62,464,036.3	60,916,981.2	56,474,296.0	9,689,545.4	12,064,400.0	2,482,910.1	3,795,770.9
Deposits	57,389,037.0	44,931,494.5	28,395,139.3	26,377,405.8	2,337,961.6	1,738,257.6	-	-

Out of the total deposits, 61.5% of the deposits are within the highest rating category of AAA to AA- and A1/P1. Further, 36.1% and 2.4% of total deposits are invested in ratings of A+ to A- and A2/P2 and BBB+ to BB- and A3/P3 categories respectively. The long-term insurance industry has not invested in unrated deposits.

Total corporate debts which invested in the highest rating category amounted to LKR 67,664 million. Accordingly, 46.3% of total corporate debts are invested in AAA to AA- and A1/P1 categories. Further, debt investments made in the rating category of A+ to A- and A2/P2 amounted to 41.9% of the total investment. Further, 8.9% of corporate debts are invested in and BBB+ to BB- and A3/P3 rated instruments correspondingly. Unrated corporate debt exposure is 2.8% of total corporate debt investments.

General Insurance Business

The year 2022 will go down in the history of the Sri Lankan yearbook as the most challenging period marked by an intense socio-economic crisis, widely regarded as the most dreadful obstacle since the country gained independence. Consequently, the year 2022 unfolded as an exceptionally crucial timeframe for both individuals and industries, leaving a along- lasting mark on the country's collective experience.

While Sri Lanka was gradually recovering from the aftermath of Covid-19, the economy faced a severe downturn due to the financial crisis and a series of unfavorable incidents that followed. In a time of great uncertainty, the situation worsened with the rapid devaluation of the Sri Lankan Rupee along with the foreign exchange shortage. Power cuts, fuel shortages, political instability, food insecurity, inadequate healthcare facilities, and skyrocketing prices of essential goods were just a few of the challenges that followed one after the other, sounding the alarm for an impending economic collapse in the country.

Despite the challenges faced, all segments in the general insurance business, except for health insurance, made significant contributions to the overall progress of the general insurance industry, recording a growth rate of 11.9%. This remarkable improvement surpassed the 3.5% growth rate achieved in 2021 and resulted in the highest Gross Written Premium attained in the past five years. Therefore, the overall premium income of the general insurance sector witnessed an upward trajectory, signaling a positive market outlook.

The general insurance industry faced its biggest impact with the government's decision to impose a ban on vehicle imports as a measure to preserve foreign exchange. This decision created a significant setback for an industry that is heavily reliant on motor premiums as a major source of revenue. As a consequence of the restrictions on motor vehicle imports, it was inevitable that there would be a continued decline in the registration of new motor vehicles. Thus, the number of motor policies in force at the end of the year experienced a decrease compared to the previous year. However, the motor segment exhibited an impressive growth of 7.2% in 2022, which was a remarkable turnaround from the negative growth observed in the previous two years. This growth can be attributed to the increase in premiums coupled with the rise in motor vehicle prices.

The insurance industry underwent a significant digital transformation during the year. Insurers embraced cutting-edge technologies to streamline their operations, enhance the customer experience, and optimize underwriting and claims processes. Furthermore, they introduced innovative insurance products and expanded coverage options to cater to evolving customer needs and emerging risks. Specifically, new insurance products were designed to address risks associated with cybersecurity, climate change, and pandemics. Insurers also adjusted their operations and offerings to tackle pandemic-related risks such as business interruptions, travel uncertainties, and healthcare coverage.

The general insurance sector witnessed a growth of 12.5% in its asset base and a development of 96% in investment income. Industry further experienced a substantial improvement in claims in 2022, with a notable increase of 27.4%. This improvement can be linked specifically to the rise in claims within the motor and health sectors.

Company-wise Market Share of Gross Written Premium - General Insurance Business for the year ended 31st December 2022

Regardless of the difficulties, the majority of general insurers, with the exception of one, were able to increase their premium income in 2022 compared to the previous year. This can be attributed to their resilience and proactive measures taken to navigate the challenging landscape. The total Gross Written Premium of the general insurance industry in 2022 reached LKR 121,829 million, representing an impressive 11.9% growth (LKR 12,924 million) compared to 2021's figure of LKR 108,905 million.

Ceylinco General, formerly the second-largest contributor to the general insurance sector in 2021, emerged as the market leader in 2022 by achieving the highest premium value of LKR 22,014 million, surpassing its previous year's figure of LKR 18,499 million. This accomplishment translated to a market share of 18.1%, reflecting growth from 17% in 2021.

In 2022, SLIC, the market leader of the previous year, experienced a decline in premium income, causing it to drop to the second position by reporting a premium income of LKR 19,320 million in 2022, compared to LKR 20,382 million in 2021. This decline in premium income resulted in a corresponding decrease in market share, which stood at 15.9% in 2022, compared to 18.7% in 2021. The health insurance segment of SLIC has suffered a noticeable blow due to the discontinuation of the 'Suraksha' medical insurance, leading to a decline in its overall market share.

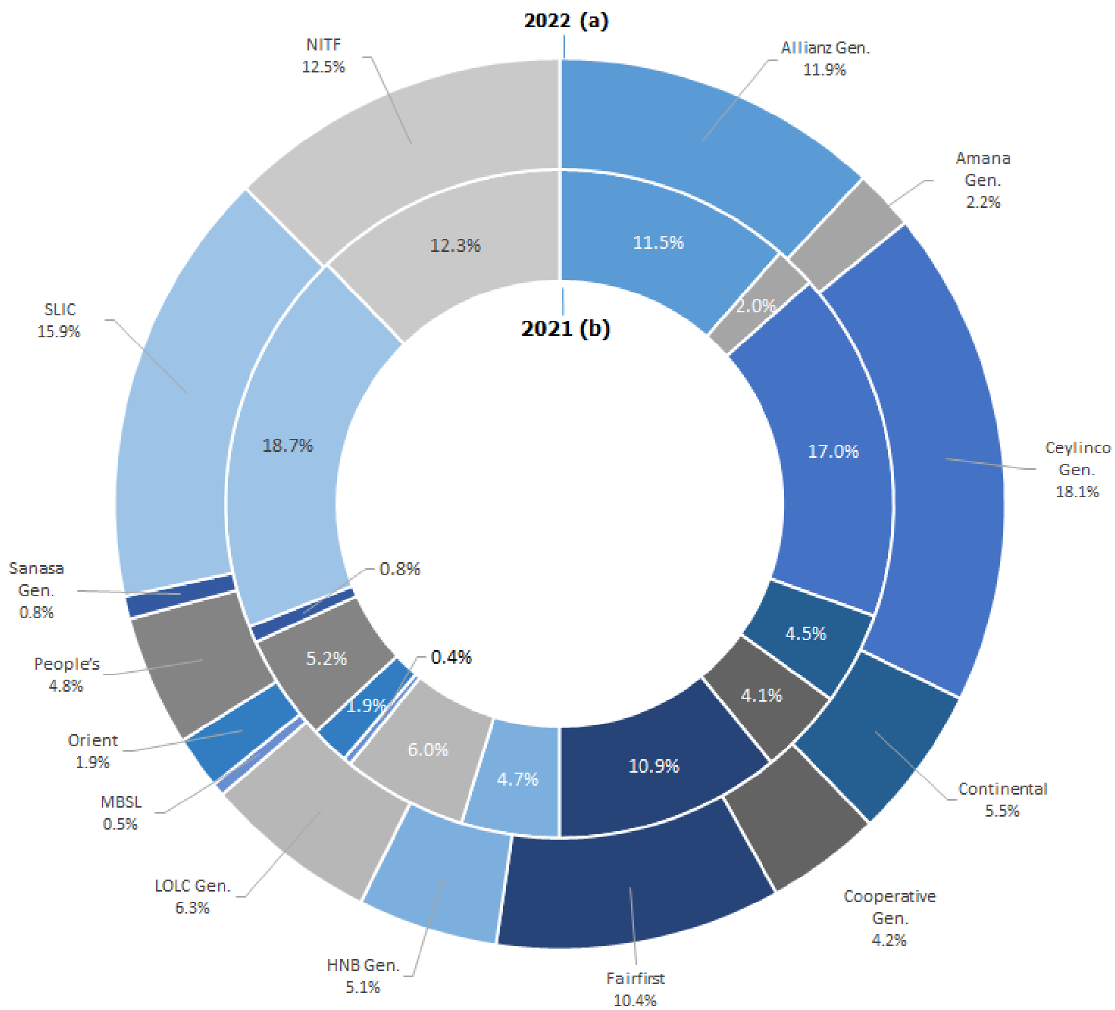
In line with the previous year's rankings, the general insurance sector saw NITF, Allianz General, and Fairfirst securing the third, fourth, and fifth positions, respectively. NITF accounted for a market share of 12.5% and reported a premium income of LKR 15,185 million in 2022, compared to LKR 13,365 million in 2021. Allianz General followed closely with an 11.9% market share and a premium income of LKR 14,553 million in 2022 (2021: LKR 12,490 million) and Fairfirst attained the fifth position with a market share of 10.4% and reported a premium income of LKR 12,628 million in 2022 (2021: LKR 11,914 million). These insurance companies demonstrated their strong presence in the general insurance sector, with increased premium incomes and relatively stable market shares compared to the previous year.

Additionally, the remaining general insurers experienced growth in premium income, amounting to a total of LKR 5,894 million, contributing to the overall improvement of the general insurance industry.

Chart 14 presents information on company wise market share of Gross Written Premium of General Insurance companies for the year 2022 and 2021.

Chart 14

Company-wise Market Share of Gross Written Premium - General Insurance Business for the year ended 31st December 2021 and 2022



Class - Wise Gross Written Premium and Growth Rate - General Insurance Business

The general insurance industry exhibited resilience and achieved noteworthy expansion in the year 2022, reflecting its ability to adapt and thrive in a dynamic market environment. The notable expansion was highlighted by the achievement of a premium income of LKR 121,829 million, with a growth rate of 11.9%. This performance can be attributed primarily to the motor class within the general insurance industry, which represented a significant share of the total recorded premium income.

Given the long-standing dominance of the motor insurance business in the general insurance industry, the negative growth experienced in the previous two years raised modest concerns. However, in 2022, as usual, the motor class emerged as the leading contributor to the General Insurance industry, surpassing the previous year's premium of LKR 59,814 million, displayed a growth rate of 7.2% and with a premium amounting to LKR 64,098 million. This achievement is particularly noteworthy as it represents the highest GWP observed in the past five years, signifying a significant rebound from the negative growth rates experienced in the preceding two years.

The general insurance industry, which heavily relies on motor insurance business, faced significant challenges due to the imposed import restrictions on motor vehicles. However escalating prices of motor vehicles presented an opportunity for insurers to adapt and thrive in this situation, contributing to the overall development of the general insurance sector. Therefore, the motor insurance industry experienced a growth amounted to LKR 4,283 million compared to the previous year. This growth rate is particularly noteworthy as it represents the most substantial increase reported since 2018. However, similar to the previous year, policyholders displayed a preference for motor third-party policies over comprehensive policies. This inclination can be attributed to the relatively lower premiums associated with third-party policies.

Health insurance, serving as the following contributor to the general insurance industry, reported a premium of LKR 18,407 million in the year 2022 (2021: LKR 19,960 million). Unfortunately, in contrast to the positive growth observed over the past three years, the health insurance class experienced a negative growth rate of 7.8% (2021: 5.7%). This decline resulted in a reduction of LKR 1,553 million in premium, making it the only general insurance class to generate a negative growth rate in 2022.

Exhibiting a sound performance, fire insurance has demonstrated its potential by achieving the highest premium recorded in the past five years, reaching LKR 14,628 million (2021: LKR 10,373 million). This growth was accompanied by a striking growth rate of 41% (2021: 16.7%). Notably, the substantial increase in fire insurance premium amounted to LKR 4,255 million, marking the second-largest increment within the industry, trailing closely behind the motor business.

In a notable feat, the miscellaneous insurance business also achieved a remarkable milestone by reaching the highest premium in the past five years, totaling LKR 12,708 million (2021: LKR 8,926 million), and securing the highest growth rate among all general insurance classes at an impressive 42.4% (2021: 13.6%). This substantial surge in premium amounted to LKR 3,782 million, next to the increments observed in motor and fire classes. The increased mobility led to a corresponding growth in various miscellaneous classes, including travel insurance, personal accidents. As a result, the Gross Written Premium of the miscellaneous class also experienced an overall rise.

Continuing its consistent trend, marine insurance, typically the smallest contributor to the general insurance sector, reported a premium worth of LKR 3,925 million (2021: LKR 3,077 million) and showcased a growth rate of 27.5% (2021: 35.2%), thereby sustaining the positive momentum observed in the previous year of 2021.

SRCC & T (Strike, Riot, Civil Commotion and Terrorism) cover of NITF demonstrated premium amounting to LKR 8,063 million (LKR 6,754 million) of 19.4% (2020: 10.9%) and reached the highest premium and market share for the last five years and marking a growth rate of 19.4% against the growth rate of 10.9% witnessed in the previous year.

Table 13 displays the gross written premium derived from the primary sub-classes of general insurance business and the premiums associated with the SRCC & T cover provided by NITF along with the respective growth rates of the general insurance business covering the period from 2018 to 2022.

Table 13

Class - Wise Gross Written Premium and Growth Rate - General Insurance Business

Class	2018		2019		2020		2021 (a)		2022 (b)	
	Gross Written Premium (LKR '000)	Growth Rate (%)	Gross Written Premium (LKR '000)	Growth Rate (%)	Gross Written Premium (LKR '000)	Growth Rate (%)	Gross Written Premium (LKR '000)	Growth Rate (%)	Gross Written Premium (LKR '000)	Growth Rate (%)
Fire	8,821,655.4	2.6	8,269,991.1	(6.3)	8,888,258.3	7.5	10,373,259.5	16.7	14,628,113.9	41.0
Marine	2,403,366.3	9.7	2,385,566.2	(0.7)	2,276,473.6	(4.6)	3,077,109.7	35.2	3,924,812.8	27.5
Motor	62,363,475.5	11.3	63,685,555.1	2.1	61,276,209.8	(3.8)	59,814,402.4	(2.4)	64,097,776.5	7.2
Health	14,161,541.9	(3.3)	16,593,660.8	17.2	18,877,585.5	13.8	19,960,145.9	5.7	18,407,406.7	(7.8)
Miscellaneous	8,254,421.1	4.9	10,442,623.5	26.5	7,857,768.4	(24.8)	8,926,104.3	13.6	12,708,192.4	42.4
Sub Total	**96,004,460.2**	**7.4**	**101,377,396.7**	**5.6**	**99,176,295.5**	**(2.2)**	**102,151,021.8**	**3.0**	**113,766,302.4**	**11.4**
SRCC & T	4,581,640.5	13.5	6,088,496.0	37.7	6,088,496.0	(3.5)	6,754,134.0	10.9	8,063,134.0	19.4
Total	**100,586,100.8**	**7.7**	**107,465,892.7**	**7.1**	**105,264,791.5**	**(2.2)**	**108,905,155.8**	**3.5**	**121,829,436.4**	**11.9**

Reinsurance Premium and Retention by Insurers - General Insurance Business

Chart 15 represents the total reinsurance premium, total retained premium and overall retention ratio of the general insurance sector form 2018 to 2022.

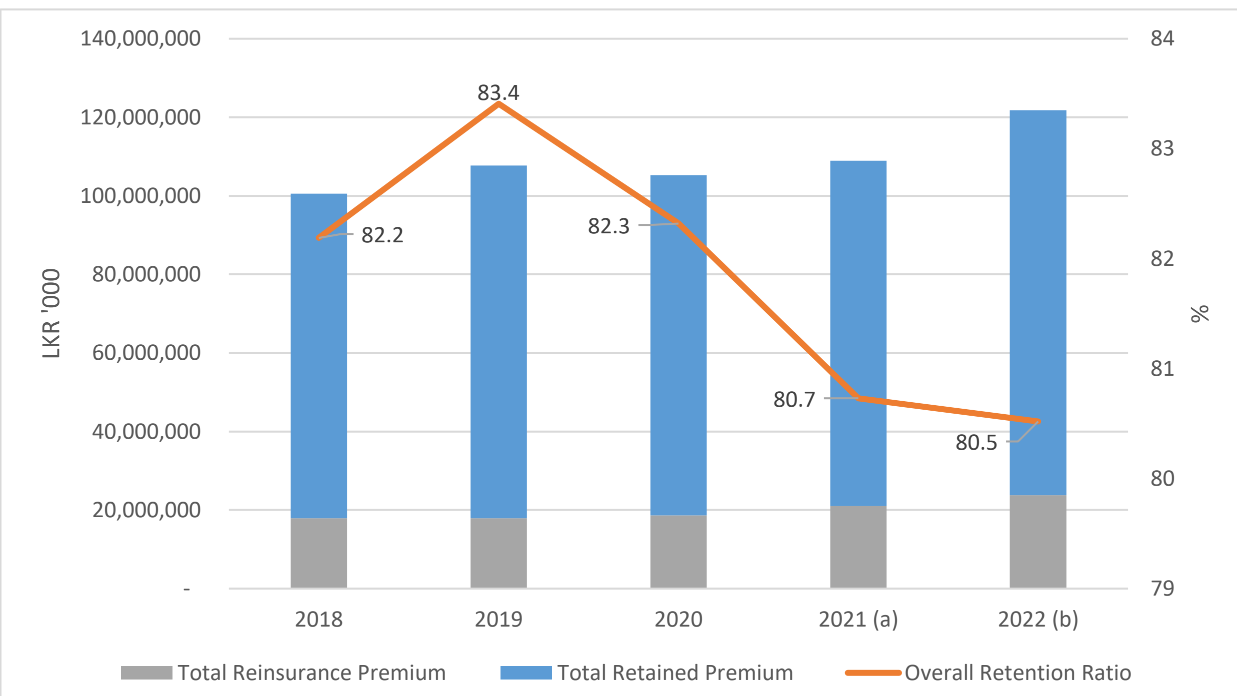
Demonstrating a gradual increase for the past few years, in the year 2022, the total reinsurance premium, which signifies the premiums transferred to reinsurers, amounted to LKR 23,733 million (2021: LKR 20,985 million). Notably, the general insurance sector achieved its highest reinsurance premium in the past five years during 2022, experiencing a 13.1% increase compared to the previous year, 2021.

In the year 2022, the total retained premium by insurers reached LKR 98,097 million (LKR 87,920 million), representing a significant increase of LKR 10,177 (11.6%) compared to 2021. This growth in retention can be attributed to the increased retention of premiums in the motor, fire, and miscellaneous classes, collectively contributing to the overall rise in the total retained premium of the general insurance sector.

The overall retention ratio of the general insurance sector experienced a slight decline, decreasing to 80.5% in the year 2022 compared to the previous year's figure of 80.7%. It is noteworthy that the retention ratio has exhibited a gradual decrease since the year 2020.

Chart 15

Reinsurance Premium and Retention by Insurers - General Insurance Business



Category - wise Analysis of GWP of Miscellaneous Insurance Premium for 2021 & 2022

Table 14 illustrate far-reaching information on miscellaneous business together with its subclasses for the years 2021 and 2022.

With the achievement of total GWP of LKR 12,708 million (2021: LKR 8,926 million), the miscellaneous class of the general insurance sector (without SRCC &T and co insurance) showcased a notable improvement in the year 2022. The country was on a path towards recovery from the pandemic, overcoming the consequences of restrictions. However, an unforeseen financial crisis emerged, affecting various industries including insurance. Despite various socio-economic challenges, insurers took necessary measures to sustain their operations and maintain stability and as a result, the majority of subclasses of the miscellaneous business class demonstrated reasonable performance by uplifting the individual GWP position in the reviewed year, with only a few exceptions.

In the year under review, subcategories including personal accident, aircraft hull, travel insurance, and public liability witnessed GWP figures of LKR 1,902 million (2021: LKR 1,445 million), LKR 1,005 million (2021: LKR 687 million), LKR 830 million (2021: LKR 219 million), and LKR 804 million (2021: LKR 473 million) respectively.

Notably, travel insurance and personal accident categories experienced a reasonable upswing in GWP compared to the 2021, totaling to LKR 611 million and LKR 457 million respectively, as a result of increase in mobility due to the relaxation of pandemic-induced restrictions. In response to the significant rise in overseas travel throughout the year 2022, certain insurers have introduced new travel insurance policies specifically tailored for migrant workers.

Public liability and aircraft hull also demonstrated a modest advancement in GWP when compared to the previous year.

Table 14

Category - wise Analysis of GWP of Miscellaneous Insurance Premium for 2021 & 2022

Category	GWP LKR '000	
	2021 (a)	2022 (b)
Title	451,618.2	280,340.6
Personal Accident	1,444,672.8	1,902,002.9
Contractor's All Risk	774,805.3	447,119.8
Professional Indemnity	590,740.7	479,757.3
Travel Insurance	219,155.6	829,958.4
Fidelity Guarantee	86,144.8	131,962.5
Burglary	350,995.7	458,932.2
Cash in transit including cash in safe	402,520.0	494,207.6
Goods in Transits	96,516.0	101,707.0
Products Liability	189,735.8	356,529.1
Public Liability	473,319.9	803,909.4
Banker's Indeminity	488,773.2	579,384.3
Air Craft Hull	686,625.0	1,005,432.0
WCI	546,340.1	693,007.8
Others	3,153,770.3	5,183,658.8
Erection all risk	65,045.0	57,225.0
Subtotal	**10,020,778.4**	**13,805,134.7**
Total of SRCC & TC due to NITF	**(1,002,448.8)**	**(832,564.2)**
CO insurance Premium	(92,227.0)	(264,381.9)
Total Miscellaneous Insurance GWP	**8,926,102.6**	**12,708,188.5**

Number of Policies Representing Gross Written Premium - General Insurance Business

As illustrated in Table 15, in 2022, the cumulative count of insurance policies that contributed to the generation of GWP across the subcategories of the general insurance industry stood at 6,423,297 (2021: 6,620,230). This reflects a decrease of 196,933 policies compared to the previous year, 2021.

Despite observing fluctuations in the total number of policies contributing to the GWP over the past five years, the year 2022 marked the lowest count of total policies.

Continuing the previous trend, the motor subclass continued to dominate, with third-party insurance policies totaling 3,331,282 (2021: 3,285,221) and comprehensive policies totaling 2,362,254 (2021: 2,671,816). While motor policies accounted for 88.6% of the total number of policies, with a cumulative count of 5,693,536 (2021: 5,957,037), a significant reduction of 263,501 policies was observed compared to the preceding year. This decrease can be attributed to a notable decline of 309,562 (11.6%) in motor comprehensive policies. However, this trend can be explained by the growing popularity of Motor 3rd party policies, which offer lower premium incomes compared to comprehensive policies. The dependency on leasing business among certain insurance companies, combined with limited growth in the leasing industry, has indirectly affected the motor class of the insurance industry too.

While fire and marine classes experienced a marginal insignificant decline in policies, health and miscellaneous classes, as well as motor third-party policies, showed a modest increase compared to the year 2021.

Table 15

Number of Policies representing Gross Written Premium - General Insurance Business

Class	No. of policies				
	2018	2019	2020	2021 (a)	2022 (b)
Fire	245,027	234,408	220,196	236,361	231,118
Marine	187,338	179,001	137,093	160,258	157,412
Motor	5,614,901	5,937,989	5,917,348	5,957,037	5,693,536
3rd Party Only	2,821,529	2,919,884	3,067,955	3,285,221	3,331,282
Comprehensive	2,793,372	3,018,105	2,849,393	2,671,816	2,362,254
Health	17,267	23,237	28,985	31,336	35,269
Miscellaneous	427,470	329,509	235,933	235,238	305,962
Total	**6,492,003**	**6,704,144**	**6,539,555**	**6,620,230**	**6,423,297**

Details of Policies in Force and Sum Insured - General Insurance Business

Table 16 outlines the details of policies in force and sum insured of the main subclasses of the general insurance business for the years 2021 and 2022.

The total number of policies in force at the end of the year 2022 amounted to 6,396,226 (2021: 6,595,663), representing a decrease of 199,437 policies from the previous year. On the contrary, total sum insured increased to LKR 57,062 million in 2022, surpassing the corresponding value of LKR 39,090 million reported in 2021. Due to the accelerating inflation that has trapped the country, the majority of insurance providers have found it necessary to escalate both the premium amounts and the sum insured values associated with insurance policies. Consequently, despite a decrease in the number of policies, the sum insured exhibited a notable increase compared to the previous year.

The number of motor comprehensive policies in force amounted to 2,351,238 (2021: 2,646,646), indicating a decrease of 295,408 policies from the previous year. As a result, at the end of 2022, the total number of policies in force for the motor class was 5,676,691 (2021: 5,938,088), reflecting a notable decline of

258,397 policies from the year 2021. The direct impact of the economic downturn and its consequences have contributed to the mentioned disparity in figures. However, other categories exhibited only minor fluctuations when compared to the previous year.

The fire, miscellaneous, and marine classes reported the highest sum insured amounts, reaching LKR 23,935 billion (2021: LKR 18,924 billion), LKR 13,485 billion (2021: LKR 7,154 billion), and LKR 11,718 billion (2021: LKR 6,885 billion), respectively.

Furthermore, there has been a notable increase in the sum insured compared to the previous year, primarily driven by the miscellaneous, fire, and marine classes, with increments of LKR 6,331 billion, LKR 5,011 billion, and LKR 4,833 billion, respectively. Following the lifting of travel restrictions, there has been a reasonable increase in travel insurance policies classified within the miscellaneous class. This surge in policies has directly contributed to the overall growth in the sum insured of the miscellaneous class. Furthermore, in general, rising inflation has led to higher replacement costs, repairing costs, and other related expenses. Consequently, these factors have contributed to an overall increase in the sum assured value of the sector.

Table 16

Details of Policies in Force and Sum Assured - General Insurance Business

Class	2021 (a)		2022 (b)	
	No of Policies inforce at year end	Sum Insurred (LKR '000)	No of Policies inforce at year end	Sum Insurred (LKR '000)
Fire	234,193	18,924,397,849.9	227,503	23,935,225,380.3
Marine	153,877	6,884,987,162.4	149,241	11,718,272,076.4
Motor	5,935,088	5,925,961,976.4	5,676,691	6,514,287,221.7
3rd party only	3,288,442	-	3,325,453	-
Comprehensive	2,646,646	-	2,351,238	-
Health	32,467	200,739,031.0	36,941	1,409,877,307.1
Miscellaneous	240,038	7,153,843,063.8	305,850	13,484,724,783.8
Total	**6,595,663**	**39,089,929,083.5**	**6,396,226**	**57,062,386,769.3**

Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business

As depicted in Table 17, the net earned premium of the general insurance sector including STCC & T reached LKR 96,015 million (2021: LKR 86,987 million), showcasing a rational increase of LKR 9,028 million (10.4%) compared to the previous year. While all subclasses reported an increase compared to the preceding year, the motor class exhibited the highest increment.

Motor insurance continued to be the key influencer of the general insurance market, recording the highest net earned premium amounting to LKR 60,494 million (2021: LKR 56,002). This segment accounted for 68.3% of the total net earned premium, excluding SRCC & T, indicating a slight decline from 69.4% reported in the previous year. Notably, motor insurance witnessed a moderate growth in 2022, a departure from the negative trend observed in the preceding year.

The health and segments of the general insurance sector generated net earned premiums of LKR 19,036 million (2021: LKR 18,077 million), constituting 21.5% of the total net earned premium (excluding SRCC & T).

Overall, the fire insurance class performed competently in 2022 reporting net earned premium amounting to LKR 3,645 million (2021: LKR 2,144 million). The miscellaneous insurance class also showed an increment reporting net earned premium of LKR 4,190 million (2021: LKR 3,314 million), while the other classes demonstrated more modest growths and slight decreases in their percentage shares.

Overall, the insurance industry performed well in 2022 compared to 2021, with significant growth in total net earned premium. The sub-total net earned premium (excluding SRCC & T) also experienced notable upward trend as well.

In 2022, the general insurance industry witnessed a significant increase in total net claims, reaching LKR 60,172 million (excluding SRCC & T). This indicates a substantial surge of 24.7% compared to the amount of LKR 48,239 million reported in 2021. Among the various segments, motor insurance and health insurance accounted for the highest net claims incurred from the total. Motor insurance recorded a net claimed amount of LKR 35,488 million (2021: LKR 26,522 million), displaying a notable increase of 33.8%. Similarly, the health insurance segment reported a net claimed amount of LKR 20,382 million (2021: LKR 17,283 million), representing a significant increase of 17.9%.

The claims of the general insurance sector have witnessed a surge due to multiple factors. Firstly, there has been an increase in costs for repairs and replacements resulting from high inflationary conditions prevailed in the country. Additionally, unforeseen riot claims arising from protests have added to the financial burden faced by insurers. Furthermore, the recent lift of pandemic restrictions has resulted in an upswing in mobility, leading to a rise in accidents and subsequent insurance claims. Together, these factors have significantly contributed to the increased claims experienced by the general insurance sector.

However, while the miscellaneous subclass also experienced an increase in net claims, the fire and marine segments witnessed a decline in the year 2022 compared to the previous year.

The economic crisis in Sri Lanka prompted months of widespread protests by its citizens, who expressed their discontent over the severe shortages of essential items such as food, medicines, fuel, and cooking gas. As a consequence of the civil riots and protests that occurred during the middle of the year, the SRCC & T segment of NITF recorded the highest net claims in 2022 amounting to LKR 1,320 million.

The net claims ratio (excluding SRCC & T) for the year 2022 stood at 67.9% (2021: 59.8%) as a result of high net claims ratio of motor (58.7%) and health (107.1%) classes.

Compared to the recent five years, the fire class reported the lowest claims ratio in 2022, standing at 58% (2021: 113.3%). However, the notable reduction compared to the previous year can be attributed to the high claims ratio experienced by the fire class in 2021, primarily due to flood and cyclone events that occurred throughout several months of that year, which were categorized under fire insurance business. The remaining two classes, miscellaneous and marine, also exhibited a decline in their claims ratios, recording 42.4% (2021: 44.8%) and 32.9% (2021: 45.7%), respectively.

With reported net expenses amounting to LKR 42,748 million (2021: LKR 34,139 million), the general insurance industry witnessed a significant increase in its expense ratio, reaching 44.5% (2021: 39.2%) compared to the previous year. This notable increase can be attributed to factors such as high inflation and the full-scale operation of business activities towards the end of the year, which affected the overall net expenses.

The combined ratio of the general insurance industry stood at 108.6% in 2022 (2021: 94.7%). The increase in both the claims ratio and expense ratio has contributed to the rise in the combined ratio. However, it is important to note that the increase observed in the claims ratio had a more significant impact on the overall increase in the combined ratio.

Table 17

Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio

Class	Net Earned Premium (LKR'000)				
	2018	2019	2020	2021 (a)	2022 (b)
Fire	1,957,237.4	2,183,650.5	2,320,976.3	2,144,140.2	3,644,705.5
Marine	1,104,375.6	1,175,288.9	973,261.3	1,135,974.2	1,248,652.3
Motor	56,891,348.8	58,724,480.4	57,930,115.0	56,001,557.1	60,493,737.7
Health	12,386,133.8	15,153,048.9	14,995,566.1	18,076,550.4	19,035,821.3
Miscellaneous	4,492,032.7	4,942,850.2	4,109,992.2	3,313,960.2	4,190,131.4
Sub Total	**76,831,128.2**	**82,179,318.9**	**80,329,910.9**	**80,672,182.1**	**88,613,048.2**
SRCC & T	4,031,846.4	5,568,739.3	6,159,888.0	6,314,378.0	7,401,914.0
Total	**80,862,974.6**	**87,748,058.3**	**86,489,798.9**	**86,986,560.1**	**96,014,962.2**

Class	Net Claims Incurred (LKR'000)				
	2018	2019	2020	2021 (a)	2022 (b)
Fire	1,696,697.9	2,546,300.6	2,039,484.4	2,429,021.0	2,115,643.4
Marine	453,917.4	500,554.6	277,371.7	519,187.7	410,595.4
Motor	34,681,761.7	34,501,309.1	26,891,271.2	26,521,934.9	35,488,326.2
Health	12,148,223.9	16,759,693.8	12,099,917.2	17,282,664.1	20,382,215.2
Miscellaneous	3,457,623.0	3,148,569.8	1,225,841.8	1,485,866.4	1,775,176.0
Sub Total	**52,438,223.9**	**57,456,427.8**	**42,533,886.4**	**48,238,674.1**	**60,171,956.2**
SRCC & T	76,067.9	692,926.5	-14,382.0	36,899.0	1,319,977.0
Total	**52,514,291.7**	**58,149,354.3**	**42,519,504.4**	**48,275,573.1**	**61,491,933.2**

Class	Net Claims Ratio (%)				
	2018	2019	2020	2021 (a)	2022 (b)
Fire	86.7	116.6	87.9	113.3	58.0
Marine	41.1	42.6	28.5	45.7	32.9
Motor	61.0	58.8	46.4	47.4	58.7
Health	98.1	110.6	80.7	95.6	107.1
Miscellaneous	77.0	63.7	29.8	44.8	42.4
Sub Total	**68.3**	**69.9**	**52.9**	**59.8**	**67.9**
SRCC & T	1.9	12.4	-0.2	0.6	17.8
Total	**64.9**	**66.3**	**49.2**	**55.5**	**64.0**

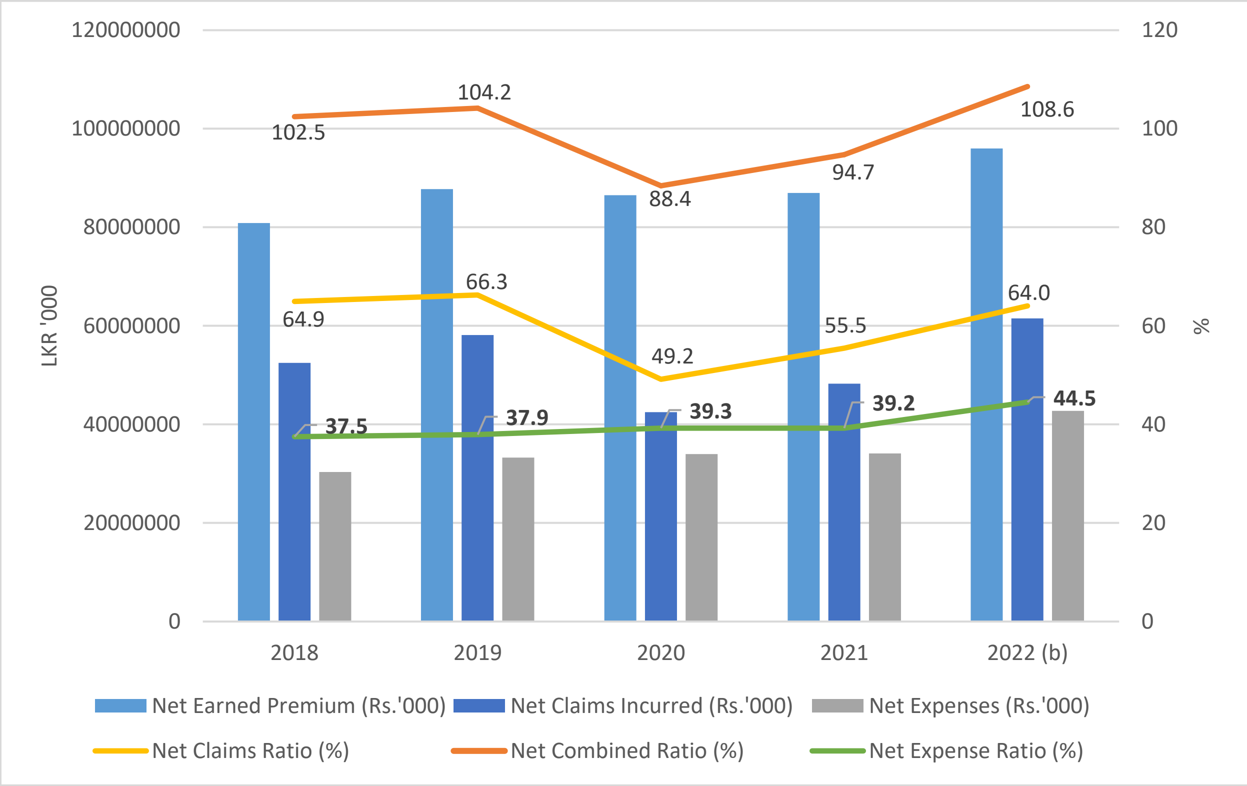
Description	Net Expenses (LKR '000)				
	2018	2019	2020	2021 (a)	2022 (b)
Net Expenses for all classes of General Insurance Business except SRCC & T	29,490,543.8	31,855,625.3	32,858,827.6	33,047,000.8	41,474,495.5
SRCC & T	842,514.9	1,411,974.0	1,102,435.0	1,091,603.0	1,273,707.0
Total	**30,333,058.6**	**33,267,599.3**	**33,961,262.6**	**34,138,603.8**	**42,748,202.5**

Description	Net Expense Ratio (%)				
	2018	2019	2020	2021 (a)	2022 (b)
Net Expenses Ratio for all classes of General Insurance Business except SRCC & T	38.4	38.8	40.9	41.0	46.8
Net Expense Ratio of General Insurance Business	**37.5**	**37.9**	**39.3**	**39.2**	**44.5**

Description	Net Combined Ratio (%)				
	2018	2019	2020	2021 (a)	2022 (b)
Net Combined Ratio for all classes of General Insurance Business except SRCC & T	106.6	108.7	93.9	100.8	114.7
Net Combined Ratio of General Insurance Business	**102.5**	**104.2**	**88.4**	**94.7**	**108.6**

Chart 16

Net Earned Premium, Net Claims Incurred, Net Claims Ratio, Net Expenses, Net Expense Ratio and Net Combined Ratio - General Insurance Business



Concentration of Assets, Investment Income and Average Investment Yield- General Insurance Business

Table 18 details out the concentration of assets, investment income and average investment yield of general insurers among diverse asset categories as at 31st December 2021 and 2022.

Table 18

Concentration of Assets, Investment Income and Average Investment Yield- General Insurance Business

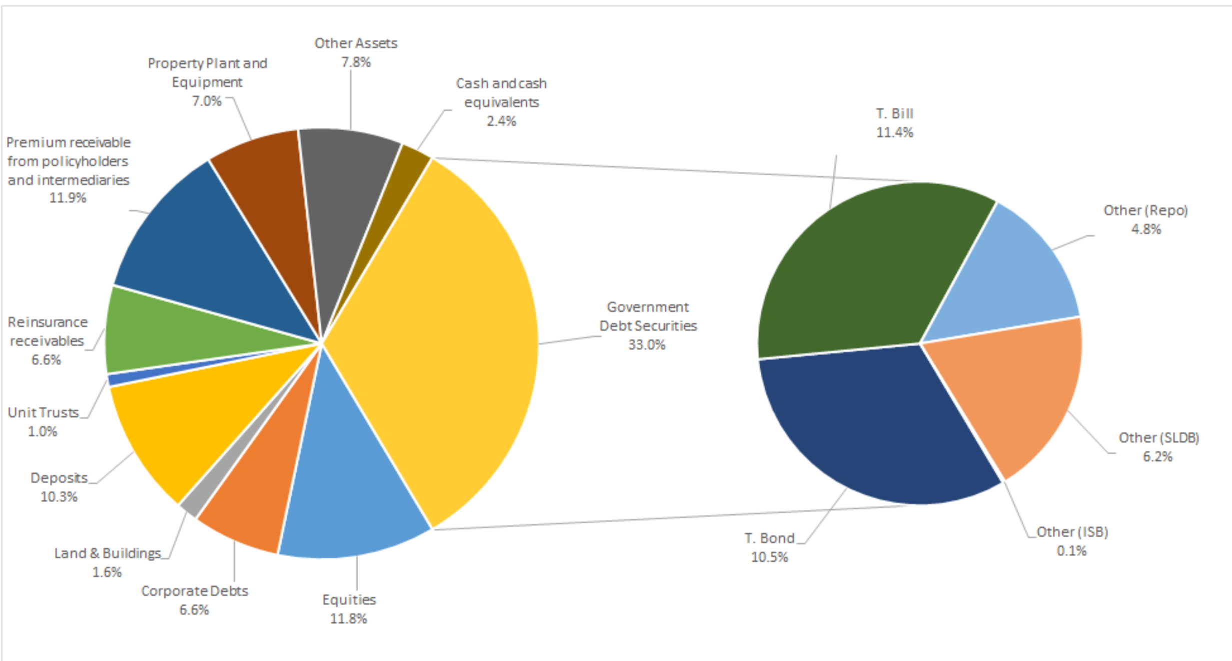
Type of Assets	2021 (a)		2022 (b)	
	Total Value (LKR' 000)	Investment Income (LKR' 000)	Total Value (LKR' 000)	Investment Income (LKR' 000)
Government Debt Securities	76,232,271.1	4,661,674.0	92,500,674.3	13,645,818.2
Equity	35,074,692.2	2,100,832.3	33,041,242.5	(444,874.1)
Corporate Debts	20,092,439.3	2,246,315.3	18,520,478.3	2,294,208.4
Land and Buildings	2,205,700.0	-	4,587,900.0	-
Deposits	23,474,558.5	2,004,781.2	28,822,782.0	6,543,701.7
Unit Trusts	7,320,603.7	271,378.0	2,690,860.0	45,806.0
Sub Total	**164,400,264.8**	**11,284,980.8**	**180,163,937.0**	**22,084,660.2**
Average Investment Yield	**7.2%**		**12.8%**	
Other Assets				
Reinsurance receivables	14,838,221.0		18,642,219.8	
Premium receivable from policyholders and intermediaries	29,196,682.1		33,332,644.6	
Property Plant and Equipment	21,033,703.5		22,293,618.2	
Other Loans	1,393,253.2	24,468.4	1,939,896.9	19,934.3
Other Assets	13,147,462.9	120,311.0	17,317,181.9	292,821.8
Cash and cash equivalents	5,457,066.0		6,865,731.1	
Total	**249,466,653.6**	**11,429,760.2**	**280,555,229.5**	**22,397,416.3**

Similar to previous years, the majority of the total assets of the general insurance sector are allotted to financial investments occupying 64.2% (2021: 65.9%) of total assets & grown by 9.6% compared to the previous year 2021. Government Debt Securities continued to be the main investment category and the prime contributor followed by Equities, Deposits, and Corporate Debts. Despite the macroeconomic challenges and the tight monetary policy stance adopted by the CBSL, market interest rates increased significantly and the overall investment income considerably enriched to LKR 22,085 million in 2022 from LKR 11,285 million in 2021 reporting a significant growth of 95.7%. Meanwhile, the average investment yield increased significantly to 12.8%, up from 7.2% the previous year.

As shown in Table 18, investments in Government Debt Securities increased significantly during the year 2022, totaling LKR 92,501 million (2021: LKR 76,232 million), representing a 21.3% increase over the previous year and accounting for 33% (2021:30.6%) of total assets. Treasury Bills, Bonds, Repo, Sri Lanka Development Bonds, and International Sovereign Bonds make up the total investment in Government Debt Securities. As shown in Chart 17, more than half of the Government Debt Securities are invested in Treasury Bills and Treasury Bonds for the year 2022.

Chart 17

Composition of Investment in Government Debt Securities -2022



Yield rates on government securities grew dramatically during the year until nearly November 2022, owing to the high increase in policy interest rates and the elevated risk premium attached to government debt securities amid uncertainty related to debt restructuring. As a result, the investment income earned by Government Debt Securities has grown dramatically to LKR 13,646 million, up from LKR 4,662 million in 2021.

Investment in Equity represented the second largest asset category amounting to 11.8% (2021:14.1%) of the total asset base reaching LKR 33,041 million (2021: LKR 35,075 million). However, there was a reduction in the growth rate of Equity compared to the year 2021 mainly due to bleak performance recorded in the Equity market during the year 2022. Investment income generated through Equity investments has a notable decline during the year and recorded a negative income of LKR 445 million (2021: LKR 2,101 million), as a single insurer recorded a capital loss of LKR 1,345 million in 2022, whereas a capital gain of LKR 1,147 million was recorded in 2021.

Despite significant liquidity tightness in the domestic money market, banks offered novel deposit products with high rates of interest, and it appeared that insurers were more interested in investing in Deposits, which increased by 22.8% compared to the previous year's negative growth of 8.5%. Deposit recorded a percentage share of 10.3% (2021:9.4%) of total assets, and stood at LKR 28,823 million (2021: 23,475 million) at the end of the year 2022.

Having noted the excessive upward adjustment in market deposit interest rates in 2022, the Deposit generated an investment income of LKR 6,544 million from banks and finance companies and recorded vigorous growth compared to the previous year’s amount of LKR 2,005 million.

Premium receivable from policyholders and intermediaries exhibited a higher rank by reporting LKR 33,333 million (2021: LKR 29,197 million) and depicted 11.9% (2021:11.7%) of total assets.

Corporate Debts and the Unit trust recorded negative growth of 7.8% and 63.2% representing LKR 18,520 million (2021: LKR 20,092 million) and LKR 2,691 million (LKR 7,321 million) worth of assets respectively.

All remaining investment types such as Land and Buildings, Reinsurance Receivables, Property Plant and Equipment, Other Loans, Other Assets, and Cash and Cash equivalents collectively recorded a growth rate of 23.4% compared to the year 2021.

Credit Quality of Financial Assets – General Insurance Business

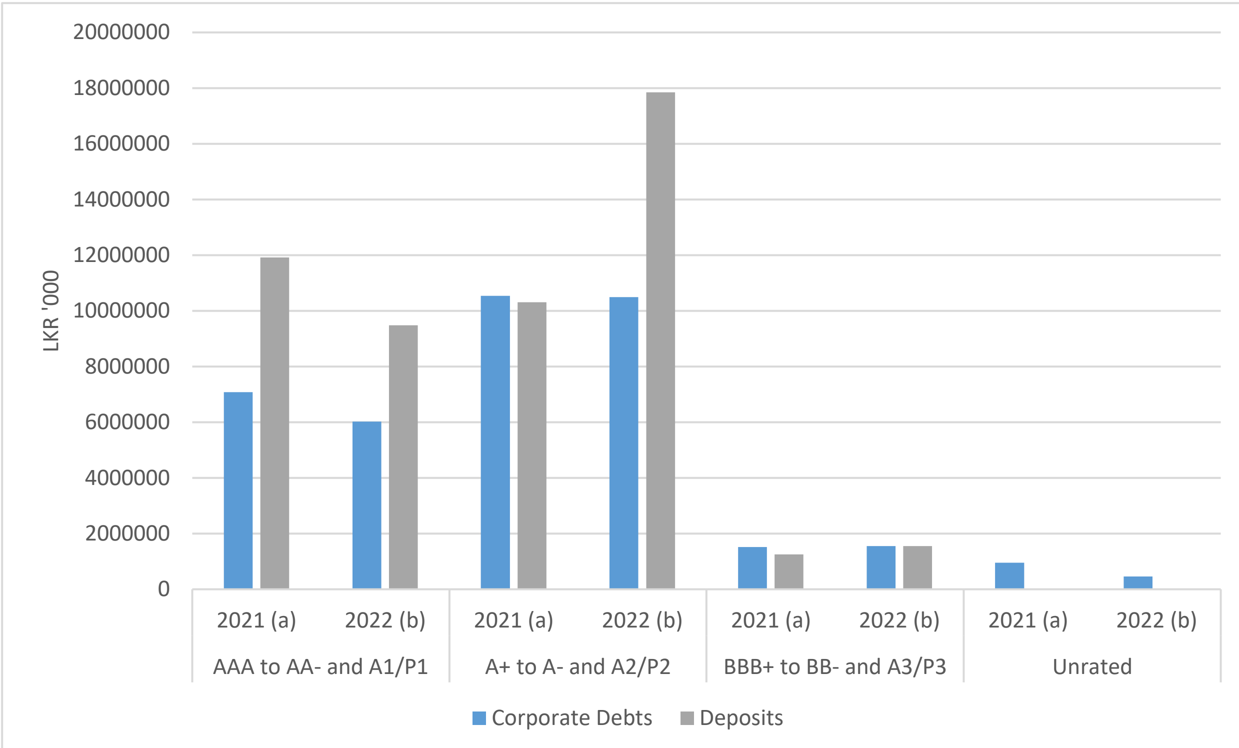
The credit quality of insurance companies' financial assets attempts to provide important insights into the risk profile and stability of the assets, both of which are critical for the insurer's financial success and the protection of policyholders' interests.

According to the Solvency Margin (Risk Based Capital) Rules 2015, assets are admissible only if the asset or company has an investment grade rating specified in the rule that was assigned in the eighteen-month period preceding the valuation date, primarily for the asset categories of Debt Securities, Corporate debt, Asset back securities, and Interest bearing deposits.

Chart 18 demonstrates the Credit quality of Financial Assets of the General Insurance Business for the years 2021 and 2022.

Chart 18

Credit Quality of Financial Assets as at 31st December 2021 and 2022- General Insurance Business



With regard to the total of Corporate Debt and Deposits, the highest credit quality category (AAA to AA- and A1/P1) had a decrease of 18.4% from the year 2021 to 2022. Nevertheless, for both of the aforementioned investment categories for the year 2022, the credit quality categories A+ to A- and A2/P2 have dramatically increased by 35.9%. A substantial portion of that was evident in the investment in Deposit, which climbed by 73.1% compared to the previous year. It can be inferred that the general insurance industry has shown improvement in the credit quality of approved assets as specified in the Solvency Margin (Risk Based Capital) Rules 2015, with a decrease in exposure to higher - risk assets and a potential focus on higher-rated assets

Total Available Capital (TAC) Requirement of Insurance Companies - General Insurance Business.

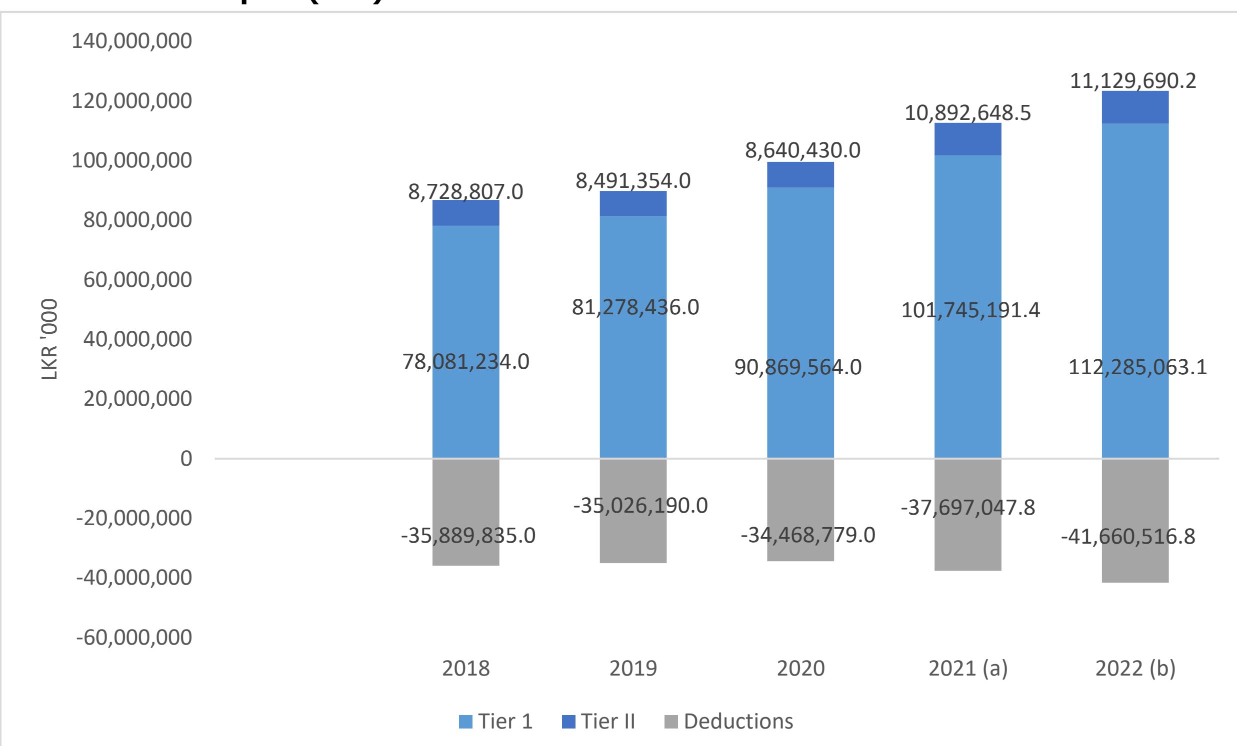
TAC of general insurers amounted to LKR 81,754 million (2021: LKR 74,941 million) as at 31st December 2022 and posted an enriched growth of 9.1% against the previous year and recorded an increased trend during the last five years. According to Solvency Margin (Risk Based Capital) Rules, TAC is computed by adding 'Tier 1' and 'Tier 2' capital and subtracting items specified as 'deductions'. Substantial improvement in TAC was reflected in the Tier 1 capital mainly backed by adjusted retained earnings of insurers and growth reached LKR 112,285 million from LKR 101,745 million recorded in the year 2021.

Tier 2 capital lacks some characteristics of higher quality capital comparable to Tier 1, and insurers' Tier 2 capital shall not exceed 50% of Tier 1 capital to determine TAC. Tier 2 capital in the general insurance business totaled LKR 11,130 million (2021: LKR 10,893 million) in 2022, with a marginal growth rate of 2.2%. Meanwhile, Tier 2 capital accounts for around 9.9% of the general insurance industry's Tier 1 capital.

The deduction mainly includes intangible assets, inadmissible loans, and advances, prepayments, pledged assets, etc. which amounted to LKR 41,661 million and displayed a growth rate of 10.5% in 2022 as depicted in Chart 19. However, except for one insurer all the general insurance companies reported TAC above the minimum requirement of LKR 500 million for the year 2022.

Chart 19

Total Available Capital (TAC)–General Insurance Business



The Solvency Position of Insurance Companies- General Insurance Business

The year gone by was probably one of the most disruptive and extremely volatile years in Sri Lanka's history, especially with regard to the full-blown economic and political crisis that unfolded. Despite the challenges encountered the IRCSL continued to measure and monitor the risk-based capital level of general insurers, thereby protecting the interest of policyholders through a properly managed insurance sector. Under RBC Rule, the insurers are required to maintain a minimum Capital Adequacy Ratio (CAR) of 120% in order to satisfy its conformity with the Rule.

Table 19

Solvency Position- General Insurance Business

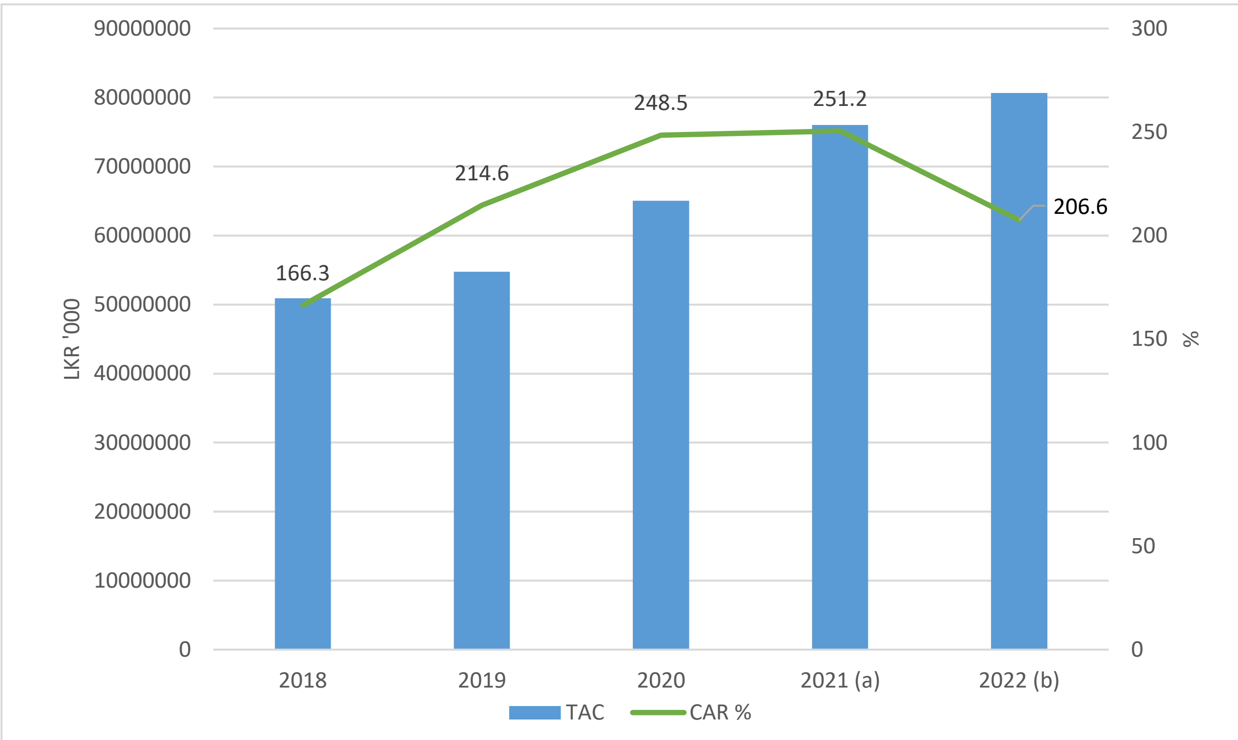
Insurer	CAR (%)				
	2018	2019	2020	2021 (a)	2022 (b)
Allianz Gen.	224.0	167.0	212.0	294.0	190.0
Amana Gen.	186.0	199.0	188.0	180.6	163.6
Ceylinco Gen.	173.0	186.0	183.0	202.6	193.2
Continental	248.0	254.0	291.0	320.0	289.0
Cooperative Gen.	178.0	187.0	249.0	294.0	197.0
Fairfirst	185.0	181.0	188.0	209.0	192.0
HNB Gen.	200.0	226.0	255.0	260.0	239.0
LOLC Gen.	172.0	209.0	301.0	192.0	171.0
MBSL	(179.0)	212.0	311.0	224.0	154.0
Orient	259.0	301.0	272.0	272.3	201.0
People's	237.0	248.0	304.0	316.6	261.7
Sanasa Gen.	79.0	208.0	254.0	257.0	173.0
SLIC	200.0	212.0	223.0	244.0	261.4
Average CAR % in General Insurance Business	**166.3**	**214.6**	**248.5**	**251.2**	**206.6**

The CAR, which evaluates the adequacy of TAC to support the Risk-Based Capital required, was 206.6% on average at the end of 2022, down from 251.2% in 2021. RCR increases primarily have a negative influence on CAR when compared to previous years. Except for one insurer, all of the insurers have reported CAR above the enforcement level of 160% as required in the IRCSL's Enforcement Strategy on RBC. However, with the exception of Ceylinco and SLIC, all insurers showed significant negative growth in their CAR position compared to the previous year, owing to the current country scenario. The CAR reported by the general segment of NITF was 430% and 600% as of the years 2022 and 2021 respectively which was not considered in Table 19 below.

Comparing the CAR and the TAC across the general insurance sector reveals information about their financial soundness, risk management techniques, and ability to meet policyholder commitments. Chart 20 compares the average Capital Adequacy Ratio (CAR) and Total Available Capital (TAC) during the last six years.

Chart 20

Compares the average Capital Adequacy Ratio (CAR) and Total Available Capital (TAC) - 2018-2022



Comparisons of Risk-Based Capital Required (RCR) by Insurance Companies – General Insurance Business

Risk-based Capital Required (RCR) can be defined as the cumulative of capital required to address all relevant and material categories of risks explicitly credit risk, concentration risk, market risk, reinsurance risk, liability risk, and operational risk. Table 20 illustrates the comparisons of the composition of various risk charges over the period of the last five years.

Total RCR before the diversification of the general insurance industry reached LKR 47,803 million displaying a reasonable growth of 14.3% compared to LKR 41,835 million RCR reported in 2021. The increase basically emerged from concentration risk and market risk which are the largest compositions of the RCR in the general insurance sector. However, the overall RCR after diversification has dropped to LKR 35,957 million from LKR 37,695 million.

The general insurance sector is commonly exposed to concentration risk and occupied 33.2% (2021:29.9%) of total risk charges amounting to LKR 15,894 million (2021: LKR 12,515 million) prior diversification. Given the macroeconomic challenges and the tight monetary policy stance adopted by the CBSL, market interest rates increased significantly during 2022, as a result of that market risk charges increased to LKR 15,224 million (2021: LKR 12,648 million) by 20.4% compared to the previous year and became the second largest risk category of the industry. Liability risk represented 25.1% (2021:29.5%) of the total risk capital charges before diversification and became the third largest risk category decreased marginally by 2.4% in 2022 compared to the year 2021.

Table 20

Risk Capital Required (RCR) as at 31st December 2018 to 2022- General Insurance Business

Risk Type	2018 (LKR '000)	2019 (LKR '000)	2020 (LKR '000)	2021 (a) (LKR '000)	2022 (b) (LKR '000)
Credit Risk	1,026,071.0	1,156,157.9	1,203,110.0	1,272,903.6	1,466,691.3
Concentration Risk	10,943,022.0	11,399,732.6	13,210,314.0	12,514,824.7	15,894,144.3
Market Risk	9,874,091.0	10,753,323.5	10,641,174.0	12,647,958.8	15,223,940.5
Reinsurance Risk	610,556.0	591,839.1	821,962.0	993,438.7	890,906.9
Liability Rsik	10,675,134.0	11,050,217.5	12,133,554.0	12,321,071.9	12,020,393.1
Operational Risk	1,671,351.0	1,732,314.4	1,909,489.0	2,085,065.8	2,306,782.5
RCR before diversification	**34,800,227.0**	**36,683,586.1**	**39,919,605.0**	**41,835,265.5**	**47,802,858.7**
RCR after diversification	**25,609,645.0**	**27,005,903.9**	**29,035,374.0**	**37,695,101.7**	**35,956,956.8**

Reinsurance Business

The reinsurance business of National Insurance Trust Fund consists of the mandatory cession of premiums by general insurance companies, relating to not less than 30% of their total liability resulting from every reinsurance arrangement. This compulsory requirement came to effect with the Government Gazette Notification No. 1791/4 of 31 December 2012, allowing NITF to act as the 'National Reinsurer' to all primary insurance companies in Sri Lanka.

In year 2022, the reinsurance premium income of NITF accounted for LKR 3,107 million, exhibiting a decrease of 12.4% compared to LKR 3,549 million recorded in 2021, which was mainly induced by decreased participation to treaty reinsurance arrangements by NITF. In addition, the overall premium retention levels of general insurers substantially improved during the year, which also had an adverse impact on reinsurance premium income of NITF.

In 2022, the net exposure of retrocession premiums ceded to reinsurers by NITF amounted to LKR 515 million, whereas it was to LKR 1,120 million in 2021. The foreign exchange crisis prevailed in the country had curtailed the retrocession premium remittance to respective reinsurers and eventually resulted in limiting the period of cover obtained for retrocession arrangement.

Claims incurred by NITF pertaining to reinsurance business amounted to LKR 2,461 million in 2022 by exposing a slight increase of 3.5% in comparison to LKR 2,379 million reported in preceding year. The overall claims exposure of general insurance sector experienced an upsurge during 2022 and consequently it has influenced the reinsurance claims presented to the NITF to increase. In terms of profitability, the reinsurance business of NITF displayed a commendable recovery which was mainly supported by foreign exchange gains from US dollar denominated financial investments and the overall increase in investment income.

Similar to previous years, the overall asset composition of the reinsurance business of NITF was dominated by financial investments, premium receivables and reinsurance receivables, and exhibited a notable increase from LKR 5,533 million to LKR 8,182 million by the end 2022. This increase was largely driven by financial investments which amounted to LKR 3,577 million. Government securities make up the entire financial investment portfolio of the NITF's reinsurance business, which saw a remarkable increase during the year, with investments in treasury bills and bonds nearly doubling. Furthermore, a rapid increase in the value of the US dollar significantly enhanced the rupee value of Sri Lanka Development Bonds issued in foreign currencies. Nevertheless, only 62% of the reinsurance liability has been covered by permitted investments as of 31st December 2022.

Insurance brokering companies

Insurance brokering companies serve as intermediaries, assisting customers in obtaining appropriate insurance policies tailored to their individual requirements. They can specialize in a specific type of insurance or offer guidance on various insurance options. While performing many of the same functions as insurance agents, they differ from agents in that they act in the interest of policyholders. In accordance with Section 82 of the Regulation of Insurance Industry Act, No.43 of 2000, insurance brokers sell policies from one or multiple insurance companies they represent.

At the end of 2022, there were a total of 77 insurance brokering companies operating in the market. However, three of these companies failed to submit their annual report data within the timeframe set by the Insurance Regulatory Commission of Sri Lanka (IRCSL). As a result, all calculations and analysis were conducted using the data submitted by the 74 insurance brokering companies. These companies collectively generated a Gross Written Premium (GWP) of LKR 38,852 million, which was higher than compared to the previous year's GWP of LKR 30,286 million. This GWP consisted of two components: premium income generated through long-term insurance business and general insurance business. The long-term insurance business contributed to LKR 4,013 million (2021: LKR 1,812 million), while the general insurance business contributed to LKR 34,839 million (2021: LKR 28,474 million).

When considering the overall GWP, the general insurance business accounted for 89.67% of the total, while the long-term insurance business represented 10.33% of the total GWP.

The total GWP generated through the insurance brokering business recorded an increase of 28.28% in 2022 compared to LKR 30,286 million generated in 2021. However, there was a noticeable increase in the GWP of long-term insurance business, which is 121.45%, during the year, mainly due to the increased demand for life insurance policies with the pandemic situation in the country.

In their role as intermediaries, insurance brokering companies have made a considerable contribution to the generation of a significant Gross Written Premium (GWP) in the general insurance business (LKR 121,829 million), which includes premiums for SRCC and T (Strike, Riot, Civil Commotion, & Terrorism) coverage. However, as in previous years, their impact on the long-term insurance segment in 2022 remained minimal. According to data provided by the brokering companies, they generated only 2.94% of the total GWP amounting to LKR 136,271 million for the long-term insurance segment,

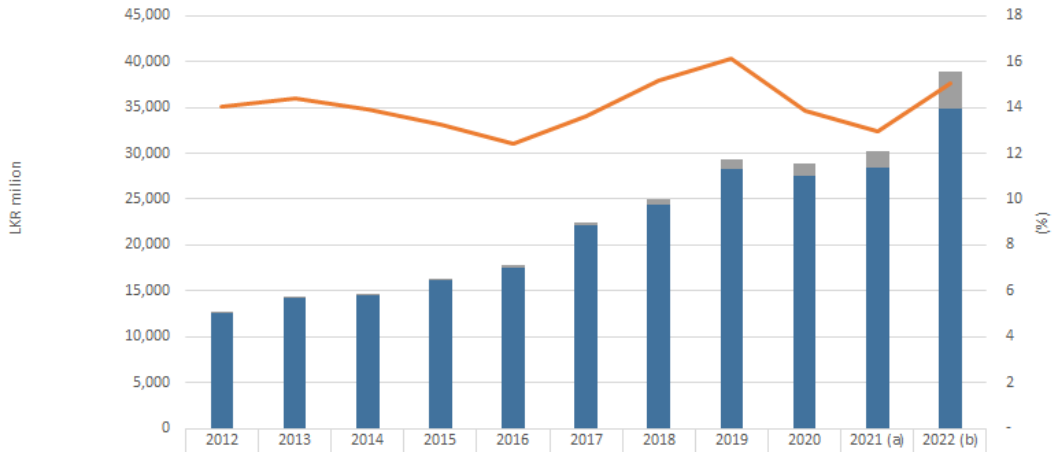
In 2022, thirty-eight insurance broker companies made more than LKR 100 million each in Gross Written Premium (GWP). Together, these companies generated a total of LKR 37,103 million in GWP. The remaining thirty-six insurance broker companies generated LKR 1,750 million, as shown in Table 21.

Furthermore, insurance brokering companies have expanded their services as intermediaries in re-insurance brokering. As a result, a few brokering companies garnered substantial premiums and commissions in 2022, totaling LKR 2,414 million (compared to LKR 1,409 million in 2021).

Chart 21 illustrates the Gross Written Premium (GWP) contribution attributed to insurance brokers. A comparison between 2021 and 2022 reveals noticeable enhancements in GWP for both the long-term and general segments. In terms of percentage, the share of GWP contributed by insurance brokers to the overall total was 12.97% in 2021, which exhibited an increase to 15.05% in the year 2022.

Chart 21

Gross Written Premium generated through Insurance Brokering Companies from 2012 to 2022



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (a)	2022 (b)
Long term insurance GWP (LKR million)	195	191	158	206	263	341	655	1,095	1,422	1,812	4,013
General insurance GWP (LKR million)	12,532	14,189	14,559	16,124	17,518	22,083	24,408	28,222	27,490	28,474	34,839
Brokers' Contribution as a % of total GWP	14.03	14.39	13.91	13.28	12.43	13.59	15.19	16.15	13.88	12.97	15.05

Table 21

Gross Written Premium generated through Insurance Brokering Companies

No.	Name of the Broker	Gross Written Premium					
		Long Term Insurance		General Insurance		Total	
		LKR ('000)	Market Share (%)	LKR ('000)	Market Share (%)	LKR ('000)	Market Share (%)
1	A.M. W. Insurance Brokers (Pvt) Limited	-	-	340,527	0.98	340,527	0.88
2	ADZ Insurance Brokers (Pvt) Limited	73,349	1.83	1,945,787	5.59	2,019,136	5.20
3	Aitken Spence Insurance Brokers (Pvt) Ltd.	-	-	1,335,424	3.83	1,335,424	3.44
4	Alfinco Insurance Brokers (Pvt) Limited	1,729	0.04	1,256,725	3.61	1,258,454	3.24
5	Allion Insurance Brokers (Pvt) Ltd.	27,772	0.69	81,402	0.23	109,174	0.28
6	Aseki Insurance Brokers (Pvt) Ltd.	18,589	0.46	2,285,828	6.56	2,304,417	5.93
7	Assetline Insurance Brokers Limited	40,807	1.02	1,897,216	5.45	1,938,023	4.99
8	BIMA Insurance Brokers (Pvt) Ltd	290,957	7.25	624,613	1.79	915,570	2.36
9	Brilliance Insurance Brokers (Pvt) Limited	58,155	1.45	74,242	0.21	132,397	0.34
10	Ceylan Insurance Brokers (Pvt) Ltd.	-	-	109,255	0.31	109,255	0.28
11	Ceynergy Insurance Brokers (Pvt) Ltd.	103,294	2.57	189,751	0.54	293,045	0.75
12	CF Insurance Brokers (Pvt) Limited	228	0.01	2,103,409	6.04	2,103,637	5.41
13	Charenco Insurance Brokers (pvt) Ltd	-	-	120,888	0.35	120,888	0.31
14	Colombore Insurance Brokers (Pvt) Ltd.	18,806	0.47	466,789	1.34	485,595	1.25
15	Commercial Insurance Brokers (Pvt) Ltd.	48,631	1.21	1,116,714	3.21	1,165,345	3.00
16	Delmege Insurance Brokers (Pvt) Limited	203,788	5.08	1,985,989	5.70	2,189,777	5.64
17	Equity Insurance (Pvt) Limited	-	-	163,891	0.47	163,891	0.42
18	Essajee Carimjee Insurance Brokers (Pvt) Limited	24,333	0.61	791,976	2.27	816,309	2.10
19	Foremost insurance Brokers (Pvt) Ltd.	8,293	0.21	116,657	0.33	124,950	0.32
20	George Steuart Insurance Brokers (Pvt) Limited	45,240	1.13	2,499,856	7.18	2,545,096	6.55
21	Global Insurance Brokers and Services (Pvt) Ltd.	15,661	0.39	114,505	0.33	130,166	0.34
22	IIRM Lanka Insurance Brokers (Private) Limited	847,914	21.13	2,335,062	6.70	3,182,976	8.19
23	InsureMe Insurance Brokers (Pvt) Ltd.	390,663	9.74	1,615,626	4.64	2,006,289	5.16
24	JB Boda Insurance Brokers (Pvt) Ltd.	-	-	224,749	0.65	224,749	0.58
25	Life & General Ins. Brokers Ceylon (Pvt) Ltd.	108,133	2.69	387,143	1.11	495,277	1.27
26	Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	30,086	0.75	1,042,958	2.99	1,073,044	2.76
27	Mercantile Insurance Brokers (Pvt) Ltd.	66,349	1.65	644,244	1.85	710,593	1.83
28	Nations Insurance Brokers Limited	126,058	3.14	1,420,842	4.08	1,546,900	3.98
29	Priority Insurance Brokers (Pvt) Ltd	254,753	6.35	186,470	0.54	441,223	1.14
30	Procare Insurance Brokers (Pvt) Limited	115,491	2.88	482,403	1.38	597,894	1.54
31	Protection & Assurance Ins. Brokers (Pvt) Ltd.	91,247	2.27	749,550	2.15	840,797	2.16
32	Reliance Insurance Brokers (Pvt) Ltd.	111,129	2.77	1,077,485	3.09	1,188,614	3.06
33	Senaratne Insurance Brokers (Pvt) Ltd	84,576	2.11	1,615,227	4.64	1,699,803	4.38
34	Senkadagala Insurance Brokers (Private) Ltd.	-	-	848,016	2.43	848,016	2.18
35	Strategic Insurance Brokers (Pvt) Limited	55,218	1.38	171,331	0.49	226,549	0.58
36	Veracity Insurance Brokers (Private) Limited	169,344	4.22	9,029	0.03	178,373	0.46
37	Volanka Insurance Services (Pvt) Limited	342,354	8.53	187,982	0.54	530,336	1.37
38	Zenith Insurance Brokers (Pvt) Limited	98,491	2.45	611,547	1.76	710,038	1.83
	Others (36)	**141,170**	**3.52**	**1,608,387**	**4.62**	**1,749,557**	**4.50**
	Grand Total	**4,012,609**	**100**	**34,839,494**	**100**	**38,852,103**	**100**