

A blue and white train is crossing a large, multi-arched stone bridge that spans a deep, dense forest. The bridge is made of weathered stone and has several large arches. The train is moving from left to right. The forest is lush with green trees and foliage. The scene is captured from a high angle, looking down at the bridge and the forest.

Spotlight on Sri Lanka

Singapore Actuarial Conference – International Day

Roshan Perera

President – Actuarial Association of Sri Lanka

25 November 2021



Agenda

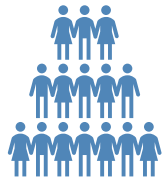
Sri Lanka – key statistics

Overview of the Sri Lankan insurance industry

Key developments in the competitive and regulatory space

Questions

Snapshot of Sri Lanka



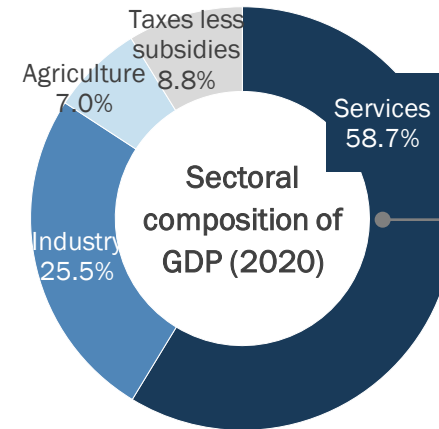
	<u>Sri Lanka</u>		<u>Singapore</u>	<u>Malaysia</u>
Social indicators	2019	2020	2020	2020
Population (millions)	21.8	21.9	5.7	32.4
Labour force participation rate	52.3%	50.1%	68.1%	68.4%
Unemployment rate	4.8%	5.5%	4.1%	4.5%
Literacy rate (2019)	92.9%	N/A	97.5%	95.0%



Economic indicators	2019	2020	2020	2020
GDP (USD billions)	84.0	80.7	340.0	336.7
Annual real GDP growth	2.3%	(3.6%)	(5.4%)	(5.6%)
Per capita GDP (USD)	3,852	3,682	59,798	10,402

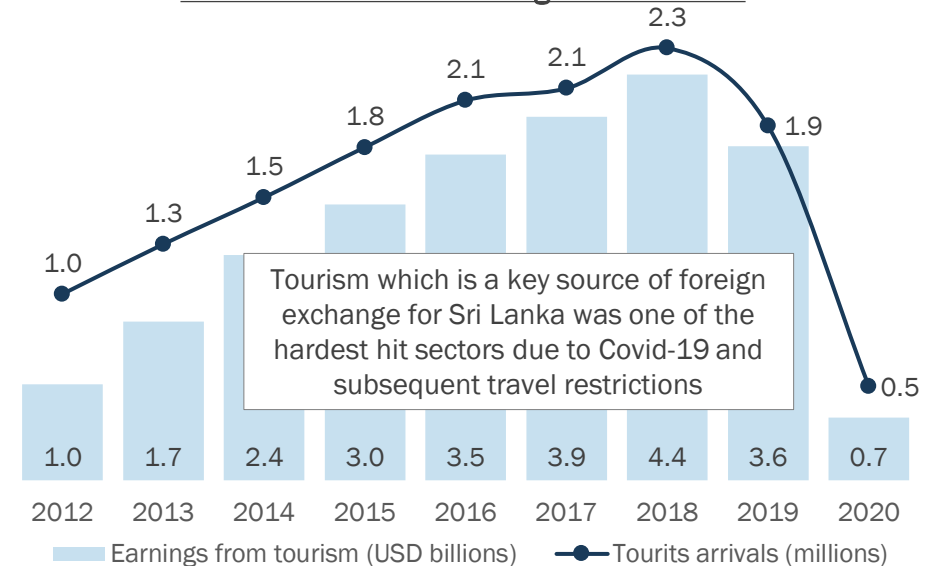


Covid-19 stats	31-Dec-20	31-Oct-21	31-Oct-21	31-Oct-21
Total cases	43,299	541,073	198,374	2,471,642
% of total population	0.2%	2.5%	3.5%	7.6%
% of active cases	17.9%	2.7%	15.8%	2.7%
Death rate	0.5%	2.5%	0.2%	1.2%



Within the service sector, the Insurance industry experienced a 6% increase in premium income from 2019 to 2020 despite Covid-19

Tourist arrivals and earnings from tourism

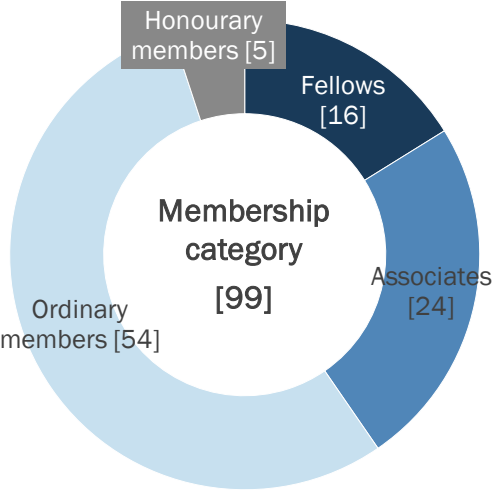
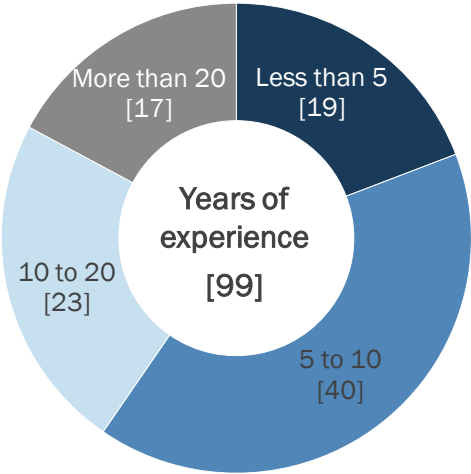
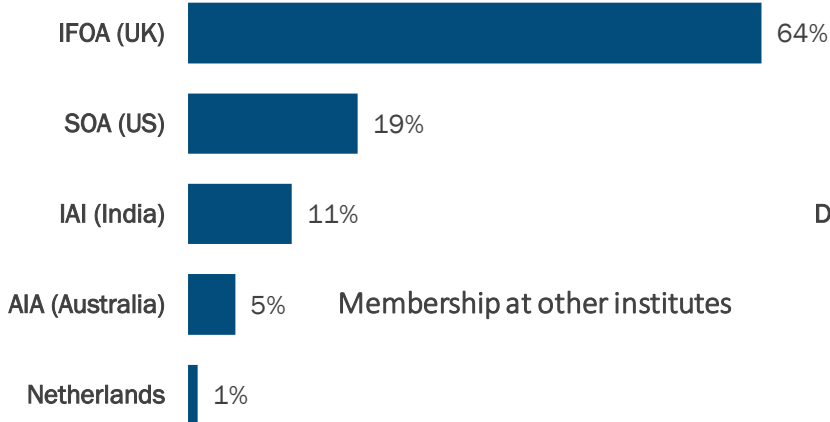
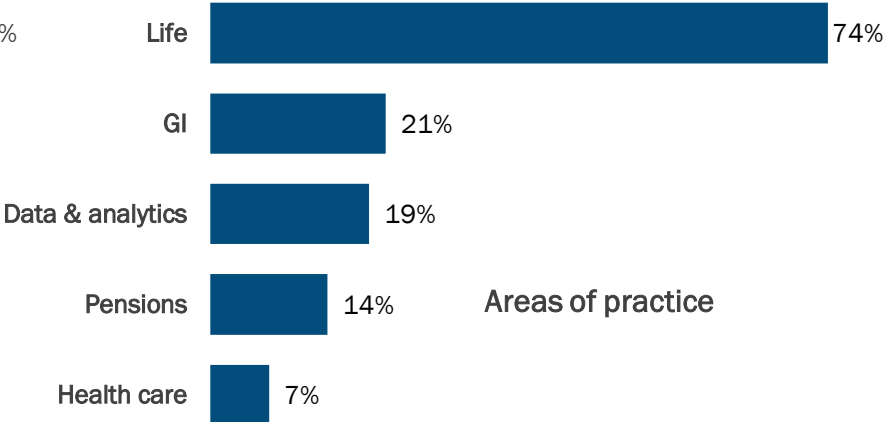


Tourism which is a key source of foreign exchange for Sri Lanka was one of the hardest hit sectors due to Covid-19 and subsequent travel restrictions

Sources: Central Bank of Sri Lanka, World Bank, Worldometer, Sri Lanka Tourism Development Authority

Note: Labour force participation rate is the proportion of the population ages 15 and older that is economically active

Actuarial Association of Sri Lanka



- AASL was established in 2008, with eight members and have now grown to 99 members in 2021
- The aim of the AASL is to promote the Actuarial profession and regulate the practice of members in Sri Lanka
- The number of Actuarial practitioners per million population in Sri Lanka is ~5.4 vs 175 in Singapore and 30 in Malaysia





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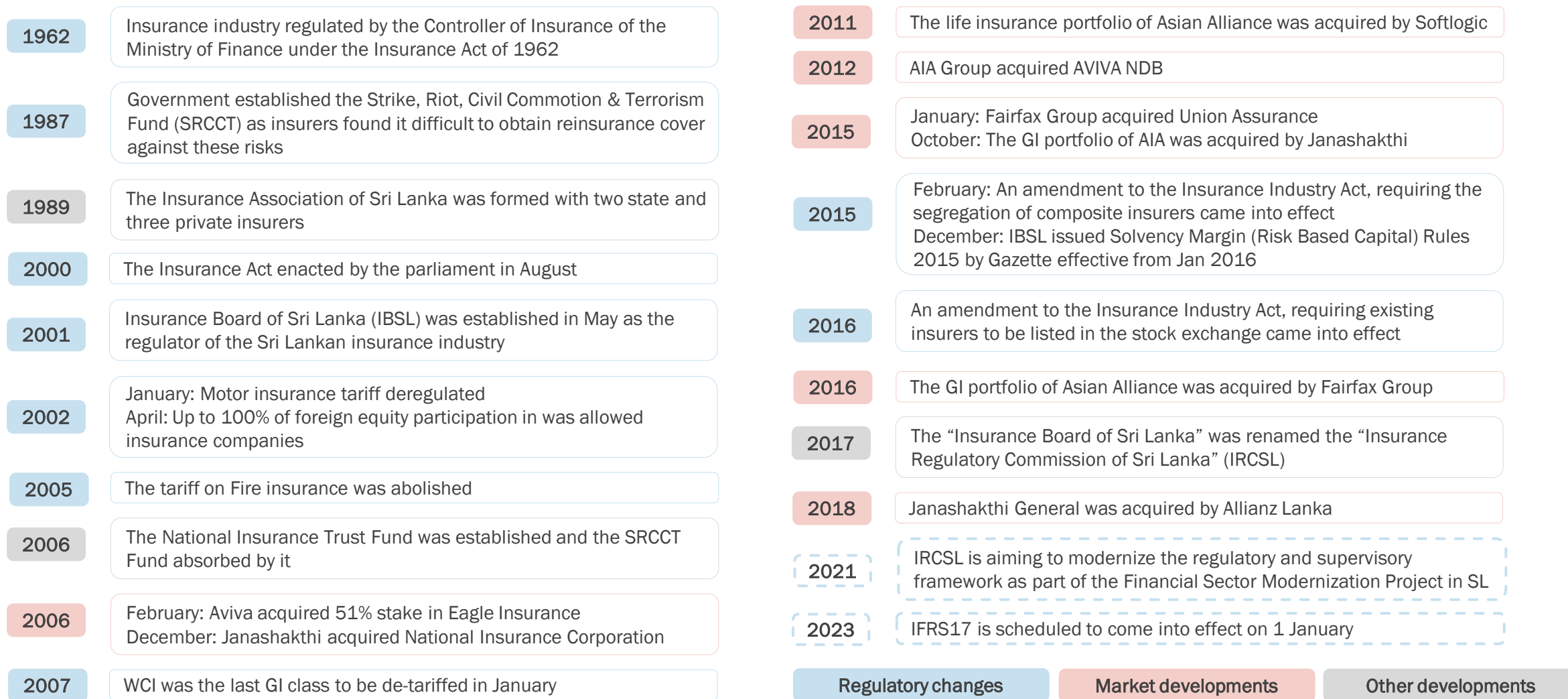
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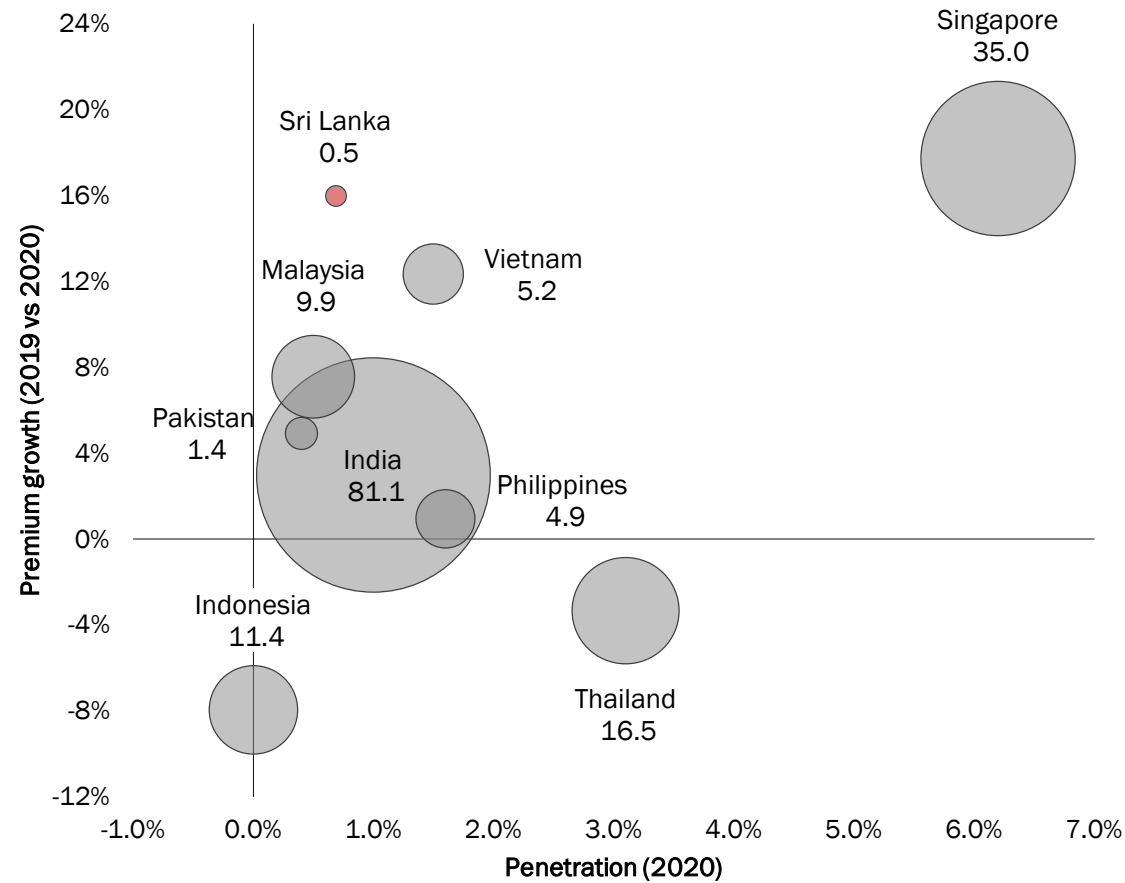
Questions

Evolution of the Sri Lankan insurance industry

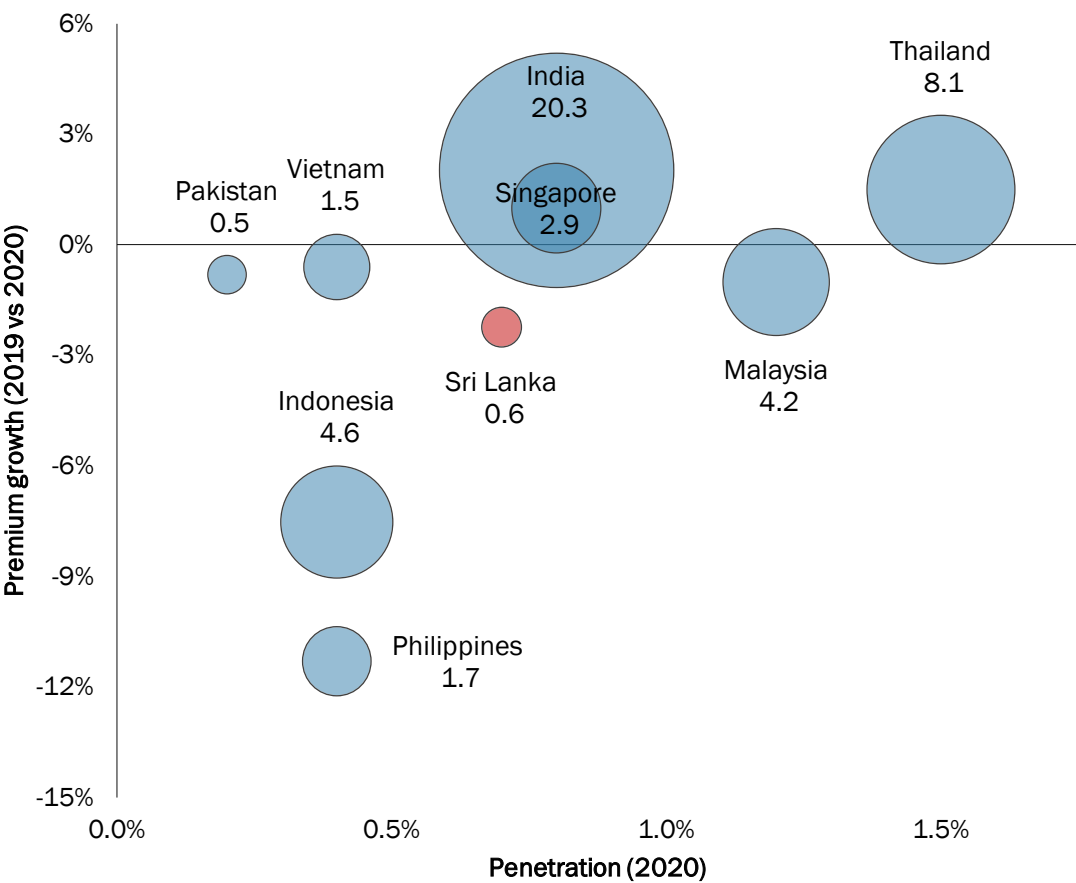


Sri Lankan insurance industry vs other Asian markets

Life Insurance (2020, USD millions)



General Insurance (2020, USD millions)

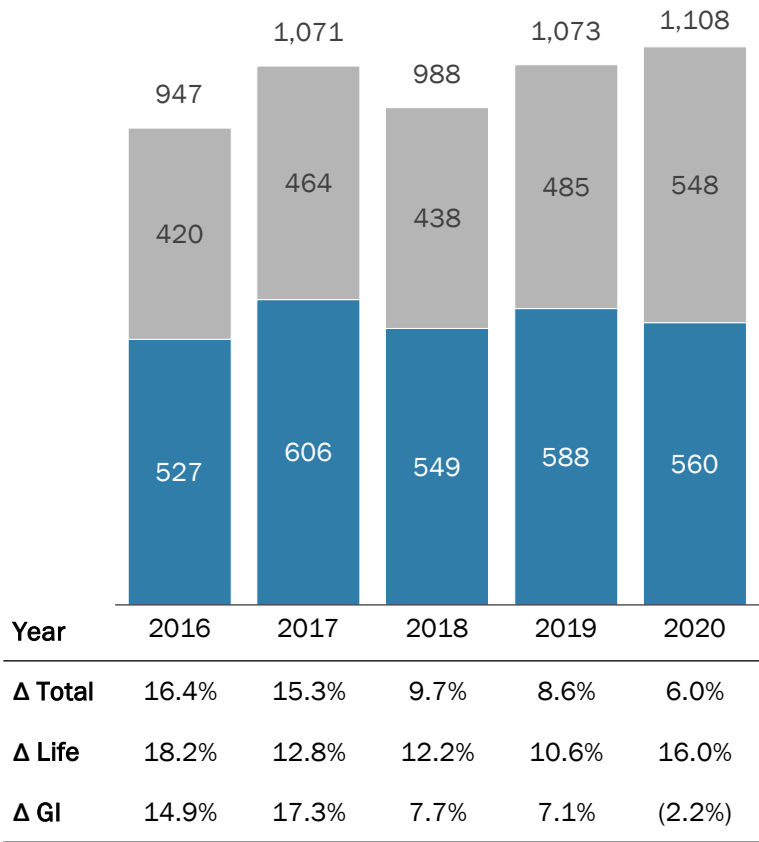


Sources: Allianz Global Insurance Map

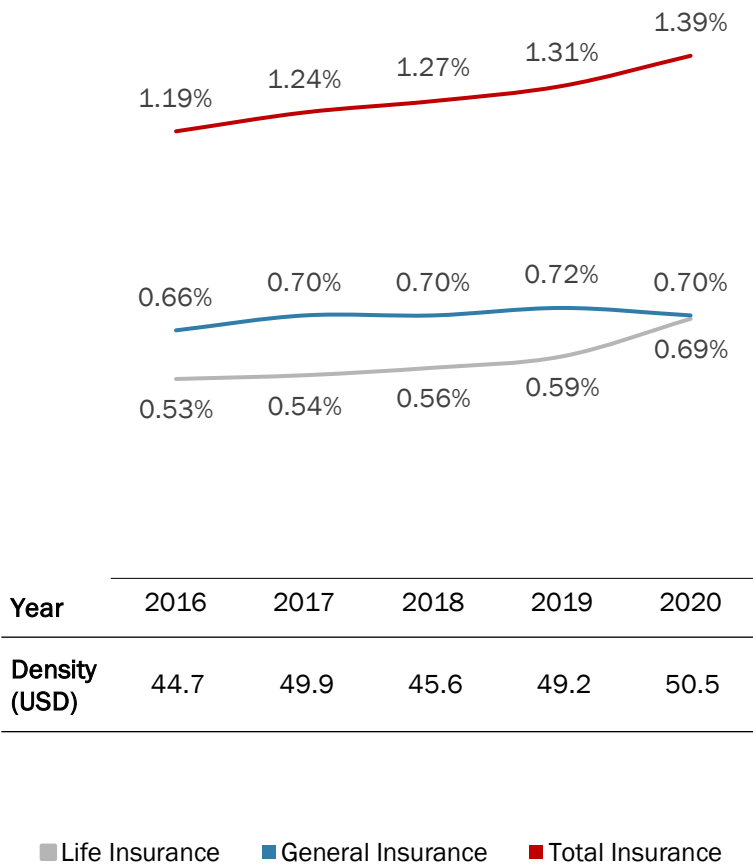
Note: Penetration is the GWP as a % of GDP; Bubble size represents the GWP in USD millions

An overview of the Sri Lankan insurance industry

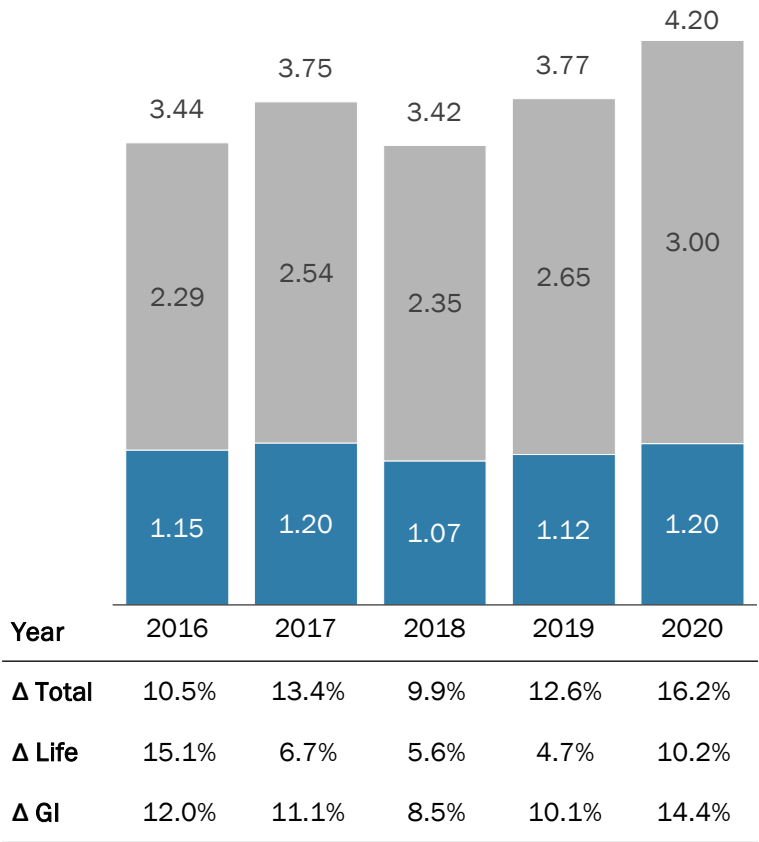
GWP and growth (2016 – 2020, USD millions)



Insurance penetration and density (2016 – 2020)

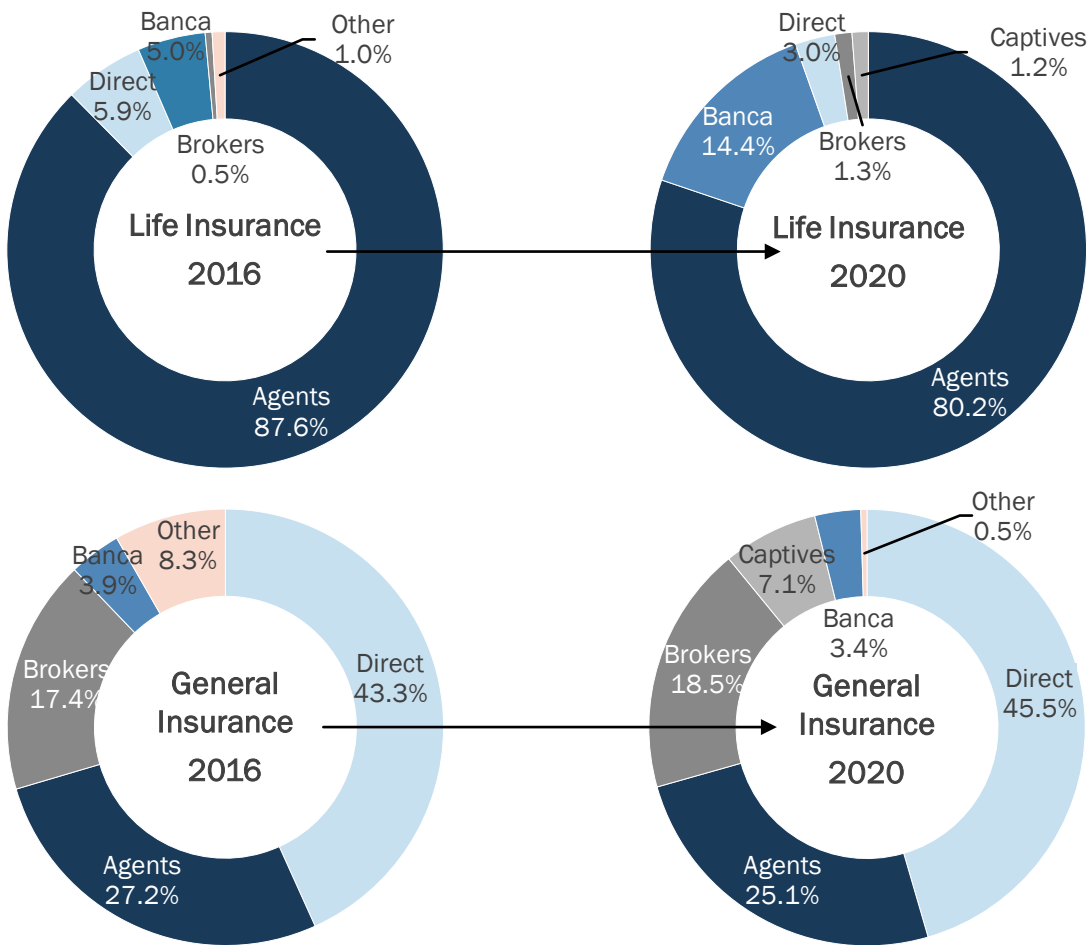


Total assets (2016 – 2020, USD billions)

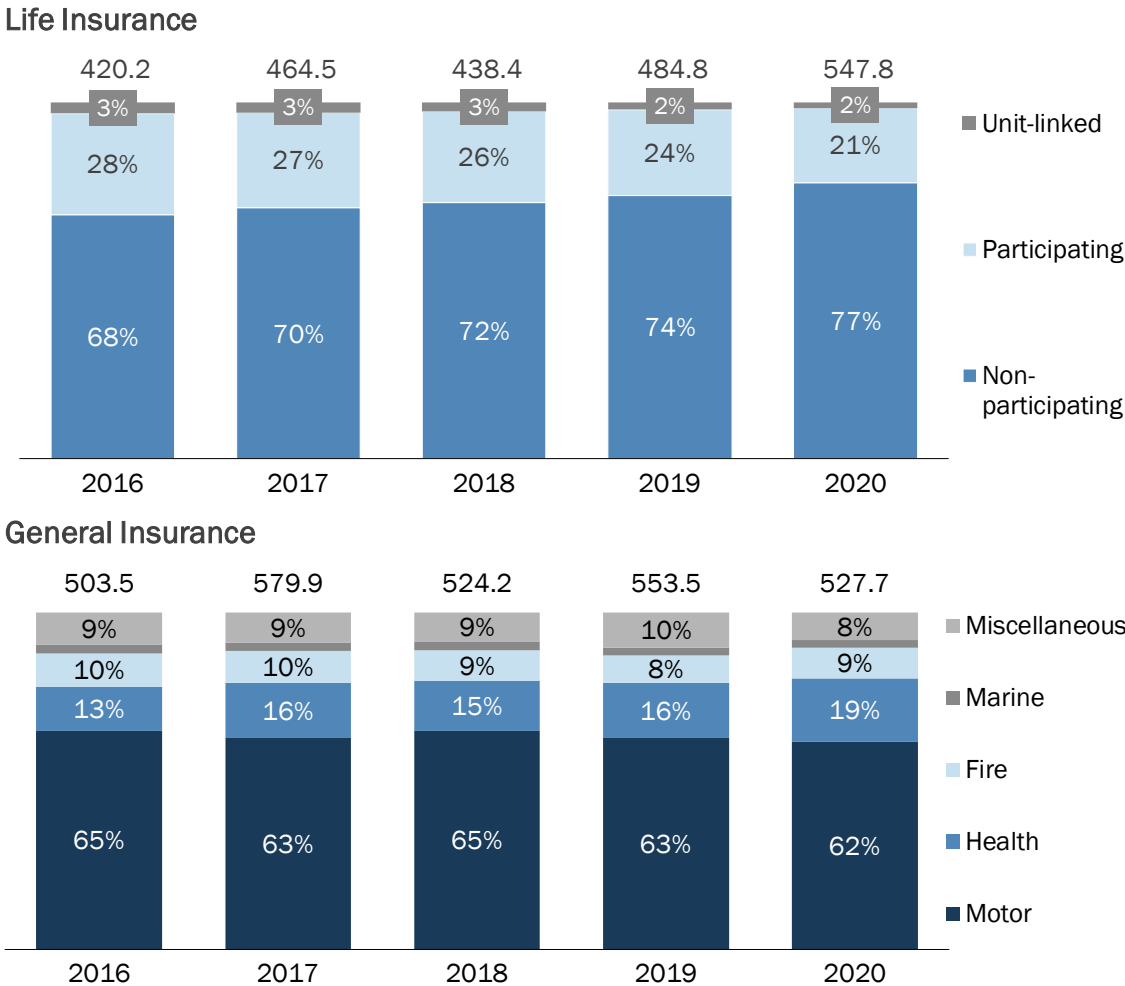


An overview of the Sri Lankan insurance industry

Distribution channels (2016 vs 2020)



GWP by class of business (2016 – 2020, USD millions)





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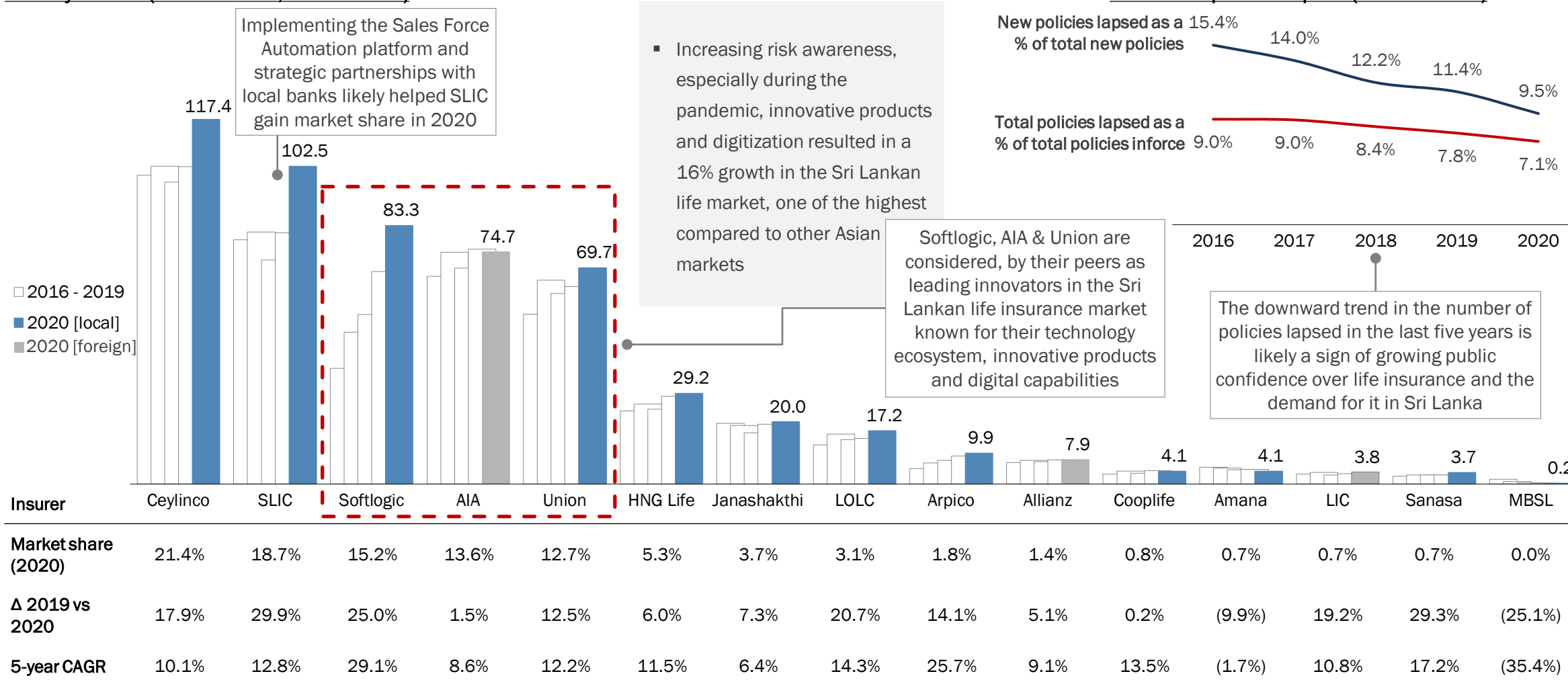
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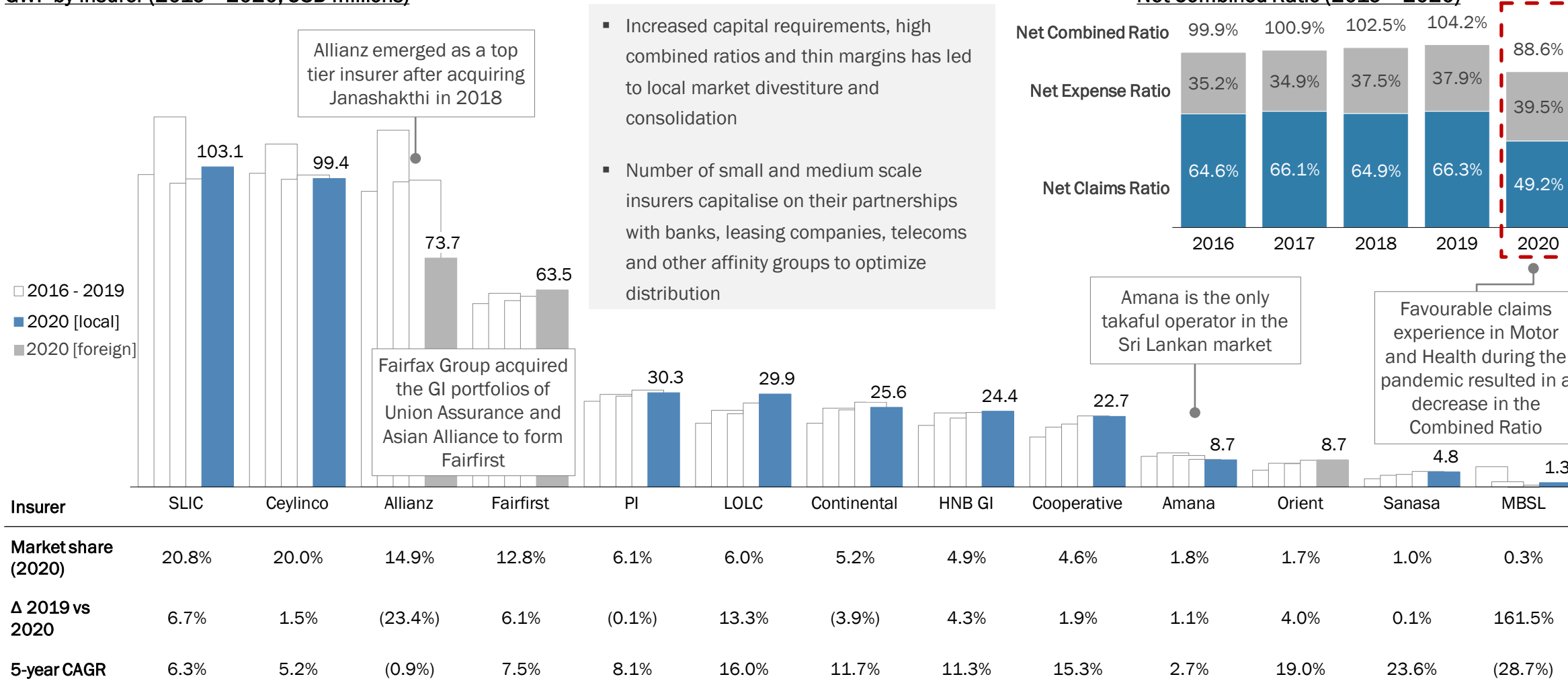
Organisational and participation strategies – Life Insurance

GWP by insurer (2016 – 2020, USD millions)



Organisational and participation strategies – General Insurance

GWP by insurer (2016 – 2020, USD millions)



Sources: Insurance Regulatory Commission of Sri Lanka

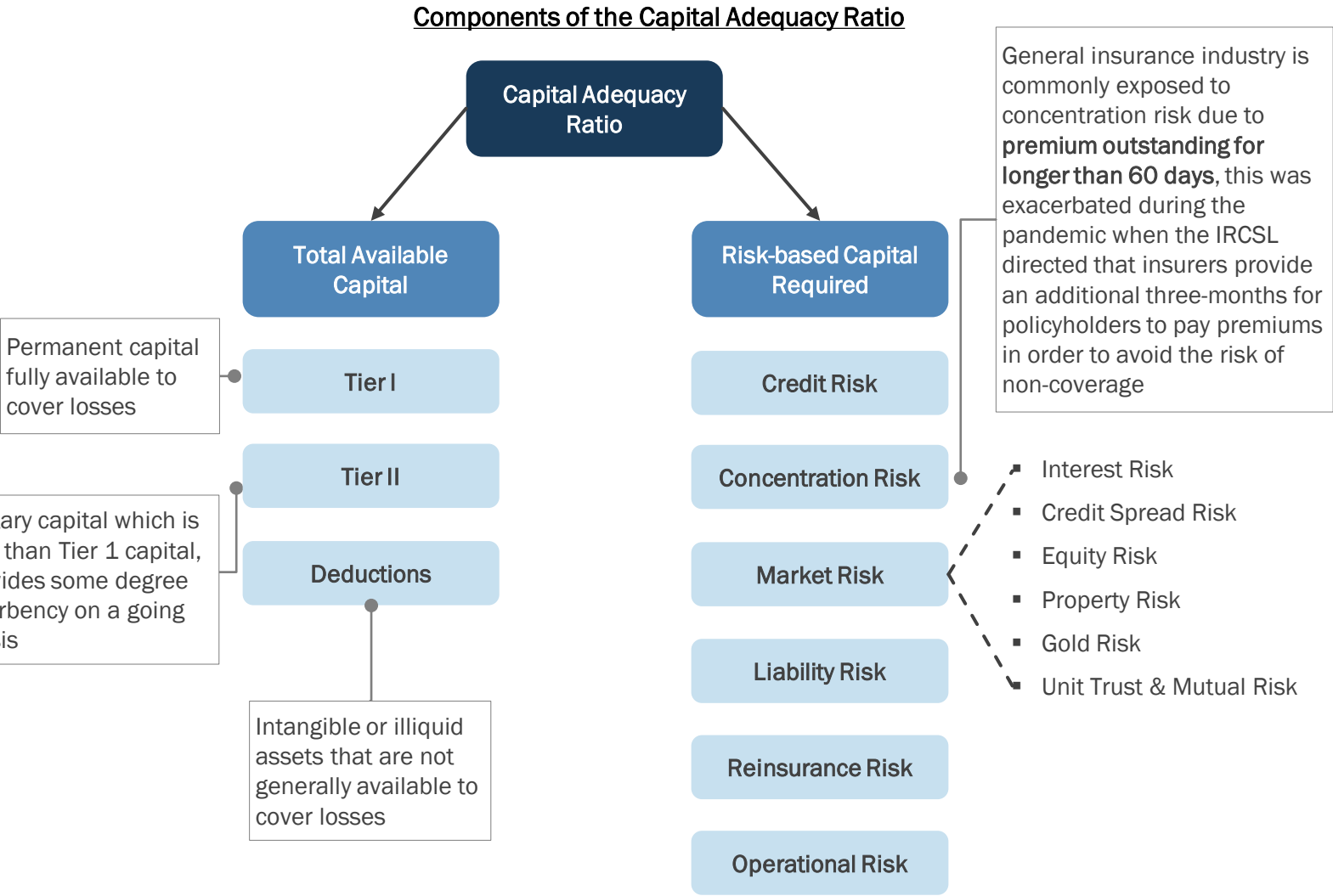
Notes: Allianz includes Janashakthi General in 2016 and 2017; Fairfirst includes Union General in 2016

Implementation of RBC

- The **Solvency Margin (Risk Based Capital) Rules 2015** came into effect from 1 January 2016 replacing the factor-based solvency regime
- Sri Lanka currently uses a **formula-based RBC regime** comparable with the first iteration of RBC seen in other Southeast Asian markets
- The market has not yet moved to RBC2, however, this is anticipated in the near future. This is likely to include a recalibration of risk factors and potentially some structural changes to the framework. It is unclear if stress testing will be included

Financial requirements of RBC

Minimum Capital Requirement	LKR 500 million (USD 2.7 million)
Supervisory target CAR	120%
Enforcement strategy additional margin	160%

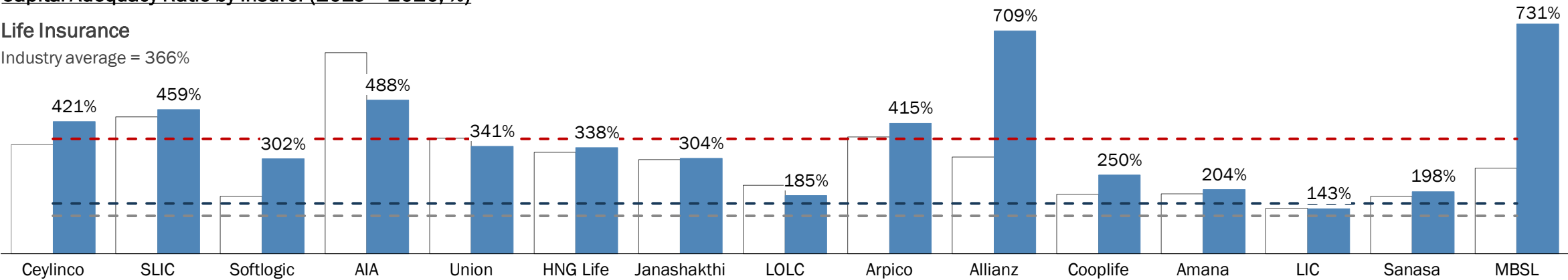


Implementation of RBC

Capital Adequacy Ratio by insurer (2019 – 2020, %)

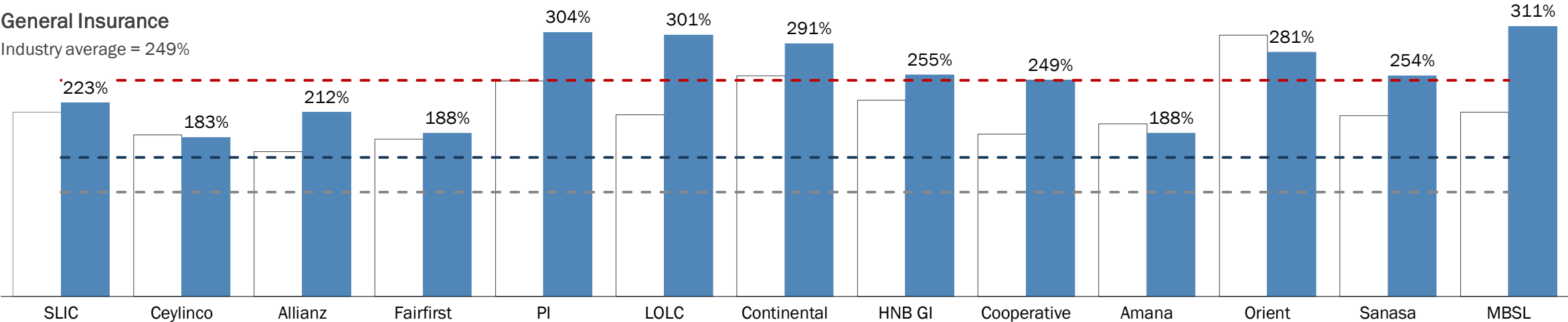
Life Insurance

Industry average = 366%



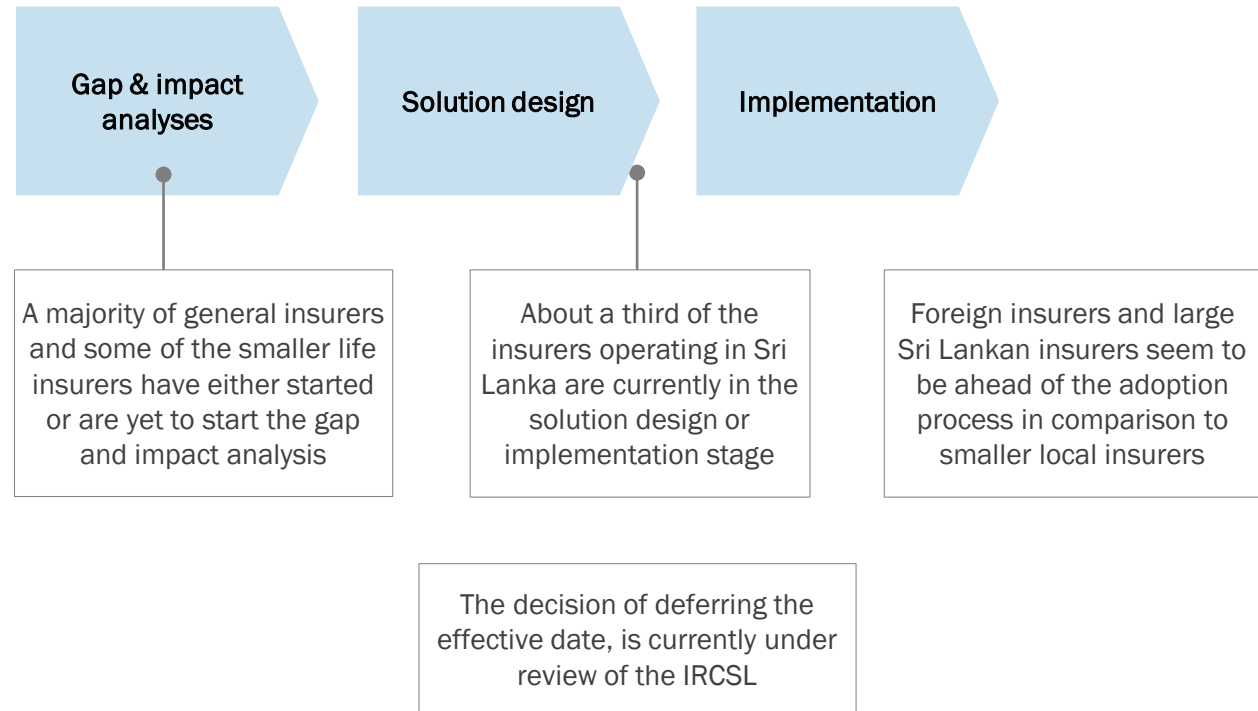
General Insurance

Industry average = 249%



2019 2020 Industry average CAR Supervisory target CAR [120%] Enforcement strategy additional margin [160%]

Adoption of IFRS 17



Life insurance industry likely to seek deferment on transition to IFRS 17

- Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 in 2020, in line with IFRS 17
- It is scheduled to come into effect on 1 January 2023

A Sri Lankan perspective

“Multi national companies have shared knowledge with the industry”

“Companies who planned to implement new systems will be able to consider IFRS 17 requirements however, smaller companies will be adversely impacted”

“Historical Data will be a significant challenge due to manual procedures”

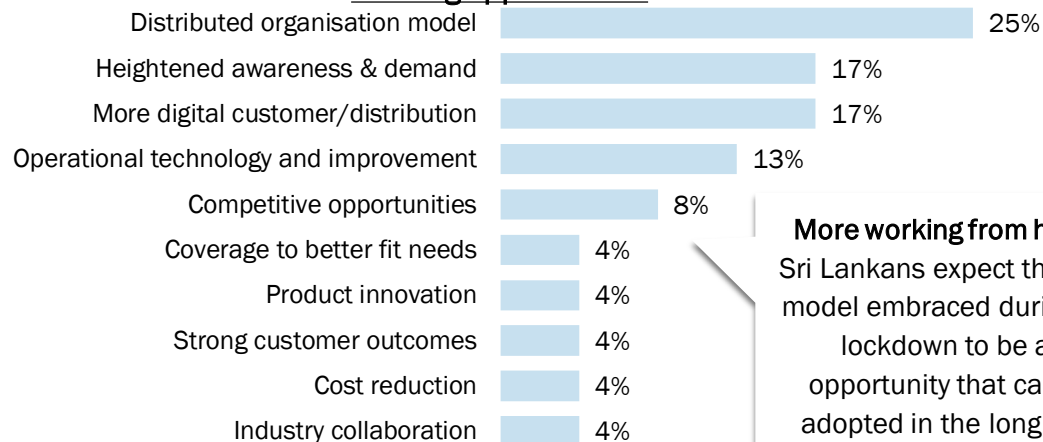
“Companies will need to have in-built actuarial models”

“A delay in adopting IFRS 17 could sideline Sri Lanka, consequently creating certain implications on reinsurance”

“Limited knowledge and expertise within the market is a challenge for adoption”

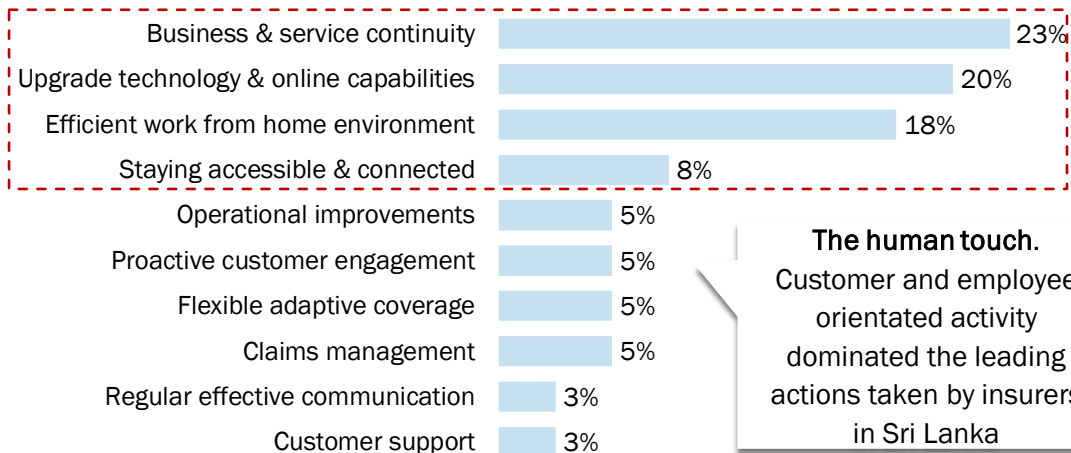
Navigating the Covid-19 pandemic

Leading opportunities



More working from home.
Sri Lankans expect the WFH model embraced during the lockdown to be an opportunity that can be adopted in the long term

Leading achievements



The human touch.
Customer and employee orientated activity dominated the leading actions taken by insurers in Sri Lanka

Leading concerns

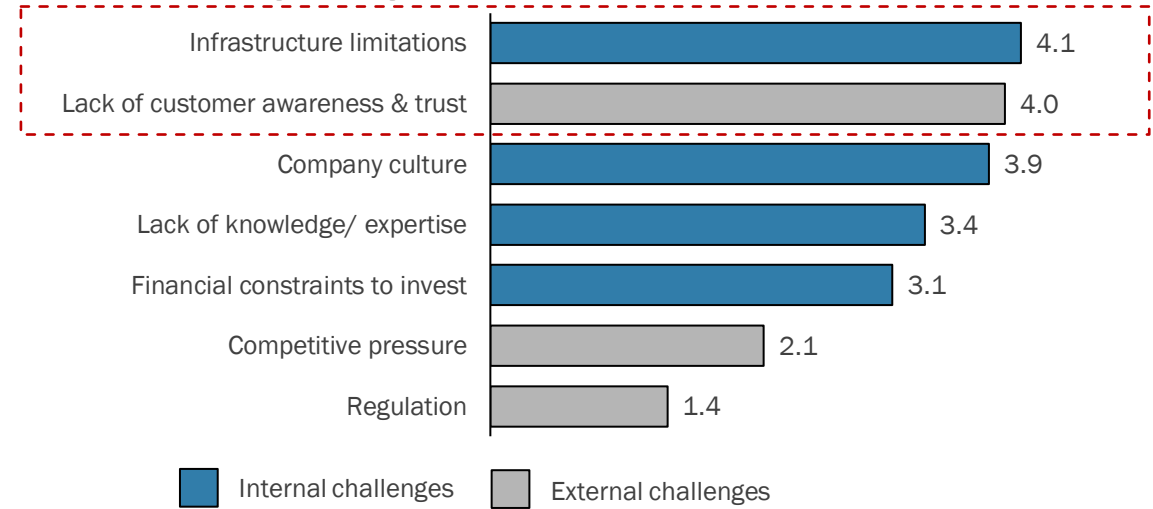
- New business processing
- Policy cancellations
- Servicing
- Regulatory responses
- Potential loss of customers
- Business continuity

Impact on classes of business

- Increasing risk awareness and growing public confidence resulted in a 16% premium growth & a marginal increase in market penetration in **Life insurance**
- Lower claims frequencies during lockdowns had a positive impact on **Motor**. In contrast, restrictions on motor vehicle imports and the decrease in purchasing power of potential policyholders is expected to significantly impact Motor new business volumes
- Claims experience in the **Health** portfolio improved during the pandemic due to reductions in admissions for elective and other non-emergency treatments

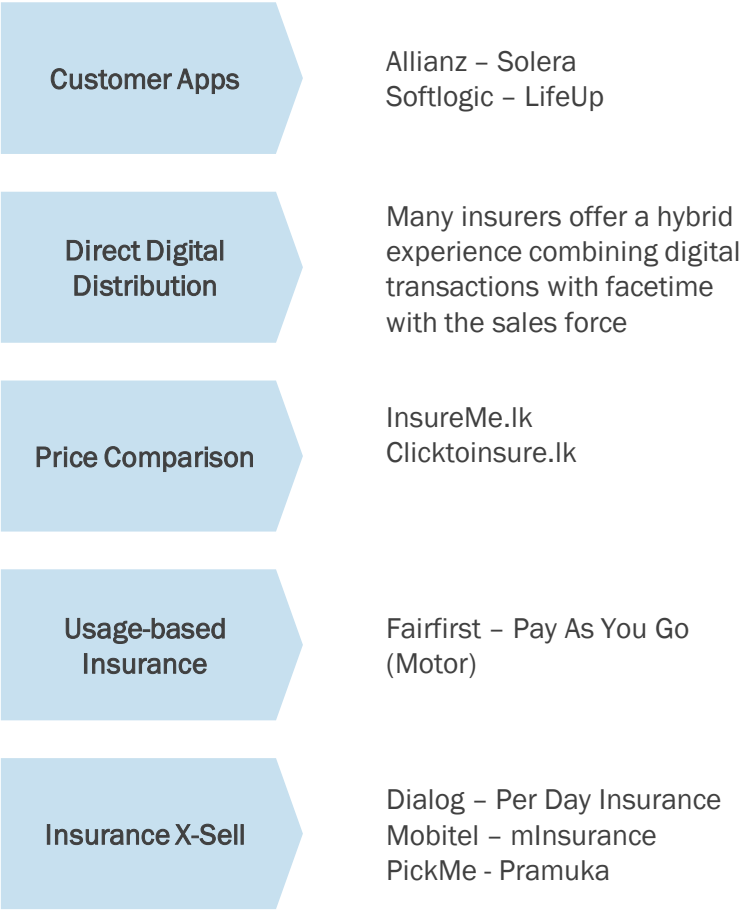
Digitisation and innovation

Challenges to digital distribution (pre-pandemic)



- Unlike in most other markets, in Sri Lanka, digitisation appears to be more advanced in life than general insurance
- Insurers may not be proactively promoting an independent digital channel to avoid conflict with other channels
- During the pandemic, insurers increasingly digitised different aspects of the insurance value chain (e.g.: customer on-boarding, premium collection, claims handling etc.)

Insurance innovation in Sri Lanka





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