CHAPTER 5

5) Summary, Findings, Conclusions & Policy Implications

This is the final chapter of this study which includes the summary of the study, findings, conclusion and elaborates strategies & policies which has to be implemented, in-order to maintain fair and equal competitive behaviour in the Sri Lankan insurance market. Lack of such policies may lead to severe downfall of the whole insurance industry. The core outcome of our study suggests that firms in the general insurance industry operate in a less than perfect competitive environment.

5. 1) Summary

Sri Lanka's current Rs.30 billion insurance industry (General insurance businesses amounting to Rs.17 billion) needs to 'tighten up its act' on regulation and solvency margins, after the recent tsunami left behind Rs. 15 billion worth of claims. The regulators should keep close tabs on non-life operations in order to avoid undue risk exposure and to safeguard policyholders' interest.

General insurance, which has grown by over 17 percent over the last six years, largely consists of motor (49 percent), fire (17 percent) and marine (7 percent). The sector is largely de-tariffed, except workmen's compensation, and competition is stiff. However, the profitability and capital position of different market players vary significantly. The former state-owned firms are saddled with high expense ratios, while some of the large private sector players operate with very low levels of capital.

Hence, tighter regulatory supervision is needed to oversee the operations of non-life insurers to avoid undue risk exposure and to safeguard the interests of policyholders and the sector as a whole. Some insurance firms could lag behind in solvency requirements for non-life products, given the long time period allowed by regulators. Solvency translates to how much of free assets a firm has in liquid form, in the event it faces a hefty claim.

Since liberalisation, there were no large claims, until the tsunami struck, forcing the industry to payout around a billion rupees as ex-gratia payments. For life insurance, solvency margins should be greater than five percent, while non-life business, the figure starts from 20 percent.

Most insurance firms park 80 percent of their funds in government securities, partly due to conservative investment policies and limited investment options. The 'big five' (Ceylinco, Sri Lanka Insurance, Janashakthi/NIC, Eagle and Union Assurance), easily clear the 20 percent hurdle.

"Solvency margins are good, but it's not a good enough, it restricts investments. The way to go is to move towards a risk weighted capital model based on individual firm's business rather than one size fits all policy".

Sri Lanka also lacks non-life actuarians, but one firm has come out saying they have got an independent general actuary to validate their post-tsunami claims including incurred but not reported claims, according to Eagle Insurance's statement that they made a further provision in line with the prudential margins recommended by the actuary.

Five out of the 15 firms presently command about 92 percent of the total insurance business, and they would ride to tsunami crest provided they get sufficient reinsurance cover. Most local insurance firms had their 2005 reinsurance cover wrapped up when the tsunami struck. The tidal wave shifts things to a different plane, with higher premiums in the offing to meet a bigger reinsurance cover in 2006.

The Insurance Board of Sri Lanka, should also arm itself with technical skills to 'assess the soundness of reinsurance cover'.

"Though the existing framework is stronger compared with most countries in South Asia, it is at a nascent stage, and requires additional resources in terms of expertise and staff".

5. 2) Findings

The findings are clear: although the emphasis differs from sector to sector, insurers agree that their business needs far-reaching improvement. In practical terms, say industry leaders, insurers must:

• Write better business;
• Enhance claims management processes; and
• Improve operational controls and financial reporting.

In their efforts to achieve these goals, insurance executives identify four priorities:
• Enhancements in information technology (IT) systems;
• More rational product development;
• More effective and efficient distribution; and
• More accurate risk assessments.

5. 2. 1) Key Success Factors

Profit and competition analysis in chapter 4 clearly reflected some key success factors which will distinguish the winners from the laggards in the brave new world:

- ***Strong Distribution Network*** critical to achieve market penetration specifically for mass delivery products characterising certain non-life segments

- ***Integrated Training & Development*** of staff and alliance partners an essential tool to make the dictum "insurance is sold rather than bought" work

- ***Reputation & Credibility*** will be key to building customer confidence and a loyal customer base

- ***Financial Stability*** important for the long haul in view of high start-up investments and long gestation period

- ***Sophisticated Technology & Systems*** a must for data processing and management for successful, flexible and responsive service

- ***Actuarial and Risk Management Skills*** fundamental to execution of insurance Business

- ***Fund Management Skills*** critical to the earning capacity of the insurer investment income forms a significant part of total income

- ***Strategic Selection of Segments*** to hinge on the insurer's international expertise and its relevance in the Sri Lankan context

5. 2. 2) Insurance Malpractices

Some authorities attached to the insurance industry in Sri Lanka have been blamed for the high rate of malpractice and corrupt tendencies in the industry, which constitute a threat to the industry at large.

All the companies in the insurance industry should adhere strictly to the ethics of the profession as described by IBSL to gain its rightful position in doing business, insurance agents must be seen and felt to be honest, strictly professional, flexible in their dealings with the public.

The image of the industry has been dented in the recent pass by unethical practices which includes rate cutting non-settlement of claims and certificates racketeering which involves professionals in the industry who sell their certificates to those applying for operational licences. These practices not only endanger the long-term viability of the insurer, but also affect the insurance market as a whole, preventing the building up of sufficient reserves and threatening the medium to long-term solvency of the companies involved.

The classes of business subject to tariffs are the motor insurance and workmen's compensation, the IBSL intend to ensure that the tariffs are strictly enforced, and any breach of the tariffs should be penalized.

With regards to the non-tariff classes of business, the correct basis of rating has been abandoned to a large extent, reducing underwriting to mere speculation.

Therefore it is advised insurance operators to design products that would suit the needs of the insured and serve as a benefit to the general public, both corporate and individuals while they should repackage the existing ones. Hence, the IBSL has a very important role to play in the effort to sanitize as well as to redeem the image of the industry.

5. 2. 3) Resulting Pressures on Insurers

The steady deregulation of the insurance market, the emergence of new technologies, increasing competition from existing and new entrants, are all resulting in a new economic paradigm centred on the customer. The new paradigm will induce many pressures on insurers. Some of the more important ones will be :-

Pressure on Capital - In order to ensure that they have adequate financial strength on continuous basis, insurers will have to identify the risks they face. These will include market risks, credit risks, underwriting risks and investment risks. The concept of "Risk based capital" will be the benchmark of regulators. The days when insurers could continue to remain in business by simply complying with the minimum capital requirements, are numbered.

Pressure on Volumes - Fierce competition to increase volume and market share will prevail. Two avenues would be open to insurers: to be the least cost producer or to offer a differentiated product or service. The latter may appear easier. But developing new products is expensive and the advantage short- lived since it can be quickly copied. Another option is to maximize customer retention. This can pay rich dividends since it is more cost- effective to maintain current customer bases than to create new customers.

Pressure on Margins - Intense competition for business and the presence of competitors of different shapes, sizes, and objectives will impact on the terms and conditions of insurance. Those who can adopt themselves to change will have the edge. Insurers will be driven to minimise their operating costs and raise performance standards to meet the customers' rising expectations.

Pressure on Service - In the context of increasing access to information and tougher competition, the customer will be more demanding for service. Technology will enable him to make comparisons quickly and accurately. High quality customer service will have to mean more than a customer service department. Customer care will have to be a state of mind and be accepted by all levels of management and staff.

Pressure on Reinsurance - The transfer of risks will not be the dilemma of only the customer ie.- the insured. Insurers too will have to closely examine their own risks transfer mechanisms i.e. reinsurance. No longer will reinsurance capacity be available for the asking. Re-insurers will look at commission rates through the microscope. The re-insurers will insist on remittance of reinsurance premium within a stipulated time period, which would mean that insurers will no longer be able to profit from reinsurance premium cash flows. Losses to re-insurers will result in swift response in the form of tougher reinsurance terms including restriction of cover and reduced commissions. Insurers with bad results may find it difficult to obtain any reinsurance.

Pressure on Organisations - The emergence of new economic models and new entrants with greater financial resources, management and technical expertise and access to research and development and other technology transfers on a global scale will pose great challenges to local operators. Training of staff to meet the challenges of a rapidly changing and fiercely competitive business environment will have to be a one of the key strategies of the insurer.

Pressure to attract and retain quality people - The key drivers of the future will be the quality and the commitment of its people. Success of a company will depend primarily on the ability to attract, motivate and retain the best people.

Pressure on the use of Information Technology - There will be a great need to know how to profit from the use of technology. How to use it to compete and survive in what is referred to as the new "knowledge economy". Bill Gates, Chairman of Microsoft, talks about "business at the speed of thought". Insurers are entering an era where speed of response will be a key competitive differentiator.

In the millennium, the organisations that will succeed will be those that can capture and exploit knowledge. It will be harder to compete on price alone. The likely differentiator will be the quality of service and speed of response to challenge. Accelerated competitiveness will be a key issue, perhaps more important in the insurance industry than anywhere else. However, in the rush for technology, insurers will have to understand that IT can only be the enabler never the panacea.

Pressure on Intermediaries - Insurers will have to make sure that the persons representing them in the front end of the business, including Agents, Sales Representative and Field Officers, are well trained and equipped with the necessary skills to give proper advice to potential customers. These persons must be able to demonstrate that they can really add value through their intermediation. In a scenario where individuals are becoming increasingly aware of their legal rights and the values at risks are getting larger, insurers can face huge claims resulting from mis-selling to customers.

Pressure from regulatory authorities - The ultimate aim of regulation is to protect the policyholder in one way or another. Government regulations implies obligations and responsibilities on the regulators as well as the regulated.

The regulators in turn will have a dual responsibility. On one side they have to make sure that the insurers adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities and at the same time play a proactive role in developing the market, promoting competition and innovation. A balance has to be struck between a more rigorous premium rate and policy-wording based regime as against a regime which permits greater operational freedom but places much more emphasis than hitherto on overall financial strength.

In this situation the balance sheets of insurers will come under much greater scrutiny particularly in areas such as valuation of assets and the adequacy of capital and technical reserves.

5. 2. 4) Future Developments needed

An analysis of the market over the past year seems to bear out three possible future developments:

Firstly, the chances of the current hard market collapsing into a soft market appear to be somewhat distant. In the short term this means consumers should not expect cheaper premium rates. However, higher expectations of insurers surviving catastrophic claim events and being able to pay claims appear more justified than before.

Secondly, insurers appear to have been in the 'stewardship responsibility'. This positioning can be characterised as premium levels being neither excessive nor inadequate. Similarly, premium ratings have been based on sound underwriting criteria without seeking to rely on investment earnings to compensate for poor underwriting results. It is now up to insurers to maintain this stewardship responsibility in their management of insurance operations.

Thirdly, the increased market share of listed insurers has changed future capital management dynamics. Excess capital can be returned to shareholders more easily than ever before and additional capital raised when required. This contains another iterative postulation: insurers have access to liquid capital markets due to investor confidence, expectations of high earnings, and an outlook of profitable underwriting. This access will be diminished if cyclical underwriting is allowed to reoccur. Capital flexibility is therefore dependent on reduced volatility in earnings, which in turn depends on sustainable underwriting.

There is little doubt that the existing market position of general insurers has been hard won. It followed years of underwriting neglect, collapses of several licensed entities, and leading edge regulatory reform. Yet best results have always been possible. It is now up to the sector to protect and sustain it. The latter can be achieved only with appropriate stewardship and leadership.

5. 3) Conclusions

Issues & Concerns - Amidst wide consensus for private participation, certain concerns prevail – the need for strong and well-regulated new insurers to avoid hyper competition and overcrowding, seepage of insurance premia out of country and limits on foreign participation.

An attempt has been made to address these concerns by building appropriate safety provisions into the Insurance Act. Mandatory prescriptions relating to minimum paid-up capital, investment of policyholders' funds and minority foreign equity holding with a provision for dilution of Sri Lankan promoters' holding over a specified period take cognisance of such concerns. Inevitably, these have implications on the number of new entrants, structuring of foreign investments and the pace at which competitive dynamics unfold.

A phased licensing roll-out providing for the entry of a small number of large, established players initially, followed by a second rung of players, coupled with the continued regulation of pricing is expected to allow the incumbent insurers sufficient time to adapt to changing market conditions and evolve adequately to meet the competitive pressures.

Competitive forces will propel erstwhile monopoly insurers to focus seriously on issues of overstaffing, inadequate infrastructure, training and retention of agents, product innovation, pricing and customer service.

Expected Trends - Discussions and analyses among a cross-section of stakeholders and opinion leaders delineate possible trends in the deregulated insurance landscape such as:

- Existing players to maintain leadership position with strong market shares, while enough competitive space is created for new entrants to be profitable
- Opening up of the sector and concomitant competitive tension to usher in innovative products, streamlined delivery mechanisms, and improved customer service
- Profitable exploitation of untapped or under served segments and niches
- Discovery of new distribution (brokers) and marketing avenues both by new and existing players
- Professional approach to insurance marketing and sales with expert training and development
- Significant advantages to first-movers in non-life insurance market in terms of building trust and creditability to be leveraged in subsequent market growth phase
- Rise of a professional intermediary class and a consumer class aware of the importance of insurance and risk management

Major problems of the insurance industry - First and foremost problem that insurance industry is facing is the lack of client education and poor awareness among the people. People hardly understand the importance of social security measures, and even if they understand it, they rarely go for it. People often think that insurance companies are taking money for nothing. To overcome this problem some companies have started insurance awareness programs. People need to be told clearly what the insurance policy they have purchased covers and what it excludes. It has been found that the people buy insurance products simply on compulsion. Lack of sufficient expertise and adequate manpower in the sector is also another major problem of insurance industry.

How has competition increased in the industry? - With a rise in the number of players, competition is bound to be there. But the competitive practices have not been fair in the market. Insurance on credit, poor customer-orientation, manipulation of brokers and surveyors are few among the malpractices that exist in the sector. The analysis of the net profit of all insurance companies over the last three years shows a decline in profits. Such practices, however, will be there in passing phase only. Insurers have now realized that they have burnt the finger for nothing. Hopefully, they will be quite alert and take it to the right direction in the days to come.

The prospect of the insurance industry in Sri Lanka - If the economy catches normal trend, I believe the insurance industry is there to grow. It all depends on the purchasing power of people. People will go for products of personal security only if they hold disposable income. Considering the way the medical cost is going up, I see that insurance will be only alternative to ensure health security. So, there is tremendous potentiality for the insurance industry to grow in Sri Lanka.

5. 3. 1) Recommendations for the future

Insurance companies must invest in information technology. Initially, this will lead to lower earnings, but will enable them to be more competitive on a long-term basis. By focusing on expanding in international markets, insurance companies may be able to quickly profit despite the large amounts of money that will be spent on advancements in information technology.

The insurance industry will continue to have heavy competition and insurance policies will continue to be in demand. The uncertainty lies in who will provide insurance services. With the current debate over financial service reform, there will be doubt as to whether the insurance companies will remain in the same capacity as they do today. being cautious with investing in some insurance companies, however, on the other hand, there will be great opportunities for other insurance companies. Prior to investing, considerations should be given to underwriter performance, international presence, and technological standing.

5. 4) Policy Implications

The state of the insurance market in Sri Lanka, in all the views, leaves much to be desired. Little progress has been made over the years since liberalization. The standards vary company-wise, but the "industry" as a whole has to maintain those standards without varying degrees to different insurers.

It's certain that most insurers are agreeing the fact that there's lack of discipline in the market. With the fierce competition that prevails in-order to secure insurance, especially of larger risks, insurers resort to unethical measures such as:

- Rebating of premiums – some times as much as 20%
- Payment of commission under the guise of administrative expenses
- Appointment of institutional agents
- Payment of own case agency commissions
- Provision of extended credit terms to direct clients
- Deliberate breaching of tariffs
- Provision of dual premium quotations – one figure to the broker & a lower figure directly to the client

Most of these devises contravene the Insurance Law and are anti-broker in nature. The tariff rates for the smaller risks where the client's voice is not important are rarely, if ever breached. Yet, these such as householders business and the like, provide insurers with some of the best results. When SLIC was the sole insurer the complaint was that it was a monopoly. We now have fifteen companies in the market with all doing substantial business being members of the IBSL. It's necessary to ensure that the monopoly has not turned in to a cartel.

Interests of the consumers are paramount and among such interest is not only "price" but even more importantly, "service" & "security" as well. Unfortunately, this is not so. Selling some clients insurance at rates not commensurate with the risk is not in the interest of the insuring public. Security has been jeopardized 'cause of the type of "cutthroat" competition that has among insurers.

In Sri Lanka we have been particularly fortunate that our insurance industry has not been subject to cyclical fluctuations typical of the insurance industries in most places else where, nor it has been subject to losses of a catastrophic nature which would have put the strength of the industry to the test. We cannot be complacent and believe that good fortune will be with us always. Hence, it's always advisable to run our business on correct lines fair to both the insurers and insured alike.

To the insuring public, the most important aspect is the claims aspect. In this important sphere, standards vary very much as between the companies, but, unfortunately, there are far too many causes for complaint among the insured than there should be. Brokers should get involved on behalf of the clients in the event of a claim, and in particular motor claims, where unnecessary delays and unfair deductions are being subject to. The regulatory authorities are responsible to lay down guidelines and time limits so that honest policyholders are not made to suffer unnecessarily.

The insurance industry cannot carry on to provide a service the country expects if the insurers, intermediaries and the insured are forced into watertight compartments. There needs to be a dialogue coupled with understanding, trust and confidence in each other for a stable and efficient industry. It's in everyone's interest and above all, that of the country that such an atmosphere is crated. Towards this end, I would urge the IBSL to establish a mechanism for a dialogue between insurer's, intermediaries and consumers so that problems that come up from time to time may be discussed with a view of seeking acceptable solutions.

The regulation of Insurance Industry Act No: 43 of 2000 provides for penalties in aspect of whole host of offences, but framing law is one thing whereas enforcement is altogether another matter. It is hoped that the IBSL will be vigilant and ensure that the prescribed laws are complied with by insurers, brokers and agents alike, with a view to maintaining a disciplined market place.

In conclusion, I would like to see, the insurance industry as not only a "level playing field" but also a "clean playing field", devoid of any debris that would prove retrograde in effect.

5. 5) Agenda for Further Research

In face of the challenges presented by the developed state of the incumbent Sri Lankan insurance providers, the new entrants must carefully think through their entry strategies and market positioning in order to wrest market shares from the monopoly players and expand the market. Rewards of success are likely to be sweet for the entrants with correct evaluation of the challenges and implementation of right strategies. At the same instance, the leading players cannot rest on their laurels and will have to spruce up their act, quickly sorting out loose ends to prepare themselves to face a new competitive millennium.

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www.airmic.com Association of Insurance and Risk Managers

www.lemonaid.net National Association of Bank and Insurance Customers

www.rims.org Risk and Insurance Management Society Inc

www.mib.com.India_Insurance Market

www.researchandmarkets.com

www.internationalinsurance.org

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www.ustr.gov

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APPENDIX 1

Competitors' Company Profiles

Sri Lanka Insurance
Corporation Ltd

Vision
To be the most preferred Financial Service Group in the Region.

Mission
To be a customer focused company that is most trusted and be constantly innovative in providing financial products and services that are best value to our customers whilst adding value to the shareholders and to be a good corporate citizen.

History
Sri Lanka Insurance was incorporated by a special Act of Parliament in 1961. In 1988, the insurance field was liberalised ending the virtual monopoly enjoyed by the corporation and consequently was subjected to operate in a competitive environment. In 1993 with the objective of providing greater autonomy to operate in this environment the corporation was converted to a fully Government owned limited liability corporate entity and subsequently sold to the "Distilleries-Spence Consortium" under the Government Privatisation Plan in April 2003.

Present
Sri Lanka Insurance is the largest and strongest composite insurance provider in Sri Lanka, with over Rs.32 billion in assets under management, over half a million policies in force and an average claims settlement of Rs.12 million a day. It is the first and only insurance company in the country to be assigned a prime AA- rating for Insurance Financial Strength from the global rating agency Fitch Rating London. With strong re-insurance arrangements, a highly experienced technical knowledge base and the widest network across the country, the company has over 40 years experience in fulfilling the insurance needs of the Sri Lankan people.

CEYLINCO INSURANCE COMPANY LIMITED

Mission
To provide protection and financial security of the highest quality to society, whilst adding to share holders wealth and recognizing, rewarding and valuing the dignity of our staff.

Corporate Goals

- To provide an attractive return on investment to shareholders, whilst retaining adequate funds for growth and to achieve a high degree of stability which enable us to hold true to our mission in all business conditions.

- To be a leading provider of protection and financial security in Sri Lanka and selected international markets.

- To develop highly satisfied and motivated employees at all levels, who will contribute effectively and efficiently, towards the achievement of overall objectives of the company.

- To contribute to the economic development of Sri Lanka and enhance the quality of life of its people.

History
The General Division of Ceylinco Insurance commenced in 1988, and it has been the market leader since 1994. The division's unique packaged policies provide total protection against almost every possible hazard.

The company was placed within the top four General Insurance Companies in Asia, competing with over 1,000 insurance companies and received this prestigious award at the fourth Asia Insurance Industry Awards Ceremony 2000, held in the Philippines. The company was also internationally recognised as an industry leader in product innovation, both in 1999 and 2001.

By developing an entire range of packaged products over the years and by providing risk management services, the company has been able to assist its clients in solving all their insurance needs. The General Division now has 65 branches island wide and also possesses mobile sales units, taking insurance to the doorstep of rural dwellers.

Present
The company in year 2004 surpassed other insurance giants to emerge as market leader. This is indeed a remarkable achievement considering the many restrictive factors. Ceylinco Insurance has reached this mark in record time dislodging insurance giants SLIC who were protected by state ownership. Our total market share now stands at 50.1% with 26% in non-motor and 39.5% in motor insurance policies. The stride towards market leadership has been achieved through a long-drawn plan by Ceylinco Insurance to be the most innovative customer-friendly, socially responsible insurance company in the country.

During the year under review the company recorded a premium income of Rs. 2.27 billion for non-motor policies with a growth of 26.9%. Motor insurance policies recorded a premium income of Rs. 3.31 billion, a growth of 71.5% aided by innovative and customer-oriented marketing approaches. Both categories together accounted for a total of Rs. 5.58 billion in premium income with a 50% growth.

Appendix 1…… Competitors' Company Profiles

NATIONAL INSURANCE CORPORATION LIMITED

JANASHAKTHI INSURANCE

Vision

To be the No.1 insurer in Sri Lanka with excellence in service standards.

Mission

To strive for excellence in:

- ❖ Service delivery to policyholders.
- ❖ The development of the company's human resources.
- ❖ Ensuring a fair return on capital to shareholders.
- ❖ Continuing to fulfil our social & corporate responsibilities.

History

In September 1995 Janashakthi General commenced operations as the first specialist General Insurance company in Sri Lanka. It has grown by over 30% each year, except in 2000 when the figure was 25%. By any standards this is an excellent performance.

In October 2000 the Boards of the two companies decided to merge and Janashakthi Life took over the assets and liabilities of Janashakthi General and formed one company - **Janashakthi Insurance Company Limited**. The merger has strengthened the company and enabled to achieve even greater success.

Early in 2001 Janashakthi Insurance Company successfully bid for 51% of the shares of National Insurance Corporation, a government privatization. Despite severe competition from other companies both local and foreign Janashakthi succeeded as the successful bidder. The two companies together share approximately 15% of the insurance market in Sri Lanka.

Present

The company's 10th year of operation registered a record turnover of Rs. 3.1 billion premium income, thus becoming the only insurer in Sri Lanka to surpass the Rs. 3 billion mark within the first 10 years of operations in Sri Lanka. The company also re-launched it's comprehensive motor insurance policy as Janaratha Full Option with an unprecedented package of benefits including onsite claim settlement with a dedicated 24 hr Call Centre.

Appendix 1...... Competitors' Company Profiles

UNION ASSURANCE

Vision
We will be always be acknowledged as the most efficient, secure and profitable insurer in Sri Lanka.

Mission
Protection and financial security through professionalism, service excellence and the strength of our resources, whiles safeguarding shareholders interest, providing our employees and field staff with a rewarding career and fulfilling obligations to the community.

History
Union Assurance is a composite insurer transacting both Life and General business including personal insurance, in operation since 1987. A Public Quoted Company, UAL entered the insurance arena at the time the private sector was permitted to set up in insurance, following the enactment of the Control of Insurance (Amendment) Act No. 42 of 1986. Committed to pursuing the highest standards of service and security, UAL is backed by the corporate might of blue chip companies John Keells and Carson Cumberbatch. The 15% stake of IFC (International finance Corporation) in UAL changed hands recently with Eagle Insurance purchasing the 15% of UAL Share holding held by IFC. The IFC stake was equally acquired by Eagle policyholders fund, Eagle general fund and Eagle shareholder fund. This is further testimony to the strength and stability of UAL.

Present
Union Assurance is well placed to provide a caring and efficient service to its clientele, which include many of the largest trading and industrial organisations in Sri Lanka as well as individuals from all walks of life, through an extensive network of **44 branches islandwide**, strategically located throughout the country. It was, in fact, the first insurer to open a branch office in Jaffna.

UAL's re-insurers are world leaders, chosen for their dependability and total security. In short, they are the best in the business. The company's Paid Up Capital as at 31 December 2003 is Rs 250 million and Net Asset base, Rs. 821 million, also indicators of its financial stability and strength, which place it firmly at the apex of private insurance service providers in Sri Lanka.

EAGLE INSURANCE

Come under our wing

Vision

To be a world class provider of financial solutions for protection and wealth creation.

Mission

To be the most sought after Insurer and Fund Manager in Sri Lanka for Security, Return Optimization and Excellence in Service, Achieving Leadership in identified segments of the market.

History

Eagle Insurance Company Limited began operations in Sri Lanka in 1988 as CTC Eagle Insurance Company with Ceylon Tobacco Company (a member of B A T Industries, UK) as the Company's main shareholder.

Following a global strategy in 1999, B A T Industries divested its financial services businesses to Zurich Financial Services Group based in Switzerland. Eagle thus became part of the global conglomerate Zurich Financial Services, with a local partner – Sri Lanka's development banking giant the National Development Bank (NDB).

In 2003, National Development Bank through its 75.6% holding in its subsidiary, Capital Development and Investment Company Limited, acquired 100% of NBD Finance Lanka Limited, the holding company (87.27%) of Eagle Insurance Co. Ltd. The Bank of Ceylon has 23.92% holding in Capital Development and Investment Company Limited.

Present

The proud wings of the Eagle have symbolised an unwavering and strong commitment towards customer service excellence in Sri Lanka. As a composite Insurer and Fund Manager, the Company offers a wide portfolio of Life, Non Life, Fund Management and Mutual Fund/Unit Trust solutions for individual and corporate customers.

The Company has earned a commendable reputation for its prudent, professional management, and has demonstrated a high level of social responsibility and good governance in all its endeavours.

Appendix 1...... Competitors' Company Profiles

APPENDIX - 2

Summary of each competitor's products

Sri Lanka Insurance Corporation Limited

Is the leading insurance provider in Sri Lanka with the largest branch network island-wide. None of the other players in the market has been able to create a serious threat to SLIC, because it's reliability & involvement with the government.

Product offerings: Range of products under major five categories - Motor, Fire, Engineering, Marine, Miscellaneous

Most attractive product: FORMULA PLUS MOTOR POLICY

Customer service: The Motor Insurance Department provides its clients with the best services in the country. For those interested in a Standard Policy, seven possibilities are available; others, who would prefer a more tailor-made cover according to their needs, have the choice between a Comprehensive and a Third party cover. The Motor Insurance Department has branched off into unrelated areas such as Theft only, Fire Only, Fire and Theft, 3rd Party Fire and Theft and Act only; once again, offering covers aimed at satisfying their clientele to a maximum.

NOTE: I had several visits to the SLIC head office in-order to get information such as the no. of branches, annual reports, staff capacity, promotional strategies etc. But.... It's very sad to say they refused to give any of those information which I needed claiming those can be obtained by competitors. I had no trouble in getting all what I want form all the private sector companies & as far as everyone agrees, this is the major difference between private sector and government sector.

Ceylinco Insurance Company Limited

Product offerings: Family Guardian, Children's Health Policy, Mapiya Thilina, "A+" International Student's Insurance, Travel Classic Insurance, New householders Insurance, Suwa Sampatha International, New Traders Combined Insurance, Lips Insurance, Suwa Sampatha, Title Insurance, Ceylinco Dheewara Udana, Crop And Livestock Insurance, CHP Plus, Ceylinco Doo Daruwo Rakshanaya, Ceylinco Office 2000, Ceylinco Leasing Cover, Ceylinco Support Line, Ceylinco Niroga

Most attractive product: CEYLINCO VIP ON-THE-SPOT MOTOR POLICY

Since 1994, Ceylinco Insurance has been the market leader amongst the private sector insurance companies in Sri Lanka offering a unique range of products to diverse customer segments. It was the first insurance company to introduce packaged policies to the market, which provide total protection against almost every possible hazard that could occur. While offering life insurance covers for critical illness, accidents, hospitalisation and old age; it was also the first to introduce minors' policies and accidental cover for minors.

Distribution network & employees:
CIC – is operating with 115 general branches & 95 life branches (Excluding over-seas offices in Nepal, Bangladesh, Maldive Islands and Mauritius) & total of 2217 employees island-wide.

Appendix 2 .....Summary of each competitor's products

Janashakthi Insurance Company Limited
+
National Insurance Corporation Limited.

Product offerings:
Range of products under major five categories - Motor, Fire, Engineering, Marine, Miscellaneous

Most attractive product: JANARATHA FULL OPTION MOTOR POLICY

Uniqueness:

- The only insurance company in Sri Lanka to register a record turnover of Rs. 3.1 billion premium income within the first 10 years of operation.
- Janashakthi has a unique history in claim settlements which demonstrates the financial stability of the company. In fact, we have paid the highest amount in claims consequent to December 26, 2004 Tsunami catastrophe.
- Island-wide onsite motor claim settlement with a 24 hr Call Centre.
- The only insurer to include insurance for death or injury resulting from terrorism under it's accident insurance.
- The only insurance company to buy a state owned insurance company in Sri Lanka.
- The only insurer that provides world-wide cover on it's health policies.

Distribution network & employees:
Through a network of over 80 branches spread across the entire country, the company locates it's services and operations close to the customer, offering a high degree of convenience. Workforce consist of 1225 staff members & over 750 field officers.

Customer service: Customers can pay their insurance premia via SMS service and they too can receive their renewal notices via mobile phones. Janashakthi " Virtual customer service centre" on the web, makes the interaction between customer & the company much easier and even claim intimations can be made online.

Appendix 2 .....Summary of each competitor's products

Union Assurance Limited

Product Offerings:
Range of products under major five categories - Motor, Fire, Engineering, Marine, Miscellaneous

Most attractive product: UNION MOTOR STAR POLICY

Distribution network & employees:
There are 44 branches in operation island-wide along with 537 staff employees and over 1500 as field sales force.

Customer service:
UAL branches are linked to a centralised computer system in the head office in Colombo, which enables all branches to provide a complete insurance service to customers, without the necessity of a visit to Colombo. These IT initiatives support the company's commitment to operate efficiently and cost-effectively, which gives it the edge in terms of speed and efficiency. The Union Assurance Centre in Colombo, built and owned by UAL, is also equipped with all modern facilities and designed as a 'one stop' insurance centre, at which UAL's customers could transact all their insurance business. A significant milestone in UAL's progress and expansion was the opening of the Union Assurance Centre at Kurunegala in March 2003. The Centre is the largest and most modern building in Kurunegala, with a training facility that caters to UAL branches in the region.

Eagle Insurance Company Limited

Product offerings:
Non-life solutions are offered in the areas of property, marine, motor, personal accident and health insurance.

Most attractive product: CAR PROTECT MOTOR POLICY

Distribution network & employees:
Eagle has 25 branches island-wide to capture insurance business. 449 employees under permanent work force & over 600 as the sales force works on a commission basis.

Customer service:
Eagle has put in place a comprehensive framework networking head office and branches to inform the company of any customer complaints appreciations as it is made. This real time system enables the management to take speedy action where necessary. Eagle also conducts internal & eternal studies to measure customer satisfaction levels, to enable the company to continually on service standards.

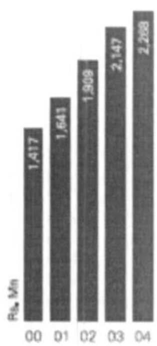
Appendix 2 .....Summary of each competitor's products

APPENDIX 3 - Union Assurance Limited

Financial Highlights

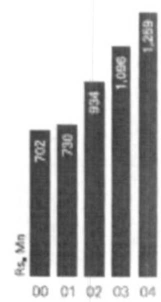
		2004	2003	Change %
Total revenue	Rs. mn	2,268	2,147	6
Profit after tax before tsunami related expenses and surplus from life insurance	Rs. mn	127	99	28
Surplus from life insurance	Rs. mn	-	33	(100)
Profit / (loss) after tax including tsunami related expenses and surplus from life insurance	Rs. mn	(60)	132	(145)
Earnings / (losses) per share	Rs.	(2.40)	5.30	(145)
Net assets per share	Rs.	28.44	32.84	(13)
Return on equity	%	(8)	16	(152)

Consolidated Revenues

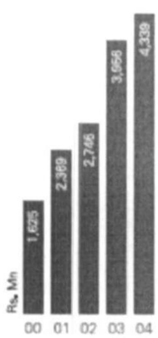


Gross Written Premium - General Insurance

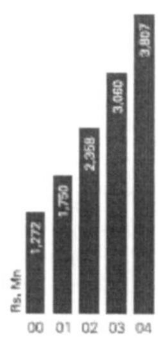
Gross Written Premium - Life Insurance



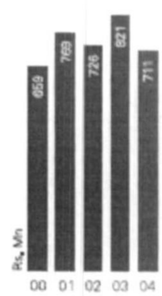
Investments



Life Fund



Net Assets



Appendix 3…… UAL

Human Resources

Staff Strength

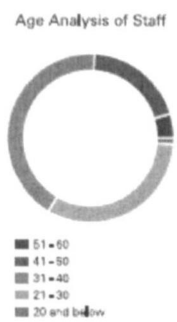
As at December 31	2004	2003	2002	2001	2000
Executive committee	9	8	8	8	6
Assistant general managers	7	8	10	6	9
Senior managers	17	16	11	9	7
Managers	138	131	145	139	125
Executives	189	194	204	218	198
Non - executives	177	190	193	206	220
Total	537	547	571	586	565

Age Analysis of Staff

Age group (Years)	Executive committee	Asst. general managers	Senior managers	Managers	Executives	Non executives	2004 Total
51 - 60	4	-	5	6	3	8	26
41 - 50	3	5	5	33	33	24	103
31 - 40	2	2	7	79	78	61	229
21 - 30	-	-	-	20	74	79	173
20 and below	-	-	-	-	1	5	6
	9	7	17	138	189	177	537

Service Analysis of Staff

Age group (Years)	Executive committee	Asst. general managers	Senior managers	Managers	Executives	Non executives	2004 Total
16 - 20	-	5	2	35	31	34	107
11 - 15	-	1	5	20	24	18	68
6 - 10	3	-	4	27	38	47	119
5 and below	6	1	6	56	96	78	243
	9	7	17	138	189	177	537



Appendix 3…… UAL

Ten Year Summary

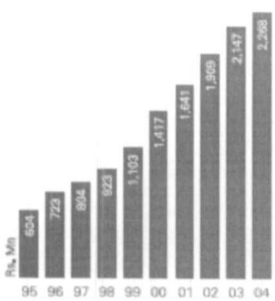
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Consolidated Statement of Income										
Revenues	2,267,840	2,147,140	1,909,352	1,640,549	1,416,940	1,103,034	922,708	803,685	723,352	604,411
Net earned premium	1,802,453	1,685,400	1,517,401	1,310,381	1,190,934	950,243	823,060	705,062	634,124	537,442
Insurance claims and benefits (net)	(1,476,966)	(1,264,716)	(1,223,693)	(923,836)	(778,266)	(548,028)	(447,654)	(357,081)	(325,797)	(260,382)
Underwriting and net acquisition costs (including reinsurance)	(229,445)	(167,212)	(143,580)	(87,667)	(60,865)	(40,406)	(43,300)	(33,414)	(27,197)	(22,346)
Net premiums less benefits, losses and expenses	96,042	253,472	150,128	298,878	351,803	361,809	332,106	314,567	281,130	254,714
Investment and other income	465,387	461,740	391,951	330,168	226,006	152,791	99,648	98,623	89,228	66,969
Expenses	(611,427)	(581,362)	(501,778)	(449,643)	(430,668)	(411,202)	(335,451)	(342,839)	(306,590)	(262,088)
Profit before taxation	(49,998)	133,850	40,301	179,403	147,141	103,398	96,303	70,351	63,768	59,595
Taxation	(10,049)	(1,403)	(1,723)	-	-	-	-	-	-	-
Profit after taxation	(60,047)	132,447	38,578	179,403	147,141	103,398	96,303	70,351	63,768	59,595
General Insurance Revenue Accounts										
Gross written premium	1,302,894	1,264,961	1,218,997	1,132,730	1,018,085	967,153	888,998	853,378	789,989	693,153
Net earned premium	594,410	625,299	635,229	615,523	532,342	443,869	413,735	386,958	380,793	341,730
Net claims incurred	(446,560)	(315,916)	(476,365)	(362,835)	(279,844)	(228,240)	(223,671)	(200,228)	(195,537)	(162,875)
Net commissions	9,466	11,247	(2,398)	28,655	40,424	53,097	31,196	33,655	30,565	13,244
Expenses	(320,877)	(307,616)	(278,046)	(251,246)	(252,353)	(232,717)	(203,017)	(222,330)	(214,111)	(173,190)
Underwriting profit / (loss)	(163,561)	13,014	(121,580)	30,097	40,569	36,009	18,243	(1,945)	1,710	18,909
Life Insurance Revenue Accounts										
Gross written premium	1,259,309	1,096,149	934,147	730,417	701,960	529,487	419,172	329,212	261,358	200,221
Net written premium	1,209,534	1,061,381	883,442	696,342	659,845	508,646	412,431	321,020	255,868	196,141
Investment and other income	360,375	383,951	262,467	212,448	107,413	74,018	47,540	49,002	39,448	23,019
Increase in life fund	(747,220)	(701,686)	(607,532)	(478,158)	(415,066)	(278,416)	(151,164)	(74,888)	(75,672)	(57,617)
Net benefits payable	(283,186)	(247,114)	(139,796)	(82,843)	(95,541)	(96,840)	(72,819)	(81,965)	(54,588)	(39,890)
Net commissions	(238,911)	(178,459)	(141,182)	(116,322)	(101,289)	(93,503)	(74,496)	(67,069)	(57,762)	(35,590)
Expenses	(300,592)	(285,073)	(236,399)	(211,467)	(191,401)	(190,773)	(149,116)	(136,897)	(103,316)	(96,170)
Transfer from shareholders	-	-	-	-	36,039	76,868	7,124	5,797	8,522	16,407
Surplus from life insurance fund	-	33,000	21,000	20,000	-	-	19,500	15,000	12,500	6,300
Consolidated balance sheet										
Assets										
Investments	4,339,425	3,956,483	2,745,597	2,369,223	1,625,288	1,247,668	1,032,360	764,871	580,430	543,814
Intangible assets	55,000	60,500	66,000	71,500	77,000	82,500	88,000	93,500	99,000	104,500
Property plant and equipment	277,482	304,351	324,955	333,356	316,408	214,914	212,959	235,605	230,915	202,930
Other assets and receivables	[illegible]	[illegible]	[illegible]	1,196,485	747,583	753,798	540,488	294,985	454,624	309,611
Cash and cash equivalents	[illegible]	[illegible]	342,147	250,457	185,848	123,083	88,202	66,260	39,578	37,247
Total assets	8,093,907	6,071,017	4,861,015	4,221,021	2,952,127	2,421,963	1,962,009	1,455,221	1,404,547	1,198,102
Liabilities and shareholders' equity										
Liabilities										
Insurance provision - life	3,806,826	3,059,606	2,357,920	1,750,388	1,272,230	857,164	578,748	427,584	352,696	277,024
Unclaimed benefits - life	96,006	71,122	45,594	47,718	28,951	28,946	18,660	6,368	5,282	4,398
Insurance provision - general	2,858,459	1,137,266	1,178,179	1,037,270	615,219	655,031	447,940	303,606	429,324	291,011
Other liabilities and creditors	621,666	982,026	553,272	617,079	376,564	296,615	330,385	194,948	138,805	194,922
Total liabilities	7,382,957	5,250,020	4,134,965	3,452,455	2,292,964	1,837,756	1,375,733	932,506	926,107	767,355
Shareholders' equity										
Share capital	250,000	250,000	250,000	200,000	200,000	200,000	133,333	133,333	133,333	133,333
Share premium	16,667	16,667	16,667	66,667	66,667	66,667	133,333	133,333	133,333	133,333
Revenue reserves	444,283	554,330	459,383	501,899	392,496	317,540	319,610	256,049	211,774	164,081
Total shareholders' equity	710,950	820,997	726,050	768,566	659,163	584,207	586,276	522,715	478,440	430,747
Total liabilities and shareholders' equity	8,093,907	6,071,017	4,861,015	4,221,021	2,952,127	2,421,963	1,962,009	1,455,221	1,404,547	1,198,102
Investor information										
Return on net assets (%)	(8.45)	16.13	5.31	23.34	22.32	17.70	16.43	13.46	13.33	13.84
Earnings / (losses) per share (Rs.)	(2.40)	5.30	1.54	7.18*	5.89*	4.14*	3.85*	2.81*	2.55*	2.38*
Dividend per share (Rs.)	-	2.00	1.50	2.80*	2.40*	2.00*	1.33*	1.07*	0.67*	0.67*
Net assets per share (Rs.)	28.44	32.84	29.04	30.74*	26.37*	23.37*	23.45*	20.91*	19.14*	17.23*
Market price per share (Rs.)	45.00	45.00	30.00	30.00	30.00	30.00	29.00	42.00	40.00	49.00
Market capitalisation (Rs. Mn.)	1,125	1,125	750	600	600	600	387	560	533	653
Price earnings ratio (times)	N/A	8.49	19.44	4.18	5.10	7.25	7.53	14.93	15.68	20.56
Other information										
Number of employees	537	547	571	586	565	512	500	517	495	475

** Diluted for subsequent bonus issues*

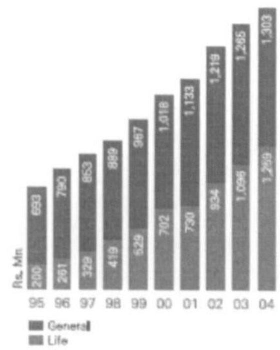
Appendix 3…… UAL

Ten Year Graphical Review

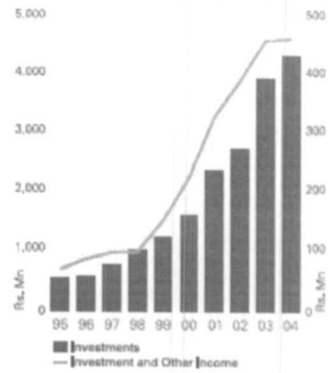
Consolidated Revenues



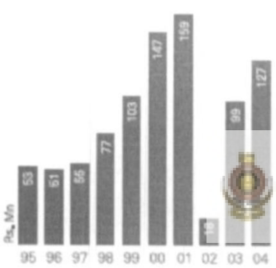
Gross Written Premium
- General and Life



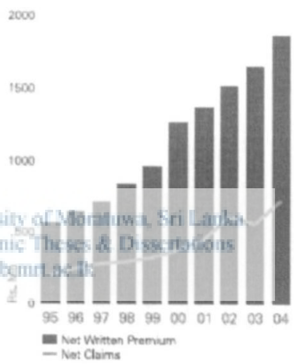
Consolidated Investments and
Investment and Other Income



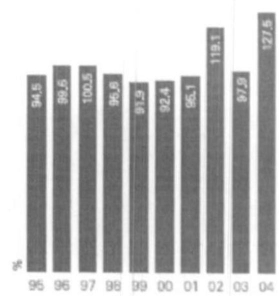
Profit After Tax Before Tsunami
related expenses and Surplus
from Life Insurance



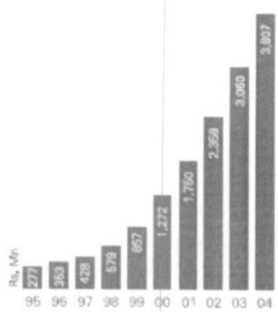
Life and General Net Written
Premium and Net Claims



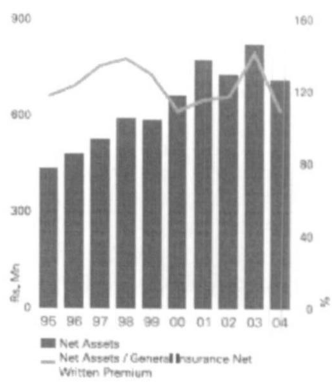
General Insurance Combined Ratio



Life Fund



Net Assets / General Insurance
Net Written Premium



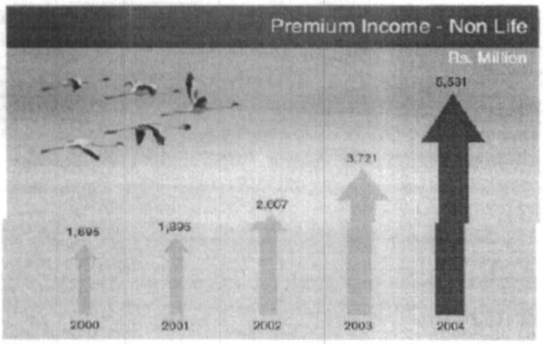
Appendix 3...... UAL

Union Assurance Branch Network

Appendix 3…… UAL

APPENDIX 4 - Ceylinco Insurance Company Limited

Review of Chief Executive Director (General)



During the year under review the company recorded a premium income of Rs.2.27 billion for non-motor policies with a growth of 26.7%. Motor insurance policies recorded a premium income of Rs.3.31 billion, growing by 71.5% through innovative and customer-oriented marketing approaches. Both categories together accounted for a total of Rs.5.58 billion in premium income with a 50% growth.

Innovation and Customer Orientation

Our emergence as market leader has been constantly attributed to innovation and customer-orientation. This has been proved in recent years by our trendsetting product innovation of VIP "One the Spot" that earned us regional recognition at the Asia Insurance Industry Awards last year. While the industry has followed suit Ceylinco has been raising its bar. This year we further improved our VIP brand with several new value added services. Lady drivers now have the option of receiving road side assistance in emergencies even without an accident. The range of benefits also extends to plastic surgery in cases of accidents.

The company also strengthened its service delivery with the establishment of a new VIP centre in its newly acquired building at Nawam Mawatha. This centre has been designed to handle all VIP related services from applying for an insurance policy to on the spot claim settlement. A 24 hour call centre operation now offers our policyholders a comprehensive service and much quicker response times.

Learning from the Tsunami disaster, we were able to take our innovativeness even further. Ceylinco Insurance became the first insurance company in Sri Lanka to launch a comprehensive natural disaster cover within a month of the disaster. Policyholders can now protect themselves against Tsunamis, tidal waves, earthquakes, volcanic eruptions, floods, cyclones, storms and tempests, earth slips, land slides, hurricanes and tornados.

Going Forward

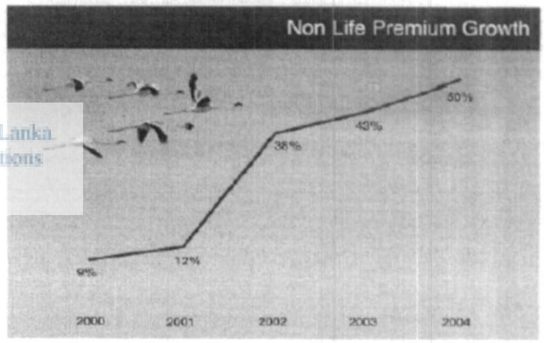
The momentum gained thus far and the new status as the leading insurer in the country makes us more confident and stronger in our quest to establishing Ceylinco as an icon for insurance in the region. Our overseas operations together with our partners in Bangladesh, Nepal, Mauritius and Maldives have continued to perform well. Encouraged by the progress we continue to improve our services in these countries.

Economic Outlook

As at the end of third quarter of 2004, the Central Bank forecasted a growth rate between 5% and 5.5% for 2004 consistent with the expected economic performance for the same period.

The services sector that had continuously recorded over 6% quarterly growth during the last two years grew by 7.5%, contributing the most to the overall economic growth. Specifically, the insurance, real estate and other financial services sub sector grew at 12.8%.

Although having considered the economic outlook as at the third-quarter of 2004, we would have to be mindful of the post-Tsunami effect on the economy that is yet to be detailed. The disaster that affected the performance of the insurance sector together with general elements such as



inflation, regional disparities, government debt and vulnerability of certain economic sectors such as agriculture and power that emerged during the year; is certain to cause an adverse impact on the economic outlook for 2005.

Industry Outlook

The year 2004 is also of importance to the Sri Lankan insurance industry. The Tsunami tragedy was an eye-opener to the general public. Many discovered the perils of having under-insured their belongings thinking of the 'rainy-day' that never comes. This realisation has sent a strong message to the public.

As a leading insurance company that has responded to help these people at a time like this, we have only words of wisdom for the future. "Never wait without insurance, and re-assess the true value of your assets".

Appendix 4 …… CIC

Ten Year Summary

	1995 Rs.'000	1996 Rs.'000	1997 Rs.'000	1998 Rs '000
GENERAL INSURANCE				
Gross Written Premium	910,726	1,063,390	1,202,248	1,333,048
Net Written Premium	541,098	637,160	738,089	802,061
Net Earned Premium	458,704	583,086	675,700	756,367
Net Claims & Benefit Payable	162,929	257,409	305,171	372,337
Underwriting Surplus	294,197	322,876	378,029	409,861
Investment & Other Income	48,982	57,891	62,732	67,364
Net Profit for the year	51,344	53,044	63,881	72,369
Investments	405,910	471,845	595,467	564,590
Property, Plant & Equipment	223,200	240,403	238,842	307,587
Total Assets	994,305	1,395,912	1,455,629	1,291,064
Non-Life Insurance Provisions	258,680	309,568	428,438	452,509
LIFE INSURANCE				
Gross Written Premium	693,772	817,428	940,002	1,033,865
Net Written Premium	653,484	768,478	883,222	978,565
Net Benefits Expenses	103,328	102,426	109,806	156,076
Investment & Other Income	92,740	135,520	212,320	216,711
Increase Long Term Insurance Funds	243,620	365,633	529,468	523,810
Surplus from Long Term Insurance Business	-	-	5,000	7,500
Investments	625,064	916,982	1,464,592	1,880,472
Property, Plant & Equipment	77,717	130,357	129,045	200,882
Long Term Insurance Funds	666,078	1,031,711	1,561,179	2,084,980
SHAREHOLDERS' FUNDS				
Share Capital	84,000	84,000	84,000	84,000
Capital Reserves	107,505	107,505	113,672	113,672
Retained Earnings	144,379	164,670	184,441	200,096
Policyholders' Benefit Reserve		-	-	-
Tsunami Relief Reserve				
General Reserves			50,000	90,000
Net Assets (Shareholders' Equity)	336,737	376,175	432,113	487,768
INFORMATION PER ORDINARY SHARE				
Earnings (Rs.)	6.11	6.31	7.60	8.62
Dividends (Rs.)	1.50	1.50	1.70	2.00
Net Assets (Rs.)	39.97	44.78	51.44	58.07
Market Value (Rs.)	27.00	20.25	19.50	18.00
RATIOS				
Gross Premium Income Growth (%) - General	33.56	16.76	13.06	10.88
Gross Premium Income Growth (%) - Life	48.43	17.82	15.00	9.99
Net Profit Margin (%)	5.64	4.99	5.31	5.43
Return on Total Assets (%)	5.16	3.80	4.39	5.61
Return on Shareholders' Funds (%)	15.29	14.10	14.70	14.84
Property, Plant & Equipment to Shareholders' Funds (%)	66.48	63.91	51.84	63.06
Rate of Dividends (%)	15.00	15.00	17.00	20.00
Dividend Cover (Times)	4.07	4.21	4.47	4.31
Price Earning Ratio (Times)	4.42	3.21	2.56	2.09
Revenue Per Employee (Rs.'000)	999.69	1,195.69	1,272.12	1,263.03
Net Profit Per Employee (Rs.'000)	31.99	33.72	37.93	38.62
OTHER INFORMATION				
Number of Employees	1,605	1,573	1,684	1,874
Number of General Branches	53	53	53	53
Number of Life Branches	46	62	65	68

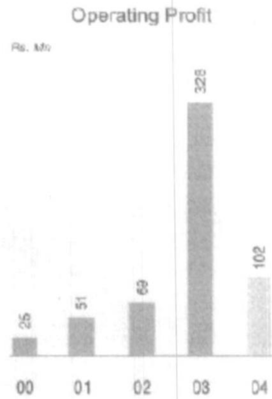
Appendix 4 …… CIC

	1999 Rs.'000	2000 Rs.'000	2001 Rs.'000	2002 Rs.'000	2003 Rs.'000	2004 Rs.'000
	1,555,594	1,695,047	1,895,165	2,607,342	3,721,207	5,580,641
	905,764	1,050,416	1,349,841	1,805,661	2,806,972	4,563,623
	846,579	1,002,861	1,182,870	1,454,608	2,286,423	3,656,663
	440,884	519,441	512,379	764,014	1,312,831	2,173,189
	463,581	509,838	668,430	633,206	903,031	1,242,032
	79,045	82,635	100,732	157,094	116,105	206,861
	80,559	114,980	143,950	223,211	255,373	407,349
	698,959	734,182	913,402	969,532	1,384,797	1,914,842
	331,659	343,603	692,239	908,591	949,657	1,107,157
	1,531,411	1,724,438	2,431,982	2,891,218	3,544,684	6,749,102
	491,065	547,918	678,418	1,007,771	1,598,980	4,374,778
	1,246,142	1,661,068	2,157,266	2,359,672	3,042,654	3,961,390
	1,206,015	1,608,873	2,091,907	2,291,684	2,957,424	3,851,669
	240,405	294,150	378,771	439,522	866,841	1,550,546
	265,626	386,052	598,120	842,356	1,099,984	845,894
	628,854	1,017,672	1,482,879	1,656,771	1,804,375	1,369,252
	12,000	20,000	30,000	120,000	105,041	151,602
	2,372,556	3,312,889	4,483,127	7,531,463	7,782,234	8,982,385
	235,305	230,148	531,661	770,065	856,398	1,063,365
	2,713,843	3,731,515	5,214,394	6,871,165	8,675,540	10,044,792
	84,000	138,600	138,600	166,320	166,320	199,584
	113,672	122,072	122,072	94,352	94,352	80,672
	213,998	260,025	226,255	249,466	271,575	657,237
	-	-	-	-	50,000	38,423
					-	550,000
	140,000	240,000	390,000	590,000	740,000	170,416
	551,670	760,697	876,927	1,100,138	1,322,247	1,698,332
	9.59	8.30	8.66	13.42	12.80	20.41
	2.00	2.00	2.00	2.00	2.00	2.00
	65.67	54.88	63.27	66.14	66.25	84.99
	29.00	17.00	26.00	33.25	35.50	40.00
	16.69	8.96	11.81	37.58	42.72	49.97
	20.53	33.30	29.87	9.38	28.94	30.20
	5.18	6.78	7.60	8.56	6.86	7.30
	5.26	6.67	5.92	7.72	7.20	6.04
	14.60	15.11	16.41	20.29	19.31	24.01
	60.12	45.17	78.94	82.59	71.82	65.27
	20.00	20.00	20.00	20.00	20.00	20.00
	4.80	4.15	5.19	6.71	7.67	10.20
	3.02	2.05	2.50	2.48	2.77	1.96
	1,416.45	1,788.02	1,965.30	2,160.51	3,240.95	4,304.03
	40.73	61.26	69.81	97.09	122.36	183.74
	1,978	1,877	2,062	2,299	2,087	2,217
	55	59	60	62	98	115
	66	66	70	77	84	116

Appendix 4 …… CIC

APPENDIX 5 - Janashakthi Insurance Company Limited

The Group recorded an operating profit of Rs. 102 Mn as against an operating profit of Rs. 327.8 Mn in the previous year. It incurred a Net Loss after tax of Rs. 114.7 Mn in comparison with the Net Profit after tax of Rs. 178 Mn recorded last year.

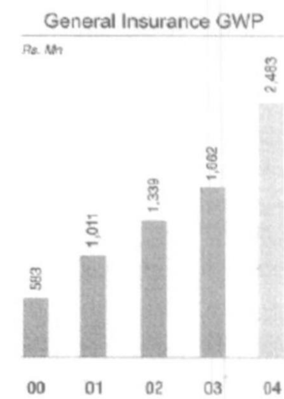


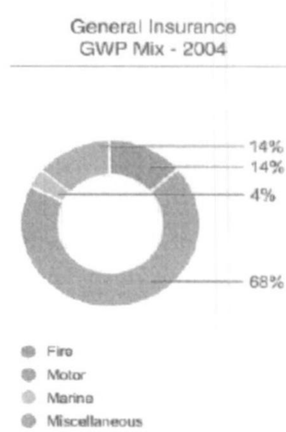
Beyond the black and white of hard facts, Janashakthi felt a great sense of empathy with the people who bore the brunt of the devastation, in terms of lives, livelihoods and property. *The fact that we were able to stretch our hand out to them in their time of need, outside the normal policy conditions, has left us all with a great deal of happiness and satisfaction, that as an insurer, we have gone beyond the call of duty.* Every single insured (there were over 500 who suffered but had inadequate cover) was compensated in one way or another. Fully aware of the negative impact on our bottom line, the Company nevertheless took a considered decision to pay over Rs. 50 Mn in ex-gratia claims. Our own confidence in our resilience and ability to recover from these payments and consequent losses within a short period, led us to reassure our shareholders that we have done the right thing in the long run, keeping not only our own interests, but the larger national interest, also at heart.

General Insurance

Janashakthi's General Insurance business, achieved excellent results during the year with a 50% gain in Gross Written Premium (GWP) reaching Rs. 2.48 Bn. The strong and sustained performance in the Company's general business is a direct result of its broad array of innovative and flexible insurance solutions, financial strength, superior service and responsive claims handling.

Our "Full Option" motor policy has been a resounding success and the Motor Insurance sector continues to be our core area of business registering a remarkable growth of 48% reaching Rs. 1.69 Bn in the year under review as against Rs. 1.14 Bn last year. The other sectors Fire, Marine and Miscellaneous all showed healthy growth rates during the year.





Appendix 5 …..JIC

Ten Year Summary

In Rs. '000	2004	2003	2002	2001	2000	1999	1998	1997	1996
General Insurance									
Gross Written Premium	2,483,181	1,661,697	1,339,129	1,010,754	582,665	472,190	350,212	204,071	209,152
Reinsurance	(498,413)	(323,696)	(232,033)	(225,963)	(146,815)	(131,337)	(118,607)	(91,828)	(85,389)
Change In Unearned									
Premium Reserves	(341,398)	(120,480)	(81,077)	(56,191)	(55,745)	(58,891)	(35,694)	(31,366)	(61,465)
Net Earned Premium	1,643,370	1,217,521	1,026,019	728,600	380,125	281,862	195,911	140,877	59,298
Net Acquisition Cost	(111,597)	(82,989)	(88,441)	(17,245)	(9,329)	11,104	22,018	22,768	1,811
Net Claims	(1,319,838)	(724,962)	(840,547)	(488,702)	(259,597)	(179,250)	(127,215)	(89,238)	(47,133)
Underwriting Profit/(Loss)	211,935	409,570	97,031	222,653	111,199	113,716	90,714	74,407	13,976
Investment Income and									
Other Income	419,286	266,990	305,569	184,881	54,695	23,721	12,714	6,944	6,898
Operating Expenses	(531,167)	(350,361)	(334,014)	(403,998)	(146,864)	(105,508)	(86,576)	(65,258)	(60,367)
Transfer from Life Fund	2,137	1,648	-	47,380	6,040	-	-	-	-
Profit from Operating Activities	102,191	327,847	68,586	50,916	24,970	32,129	16,850	15,093	(39,493)
Finance Cost	(185,481)	(149,605)	(119,785)	(68,651)	-	-	-	-	-
Profit/(Loss) before Taxation	(83,290)	178,242	(51,199)	(17,735)	24,970	32,129	16,850	15,093	(39,493)
Taxation	(31,814)	-	(51)	567	-	(3,692)	(4,500)	-	-
Profit/(Loss) after Taxation	(115,104)	178,242	(51,250)	(17,168)	24,970	28,437	12,350	15,093	(39,493)
Minority Interest	352	-	(23,785)	(76,661)	-	-	-	-	-
Net Profit/(Loss) for the year	(114,752)	178,242	(75,035)	(93,829)	24,970	28,437	12,350	15,093	(39,493)

Appendix 5 …..JIC

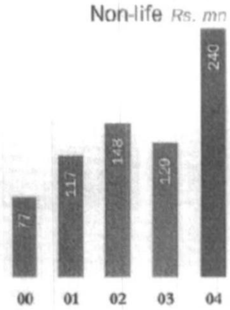
Janashakthi Insurance Limited - Branch Network

Appendix 5 .....JIC

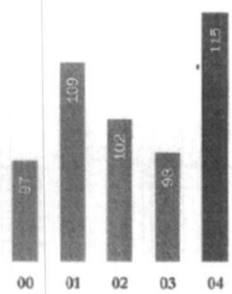
APPENDIX 6 - EAGLE INSURANCE COMPANY LIMITED

Business Review

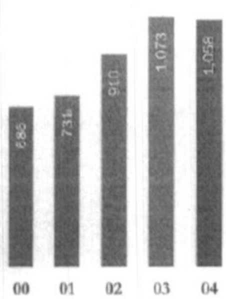
Investment Income and Other Income - Non-life Rs. mn



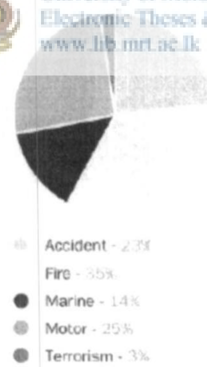
Non-life Combined Ratio %



Non-life GWP Rs. mn



Non-life GWP Mix 2004



Non-life Insurance Business

The Non-life Insurance business faced a year of multiple challenges which took a toll on overall operating results. GWP declined marginally from the previous year to Rs. 1,058 million. Net Earned Premium declined by 10% from the previous year to Rs. 404 million. Total revenue growth was contained due to an on-going rationalisation of the overall business portfolio and the strategic exit from non-core markets that have yielded losses or unfavourable claims experiences.

Net claims increased by 20% over that incurred in the previous year, with large claims being incurred particularly in the Maldivian market and on account of the Tsunami. Category-wise fire and health registered the largest growth in net claims whilst a decline was witnessed from the motor and marine sectors. Total claims liability arising on account of the recent Tsunami including provisions for ex-gratia payments have been charged in the financial statements. In comparison to the previous year, re-insurance commissions registered a decline. The Non-life division recorded an operating profit of Rs. 1.97 million for the year.

The negative claims experience is reflected in the Net Loss Ratio rising to 77% from 58% in 2003. The Expense Ratio decreased to 38% from 40% recorded in the previous year. The Net Combined Ratio increased to 115% from 98% as the Non-life business incurred an underwriting loss.

In the forthcoming year, several key initiatives will be undertaken to improve Non-life business returns. A focus on top line growth within selected market segments and a complementary drive to expand existing distribution channels will be undertaken. The Company has also secured new re-insurance treaties on more favourable terms. Furthermore, recent catastrophic events have created awareness and a need in the market place to obtain cover against natural disasters. Eagle Insurance will endeavour to add appropriate insurance covers to its existing product offerings.

Decade at a Glance

Statement of Income

(values are to the nearest rupees thousand)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Non-life										
Gross written premium	1,058,024	1,072,666	909,884	730,511	686,113	666,823	598,512	489,030	462,084	434,486
Net earned premium	404,482	449,357	338,869	317,073	289,883	234,016	188,639	158,826	147,967	143,785
Investment income and other income	240,162	129,242	148,052	117,052	76,585	49,076	43,676	59,182	42,867	17,365
Net claims	(312,811)	(261,756)	(189,128)	(151,554)	(139,089)	(126,265)	(84,718)	(65,461)	(59,188)	(58,245)
Reinsurance commission net of acquisition expenses	36,833	120,253	72,432	15,821	28,495	22,937	10,318	17,123	14,345	21,544
Operating & administrative expenses	(277,692)	(324,763)	(248,104)	(219,713)	(173,928)	(139,613)	(106,269)	(101,731)	(90,817)	(81,667)
Special Tsunami relief expenses	(89,000)		–	–	–	–	–			
Operating profit before restructure charges and intangible items	1,974	112,333	122,121	78,679	81,946	40,151	51,646	67,939	55,174	12,782
Long Term										
Annualized new business premium	783,197	735,713	662,032	571,585	500,814	441,835	444,876	370,520	318,856	396,789
Gross written premium	2,500,131	2,169,842	1,827,208	1,677,344	1,473,964	1,141,265	1,007,790	832,271	742,222	626,983
Net written premium	2,368,051	2,052,715	1,725,379	1,597,206	1,409,948	1,089,914	964,133	804,341	702,705	600,406
Investment income and other income	690,128	689,530	716,614	654,091	442,844	329,225	242,056	228,922	179,029	115,079
Net claims & benefits	(564,232)	(780,660)	(463,224)	(408,472)	(273,451)	(292,508)	(236,874)	(175,585)	(110,321)	(37,664)
Commission (net of reinsurance commission)	(321,321)	(274,511)	(226,570)	(193,368)	(179,217)	(145,526)	(140,821)	(114,837)	(103,410)	(105,927)
Increase in Long Term insurance fund	(1,372,545)	(924,921)	(1,035,241)	(1,001,129)	(882,505)	(537,525)	(465,502)	(456,352)	(417,789)	(301,981)
Operating & administrative expenses	(550,081)	(547,203)	(524,054)	(503,123)	(408,764)	(318,479)	(288,921)	(224,375)	(196,256)	(176,797)
Operating profit before restructure charges and intangible items	250,000	215,000	192,904	145,205	108,855	125,101	74,071	62,114	53,958	43,116
Total Business (Group)										
Gross written premium	3,558,155	3,242,508	2,737,092	2,407,855	2,160,077	1,808,088	1,606,302	1,321,301	1,204,306	1,061,465
Revenue	3,728,323	3,347,232	2,950,453	2,711,696	2,242,911	1,722,749	1,456,944	1,256,112	1,075,034	879,348
Net earned premium	2,772,533	2,502,072	2,064,248	1,914,279	1,699,831	1,323,930	1,152,772	963,167	850,672	744,191
Benefits, losses and expenses	(2,534,076)	(2,121,595)	(1,841,731)	(1,738,702)	(1,445,767)	(1,078,887)	(917,596)	(795,111)	(676,363)	(532,273)
Other revenue	955,790	845,160	886,205	797,417	543,080	398,819	304,172	292,945	224,362	135,157
Special tsunami relief expenses	(89,000)	–	–	–	–	–	–	–	–	–
Operating & administrative expenses	(838,152)	(883,779)	(785,185)	(739,959)	(601,076)	(491,653)	(429,441)	(347,616)	(293,867)	(260,742)
Operating profit before restructure charges and intangible items	267,095	341,858	323,537	233,035	196,068	152,209	109,907	113,385	104,804	86,333
Expenditure on restucture and intangible items	–	–	–	–	(12,916)	(63,363)	–	–	–	–
Finance costs	(3,886)	(23,446)	(53,901)	(35,523)	(18,034)	–	–	–	–	–
Profit before taxation	263,209	318,412	269,636	197,512	165,118	88,846	109,907	113,385	104,804	86,333
Income tax expenses	(9,545)	–	(183)	(206)	(239)	(172)	(124)	–	–	(175)
Profit after taxation	253,664	318,412	269,453	197,306	164,879	88,674	109,783	113,385	104,804	86,158
Minority interest	–	–	–	–	–	6,676	7,808	8,167	–	–
Net profit for the year	253,664	318,412	269,453	197,306	164,879	95,350	117,591	121,552	104,804	86,158

Appendix 6 ……EICL

Balance Sheet

(values are in the current rupees thousand)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Group										
Assets										
Investments	8,646,435	7,034,788	6,217,796	4,917,869	3,916,167	2,997,160	2,135,934	1,631,717	1,487,722	1,124,679
Property, plant and equipment	244,336	204,687	211,304	255,785	209,060	119,457	103,025	76,803	88,213	91,211
Other assets	2,983,017	2,397,225	1,576,405	1,418,273	1,128,671	1,021,278	1,137,577	992,206	576,076	458,144
Total assets	11,873,788	9,636,700	8,005,505	6,591,927	5,253,898	4,137,895	3,376,536	2,750,726	2,152,011	1,674,034
Equity and Liabilities										
Share capital	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	187,500	150,000
Special reserve fund	235,588	-	-	-	-	-	-	-	-	-
Resilience reserve	65,000	-	-	-	-	-	-	-	-	
General reserve	516,000	666,000	533,000	418,000	348,000	273,000	212,878	142,878	95,500	88,000
Retained earnings	60,302	117,226	6,814	12,361	5,055	5,176	129,948	132,357	110,853	86,050
Total capital and reserves	1,076,890	983,226	739,814	630,361	553,055	478,176	542,826	475,235	393,853	324,050
Minority interest	-	-	-	-	-	-	6,695	7,153	-	-
Liabilities										
Insurance provision - Long Term	7,985,381	6,612,836	5,687,915	4,652,674	3,651,545	2,769,040	2,231,515	1,766,013	1,309,661	891,872
Insurance provision - Non-life	1,512,900	1,171,089	461,676	400,006	301,689	278,288	170,409	161,235	147,384	142,113
Other liabilities	1,298,617	869,549	1,116,100	908,886	747,609	612,391	425,091	341,090	301,113	315,999
Total liabilities	10,796,898	8,653,474	7,265,691	5,961,566	4,700,843	3,659,719	2,827,015	2,268,338	1,758,158	1,349,984
Total equity and liabilities	11,873,788	9,636,700	8,005,505	6,591,927	5,253,898	4,137,895	3,376,536	2,750,726	2,152,011	1,674,034
Long Term - supplemental										
Assets										
Investments	7,502,053	5,871,267	5,114,610	4,135,508	3,377,726	2,563,415	1,707,550	1,303,574	1,145,340	853,155
Property, plant and equipment	-	-	-	-	-	-	172	979	2,784	5,353
Other assets	947,165	1,066,629	871,668	737,544	509,615	373,239	676,073	570,562	269,367	170,722
Total assets	8,449,218	6,937,896	5,986,278	4,873,052	3,887,341	2,936,654	2,383,795	1,875,115	1,417,491	1,029,230
Deferred investment gains reserve	-	-	-	-	-	-	-	856	-	-
Liabilities										
Insurance provision - Long Term	7,985,381	6,612,836	5,687,915	4,652,674	3,651,545	2,769,040	2,231,515	1,766,013	1,309,661	891,872
Other liabilities	463,837	325,060	298,363	220,378	235,796	167,614	152,280	108,246	107,830	137,358
Total liabilities	8,449,218	6,937,896	5,986,278	4,873,052	3,887,341	2,936,654	2,383,795	1,875,115	1,417,491	1,029,230

		2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Investor Information											
Return on net assets	(%)	24.44	32.38	36.45	31.33	29.86	18.58	20.25	23.86	26.61	26.64
Net assets per share	(Rs.)	53.84	49.16	36.99	31.52	27.65	23.91	27.14	23.76	19.69*	16.20*
Market price per share - 31st December	(Rs.)	110.00	120.00	62.50	43.00	34.00	36.00	35.00	50.00	42.75	54.00
Earnings per share	(Rs.)	12.68	15.92	13.47	9.87	8.24	4.77	5.88	6.08	5.24*	4.31*
Price earnings ratio	(times)	8.67	7.54	4.64	4.36	4.12	7.55	5.95	8.23	8.16	12.54
Market capitalisation	(Rs. Mn)	2,200	2,400	1,250	860	680	720	700	1,000	802	810
Dividend per share	(Rs.)	5.00	9.25	8.00	6.00	4.50	8.00	2.50	2.10	1.75*	1.36*
Employee Information											
Revenue per employee	(Rs. Mn)	8.30	7.68	6.88	6.61	5.07	3.61	3.30	3.30	2.99	2.54
Net profit per employee	(Rs. '000)	565	730	628	481	373	200	267	319	291	249
Number of employees	(Nos.)	449	436	429	410	442	477	441	381	360	346

Appendix 6 ……EICL

APPENDIX 7

Hayleys AIG transfers life insurance portfolio to SLIC

The Life Insurance portfolio of Hayleys AIG is to be transferred to the Sri Lanka Insurance Corporation (SLIC) subject to approval of the courts, the two companies announced today.

Hayleys AIG stopped writing new life policies on June 1, 2004. The current portfolio comprises of approximately 1,000 policies with gross written premium of Rs. 8,775,081 million. This does not affect the General Insurance operations which Hayleys AIG continues to grow.

"We chose SLIC because we believe it is best able to provide continuity of professional services to our clients, thus ensuring they remain in good hands," said Mike Blakeway, Chief Executive Officer of Hayleys AIG.

"The contract terms of their policies remain the same and their insurance protection is not affected. Moreover, with the passage of time, a large insurer like SLIC will be able to offer them new products or services that better serve their changing needs," he said.

Notwithstanding the transfer of its life insurance portfolio to SLIC, Mr. Blakeway stressed that, as a company, Hayleys AIG is committed to Sri Lanka. "We have decided to focus our attention on general insurance where we are now actively pursuing a strategy of expansion. We are one of the largest foreign-owned insurers still operating in the country, and have increased the capitalization of our general insurance business to fund growth and ensure the long-term strength of the company," he said.

Mr. Damien Fernando, CEO and Director of SLIC said: "We are confident that we can service the former AIG policyholders at a level which exceeds their expectations. Our new customers will be able to benefit from our extensive infrastructure and knowledge that has been developed over the last 40 years." Mr. Fernando went on to say "Sri Lanka Insurance Corporation manages the largest Life Assurance fund in Sri Lanka and is the only rated Insurer, AA- (sri), with over 85 branches Island wide and an extensive agent network. The Life fund currently valued at approximately Rs. 25bn allows SLIC to offer its existing and new policyholders unparalleled stability, exposure to new and innovative products and a level of service that cannot be afforded by its competitors, especially given Sri Lanka's current volatile political and economic climate."

The management would like to assure all existing SLIC policyholders that the transfer of the AIG portfolio will in no way affect their guaranteed benefits or future growth expectations.

Hayleys AIG (HAIG) is a partnership between Hayleys and AIG companies.

American International Group, Inc (AIG) is the world's leading international insurance and financial services organization, with operations in approximately 130 countries and jurisdictions. AIG member companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty insurance networks of any insurer. In the United States, AIG is the largest underwriter of commercial and industrial insurance. AIG's global business also include Life Insurance, financial services, retirement savings and asset management. AIG's financial service businesses include aircraft leasing, financial products, trading and market making. AIG's common stock is listed on the New York Stock Exchange, as well as the stock exchanges in London, Paris, Switzerland and Tokyo.

Hayleys Founded in 1878, is a quoted public company with a broad-based shareholding. It is a highly diversified conglomerate with businesses in Coir, Rubber, Environment, Agriculture, Plantations, Transportation, Inland Marketing, Textiles and Tourism.

Hayleys AIG combines the local knowledge and strong brand of Hayleys, with the International experience, capacity and product range of AIG companies to form a dynamic local company with a powerful international influence.

Sri Lanka Insurance is the largest and the strongest composite insurance provider in Sri Lanka, with over Rs.43.5 billion in assets under management, over half a million policies in force and an average claims settlement of Rs.18 million a day. It is the first and only insurance company in the country to be assigned a prime rating for insurance financial strength from a global rating agency. With strong re-insurance arrangements, a highly experienced technical knowledge base and the widest online network across the country, the company has over 40 years experience in fulfilling the insurance needs of the Sri Lankan people.

For further information, contact: Mike Blakeway on 2382266 or Damien Fernando on 2357721

SOURCE : DAILY MIRROR 24th OCTOBER 2005

APPENDIX 8 - QUESTIONNAIRE

1. Full company name:

2. Formerly known as/Doing business as:

3. Chief Executive Officer & his qualifications:

4. Mailing address:

5. Year of incorporation:

6. *2004 no. employees: *2004 no. Field staff: *2004 no. of branches:

7. Is the company listed in the Colombo Stock Exchange?

8. If the company is a subsidiary? / name of the parent company:

9. Do you host/build your own Web site?

10. Function of company Web site: (Company information / Customer service / E-commerce / No Web site)

11. Do you plan to spend more on internet operations this year?

12. What are company's major products offered under the non-life category?

13. Company's advertising expenditures: (from 2000 – 2004)

14. What percent of 2004 advertising went to the media:
(TV % Radio % Print % Internet % Outdoor % Other)

15. What is your company's NWP estimate for 2005?

16. What employee benefits does the company provide?

17. What are the staffing plans next year?

18. What is the number one barrier to sales growth?
(Lack of capital / Competition / Labor shortage / Market conditions / Other)

19. Does the company have:
*A business plan? *For how many years? *A financial plan?

20. Does your company expect an improvement in profitability in 2005?

21. As compared with 2004, do you expect the combined ratio will be higher or lower in 2005?

22. Will consolidation among insurers increase next year?

23. Do you expect a recovery in equity markets soon?

24. Any beliefs as to the peace process will peaked and the pace of claims will decline?

25. Do you expect capacity for malpractices will expand and coverage's become more available?

26. How would you characterise the current competition of the insurance sector?

27. What are the better cost control systems as an effective way to improve profits?

28. Does the stock market reversal during last year hurts profits?

29. What is the most important cause of rising premiums in the insurance industry?

30. What are best steps to improve underwriting?

31. In what area of the insurance industry does your firm primarily operate?

32. What are the biggest external problems faced by your company in doing non-life business?

33. What are the biggest internal problems faced by your company in doing non-life business?

34. Which areas of your business are most in need of improvement?

35. How does your company assess the following as ways to improve "bottom-line" profitability?

- Higher premiums
- Better cost control
- Better customer service
- Elimination of immeasurable risk
- coverage (e.g., terrorism coverage)
- Acquisitions
- Better underwriting
- Better asset management
- Developing new, non-insurance businesses
- Creating new types of policies/products
- Improved claims management
- More effective use of IT
- New distribution strategies
- Strategic alliances

Appendix 8 .....Questionnaire

36. How does your company assess the same factors mentioned above to promote "top-line" growth?

37. Have lower investment returns affected your company's profitability?

38. What is the most important cause of rising premiums in the insurance industry?

39. To what extent does selling of insurance policies (distribution) affect the profitability of your business?

40. What is your biggest challenge in selling? (distribution)

41. What are the areas your company intend to open branch offices within next six months?

42. How would you currently describe your company's internal control environment?

43. What area of risk is of most concern to you company?