



# Sri Lanka Insurance Report 2018

First half 2018

Issue 01

September 2018







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# Foreword

Sri Lanka's Insurance industry is well positioned for growth given the low penetration levels in both the life and general insurance segments. The segregation of the composite insurance companies as life and general businesses according to regulations passed in 2011 led to the consolidation of smaller players, which resulted in the creation of stronger insurance companies. The focus on each segment of insurance led to the development of differentiated strategies for growth, introduction of new products, and the use of technology for ease of business.

The introduction of Sri Lanka Financial Reporting Standards (SLFRS) 17 replacing SLFRS 4 on insurance contracts and the introduction of SLFRS 9 on financial instruments will increase transparency in financial reporting by the insurance companies and introduce a consistent accounting approach for all insurance contracts, which would indicate to shareholders when underwriting losses are covered by investment income and do not add any shareholder value.

International Financial Reporting Standards (IFRS 17) is expected to come into effect worldwide from January 2021 onwards. Local insurers are becoming increasingly aware of the changes that will be brought forward by the standard, be it relating to accounting, technology or administration.

Further, the introduction of the new tax law effective from 1 April 2018 through the Inland Revenue Act No. 24 of 2017 (IRA) amended the calculation of tax liability of insurance companies, specifically in the life insurance business.

With these significant developments on going within the industry, we expect insurers to further pursue strategies focused on reaching under-penetrated segments in the market. Development of new innovative products, expansion of branch network, use of technology, training and development of staff are key strategies we expect all insurers will follow in order to sustain and be competitive in the industry.

Today, Data Analytics has clearly entered the mainstream around the world; our discussions with multi national clients show the increasing interest in exploring this arena. Over the years a lot of data has been created; the task at hand is to make sense of all the accumulated data. The Internet of Things (IoT) is not a pipe dream anymore with the changing environment.

As Sri Lankan companies look at competing in this new and changed environment the team at KPMG are ready to engage in discussion with you.



Ranjani is the Deputy Head of Audit and counts over 20 years of experience, including as lead partner for a number of multinational & local banks, insurance companies, conglomerates and companies listed in the Colombo Stock Exchange. She is also trained in US GAAP and US GAAS and leads reporting engagements for certain US based clients in Sri Lanka

She leads KPMG's Banking services and Financial Risk Management services in Sri Lanka and is also the Head of Markets for the Firm. She also represents KPMG Sri Lanka in the KPMG Middle East South Asia (MESA) Financial Sector Network.

## **Ranjani Joseph**

Partner | Deputy Head of Audit,  
Head of Banking Services, Head  
of Markets



# Executive Summary

The recent developments shaking up the insurance industry are expected to create a more competitive, coherent, regulated and transparent environment for insurers operating in the country, with a clear direction for growth given the low penetration levels of both general and life insurance businesses within the country.

In the global insurance space, challenges from new regulations, technology & data along with the race to win customers for life are forcing insurers to look at their business in a new way. Insurers know they need to put the customer at the center of their growth and transformation agenda. Many have already put significant effort into becoming more customer-centric. But most are still struggling to drive this new orientation down into the organization and across the enterprise. M&A would be a way of improving capacity and the regulations passed in 2011 to segregate the two types of insurance businesses resulted in acquisitions within the industry with the latest being the acquisition of Janashakthi General Insurance limited by Allianz SE in February 2018.

The overall sector saw its total asset base increase by 10.9% YoY in 2017 with life insurers accounting for majority of overall industry assets. Majority of assets were invested in government securities due to the lower risk involved and regulatory requirements. Gross written premiums (GWPs) of the sector saw a 15.1% YoY growth in 2017 supported by the strong up rise witnessed in both general and life insurance businesses. The adverse weather conditions in 2017 led to a steep increase in claims incurred by general insurers. Sector profitability saw a significant 78.1% YoY increase resulting from the transfer of one-off surplus of life insurers to shareholder funds during the year. IFRS 17, the latest standard introduced by the international accounting standards board, will be replacing the currently governing standard on insurance industry worldwide. This is expected to overcome many of the drawbacks of the existing standard by introducing a more refined Measurement Model, which provides a comprehensive and cohesive approach to identify insurance contract liabilities.

These accounting techniques will require increased coordination between actuaries and also require a higher level of information gathering, as the standard aims to improve the precision of future cash flow estimations as well as increased reflection of current economic conditions. Furthermore, IFRS 17 will require higher level of disclosures, not only to improve the quality of liability forecasts but also to enable stakeholders to effectively evaluate the performance of insurance contracts, thus increasing transparency and comparability.

The new income tax regime which came into effect from 1 April 2018 through the Inland Revenue Act No. 24 of 2017 (IRA) has impacted the insurance industry significantly as it sets out amendments to the calculation of tax liability of insurance companies. The new tax law also clears the ambiguity of the interpretations of the old tax law on insurance. The amendments pertaining to life insurance business are expected to result in a higher tax liability on insurance companies in the coming years. The resilience of the sector and increasing penetration of business would be put to test, with these changes.

The rapid increase in available software and systems, as well as the Cloud, to manage and analyze a mountain of data enables insurers increasingly to personalize their products to customers. We expect insurers to continue growth amongst these challenges by pursuing new developments in the global arena. Use of InsurTech to introduce innovative insurance products is expected to be one major development that the insurers will focus on going forward. Smartphones and digital devices to secure insurance that is customized, priced right with easy-to-use payment solutions would offer products for low- and middle-income segments at relatively low costs. This should also support the growth of micro insurance segment in Sri Lanka.



**Suren Rajakarier**  
Partner | Head of Audit,  
Head of Insurance

Suren is the Head of Audit of KPMG in Sri Lanka. He counts over 30 years of audit experience, having served multi-nationals and local companies in a wide range of industries including manufacturing, financial services, telecommunication, hospitality, construction and infrastructure sectors. He also heads the Insurance sector and leads people, learning & development initiatives of the Firm

Suren is an accredited IFRS partner in Sri Lanka, in addition to US GAAP reporting engagements for US based clients in Sri Lanka. Suren is a Member of the Statutory Accounting Standards Committee and Chairs the Statutory Auditing Standards Committee set up under the Sri Lanka Accounting & Auditing Standards Act No 15 of 1995, which is responsible for the formulation and recommendation of Sri Lanka Accounting Standards and Auditing Standards respectively. He was the Head of Financial Services line of business activities of 15 countries operating in the Middle East & South Asia Region, with work experience at KPMG offices in the Maldives, London, Dubai and Oman.

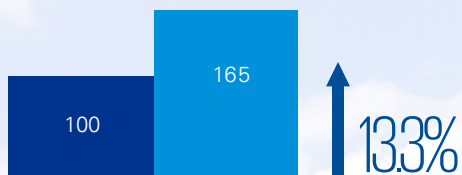




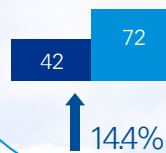


# Performance highlights

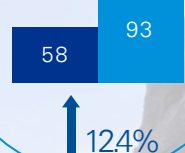
**Gross Written Premium (GWP)  
(LKR Bn)**



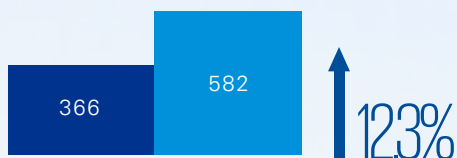
**Life Insurance  
(LKR Bn)**



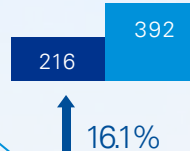
**General Insurance  
(LKR Bn)**



**Total Assets (LKR Bn)**



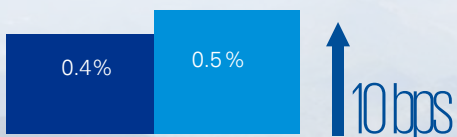
**Life Insurance  
(LKR Bn)**



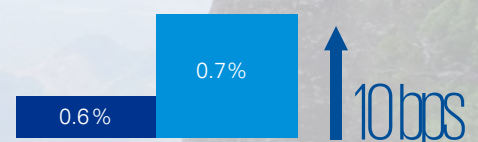
**General Insurance  
(LKR Bn)**



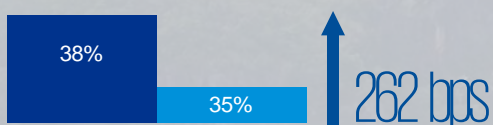
**Life Insurance Penetration as a %  
of GDP**



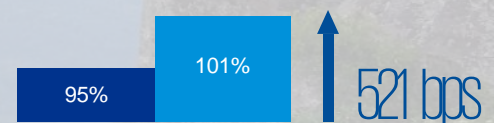
**General Insurance Penetration  
as a % of GDP**



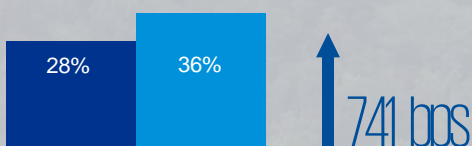
**General Insurance - Net Expense  
Ratio %**



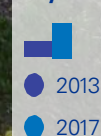
**General Insurance - Net Combined  
Ratio %**



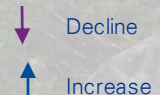
**Life Insurance- No. of Life policies  
in force as % of the Labour Force**



**Key**



4 year CAGR/  
Total 4 year change

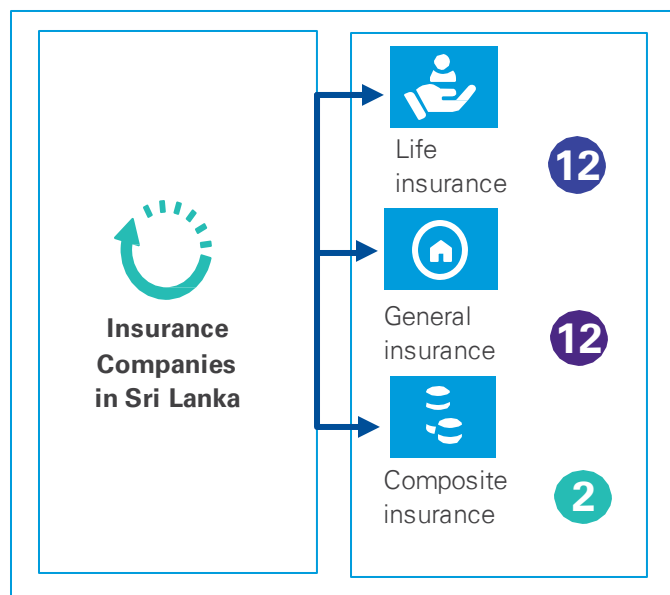


Source: Insurance Regulatory Commission of Sri Lanka (IRCSL)

# Insurance Sector



# Sector at a glance



As per the Insurance Regulatory Commission of Sri Lanka (IRCSL), 26 insurance companies were operating in the country as of 31<sup>st</sup> December 2017.

Under section 53 of Regulation of insurance industry (Amendment) Act No.3 of 2011, it was made compulsory to segregate composite insurance companies to the two categories of insurance on or before February 2015. Almost all of the composites separated their life and general insurance businesses into two separate companies, the exceptions being Sri Lanka Insurance (SLIC) and Sanasa Insurance Co Ltd.

## Insurance companies in the insurance sector- 31 December 2017

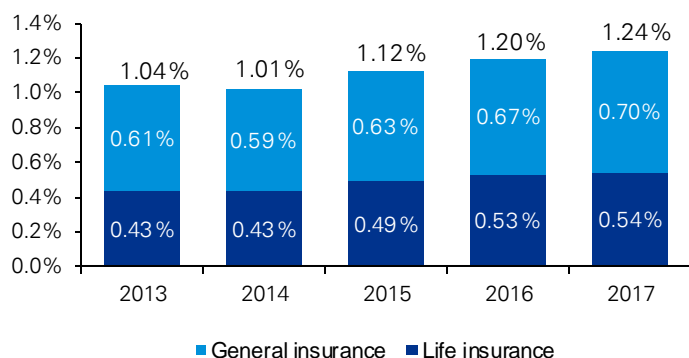
Long term (Life) Insurance	Total Assets (LKR Bn)	General Insurance	Total Assets (LKR Bn)
1) Ceylinco Life Insurance PLC	106	1) Ceylinco General Insurance Ltd	26
2) AIA Insurance Lanka PLC	53	2) Janashakthi General Insurance Ltd	22
3) Union Assurance PLC	43	3) Fairfirst Insurance Limited	16
4) Janashakthi Insurance Company PLC	20	4) National Insurance Trust Fund	13
5) HNB Assurance PLC	15	5) People's Insurance PLC	8
6) Softlogic Life Insurance PLC	12	6) Allianz General Insurance Lanka Ltd	7
7) LOLC Life Assurance Limited	4	7) LOLC General Insurance Ltd	5
8) Allianz Life Insurance Lanka Ltd	4	8) Cooperative Insurance Company Ltd	5
9) Amana Takaful Life PLC	3	9) HNB General Insurance Ltd	4
10) Life Insurance Corporation (Lanka) Ltd	3	10) Continental Insurance Lanka Ltd	4
11) Cooplife Insurance Limited	2	11) Amana Takaful PLC	3
12) Arpico Insurance PLC	2	12) Orient Insurance Limited	2

Source: Insurance Regulatory Commission of Sri Lanka (IRCSL)

Composite (Life and Non life) companies	Total Assets (LKR Bn)
1) Sri Lanka Insurance (SLIC)	191
2) Sanasa Insurance Co. Ltd	3

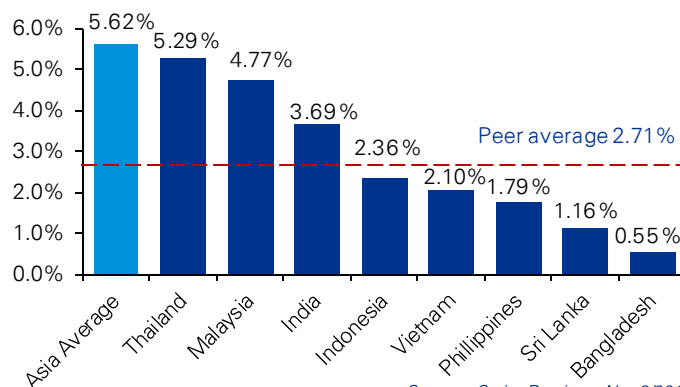
# Insurance penetration

Insurance penetration



Source: IRC SL

Penetration of peer countries



Source: Swiss Re sigma No. 3/2018

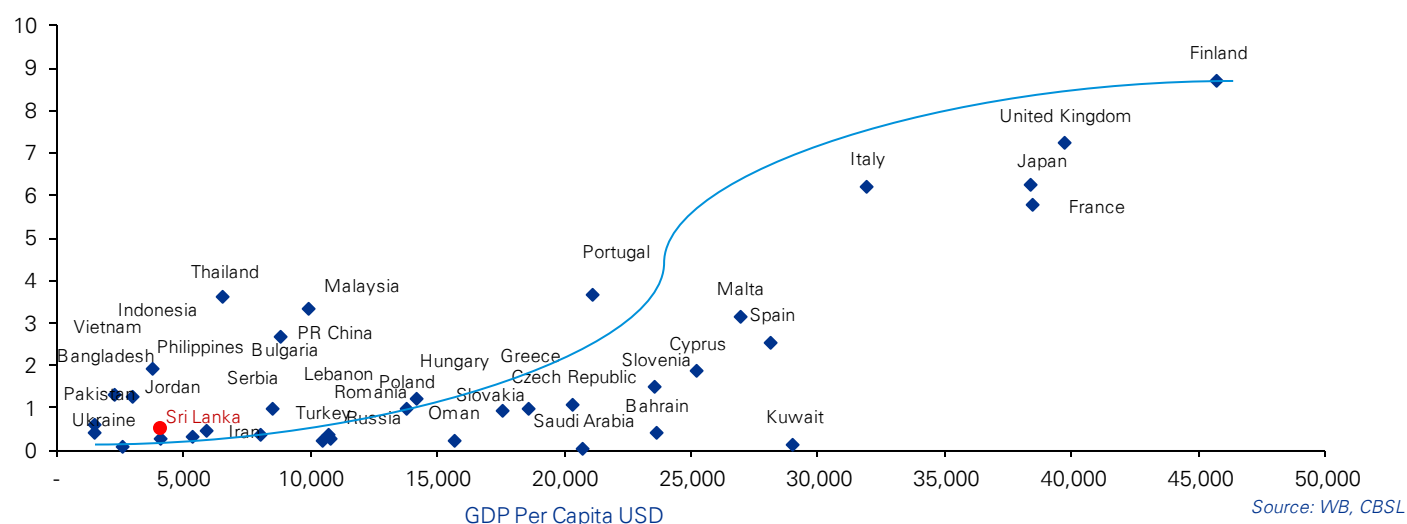
The penetration of insurance of Sri Lanka stood at 1.24% as of end 2017, which is significantly low compared to other peer countries. The demand for insurance is mainly dependent on the level of disposable income of the general public. Due to Sri Lanka's low disposable income level, the desire to invest in a life term insurance policy has never been prevalent among the locals. However, with changes in the country's demographic factors such as the aging population (currently at 12%, expected to rise to 16% and 25% in 2021 and 2041, respectively) the Government of Sri Lanka may need to initiate measures to promote awareness of life insurance policies as an alternative to the increasing social security cost burden.

Moreover, Sri Lanka is comparatively under-penetrated in comparison to peers such as Thailand and Malaysia, despite a sophisticated clientele for other financial services products. Technology has the potential to become one of the major drivers of the insurance sector in the future. Insurers believe that the adoption of new methods of marketing, distribution and payment will help generate sales while at the same time keeping premiums in check.

In Thailand currently, not much coverage is sold online, as the products that can be sold on the internet must be simple, with lower premiums.

## Relationship observed between the GDP per capita and insurance penetration in the country

% (total premium per capita as % of GDP per capita)



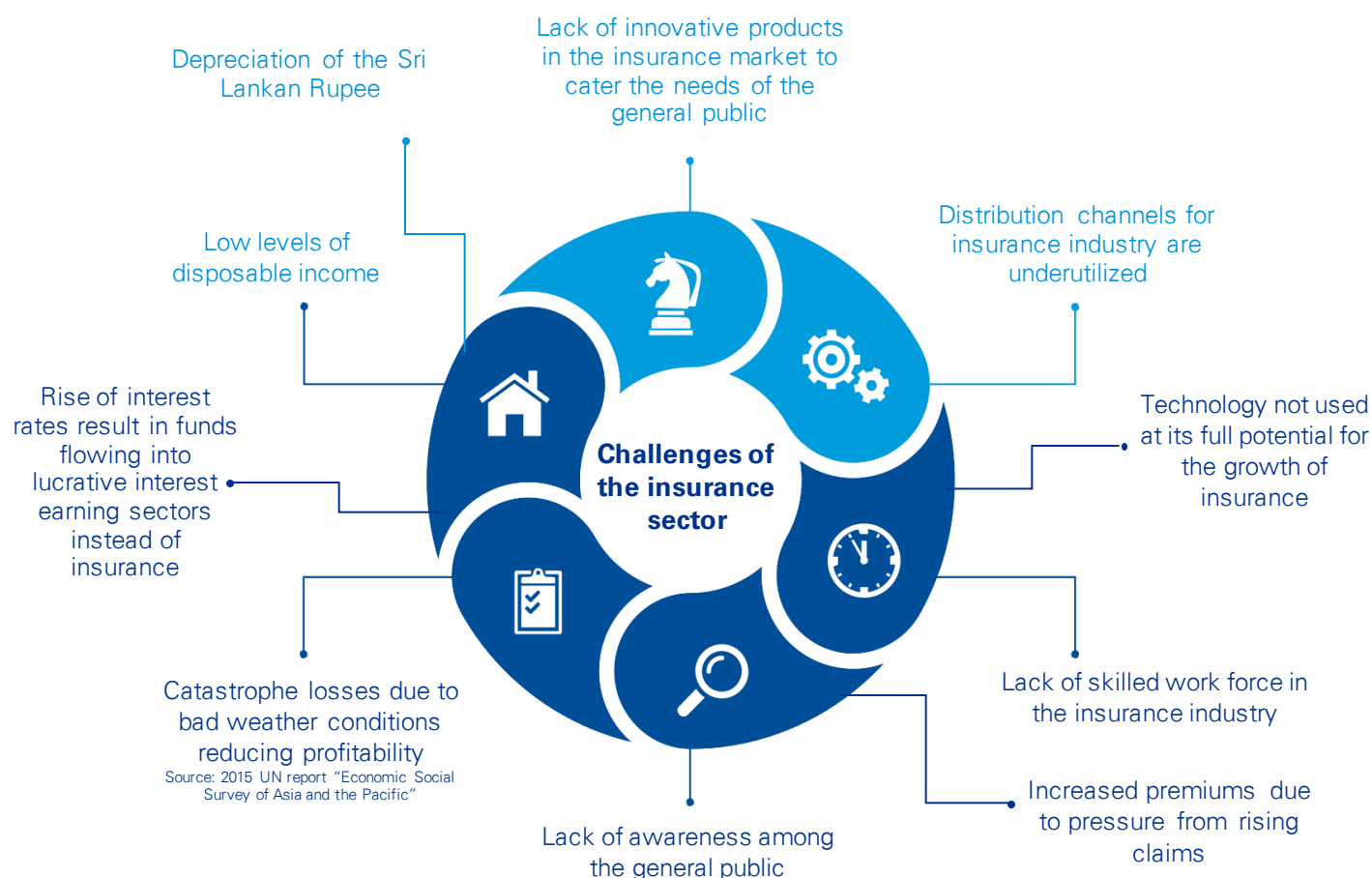
Source: WB, CBSL

The S curve demonstrates the interrelationship between per capita income of a country and the extent of its' insurance penetration. Sri Lanka is currently ranked at a considerably low position in the S Curve due to low levels of disposable income and macro and industry specific factors. However, with the country aiming to reach an annual per capita income of USD 5,000 by 2025, the premium per capita as a % of GDP per capita is expected to reach a higher position in the curve in the near term. The resultant increase in per capita savings, is expected to create the ideal environment for the insurance industry to thrive where increased innovation and promotional activities by insurers would considerably increase the public awareness of insurance in the country.



# Challenges of the insurance sector

## Why low insurance penetration?



Sri Lanka's low levels of disposable income remains one of the key reasons for the low level of insurance penetration in the country. This situation is further exacerbated in the short term due to considerable depreciation in the Sri Lankan Rupee, thus notably increasing the cost of living in the country.

The industry has been made particularly unattractive for investors due to rise in interest rates; driving investors to opt for sectors beyond insurance as well as increased claims due to bad weather and other phenomenon. Such conditions have influenced insurers to raise rates thus further degrading the overall attractiveness of the industry.

These conditions have led the industry players to consider increased use of technology to reduce costs, product innovation and optimising the use of underutilized distribution channels to gain an edge over competition. The need of the hour is to inform and educate the general public on the importance of insurance whilst developing the supply channels.

## Sri Lanka



Population: **21.4 Mn**



Overall premium growth:  
**15.07%** (not adjusted for inflation)



Insurance sector  
penetration: **1.24%**



Life insurance  
penetration: **0.54%**



General insurance  
penetration: **0.70%**

Source: IRCSL

## Snapshot 2017



## Malaysia



Population: **32 Mn**



Overall premium growth:  
**1.90%**



Insurance sector  
penetration: **4.77%**



Life insurance  
penetration: **3.32%**



General insurance  
penetration: **1.44%**

Source: Swiss Re sigma No. 3/2018

## Thailand



Population: **69.9 Mn**



Overall premium growth:  
**4.00%**



Insurance sector  
penetration: **5.29%**



Life insurance  
penetration: **3.59%**



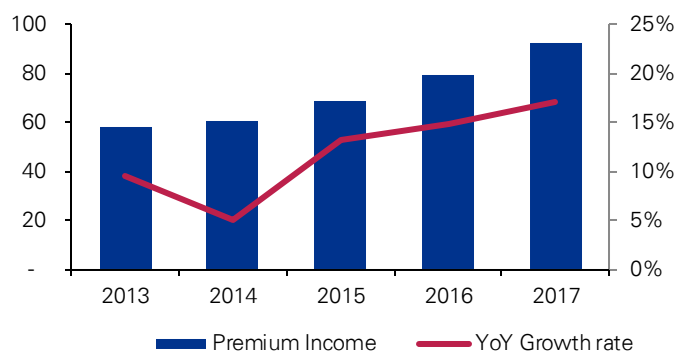
General insurance  
penetration: **1.69%**

Source: Swiss Re sigma No. 3/2018



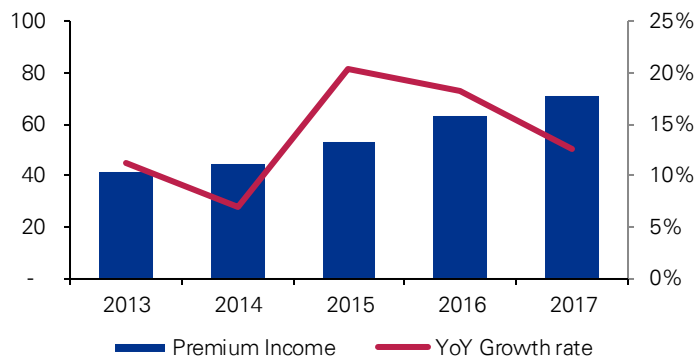
# Gross written premiums (GWP)

**Gross Written Premium - General insurance (LKR Bn)**



Source: IRCSL

**Gross Written Premium - Life insurance (LKR Bn)**



Source: IRCSL

Total Gross Written Premium (GWP) of insurance companies grew at a 4 year CAGR of 13.3% over the period 2013 to 2017 to reach LKR 165Bn. A higher GWP in absolute terms was recorded in the general insurance business as a result of growth in health insurance and the compulsory motor insurance schemes.

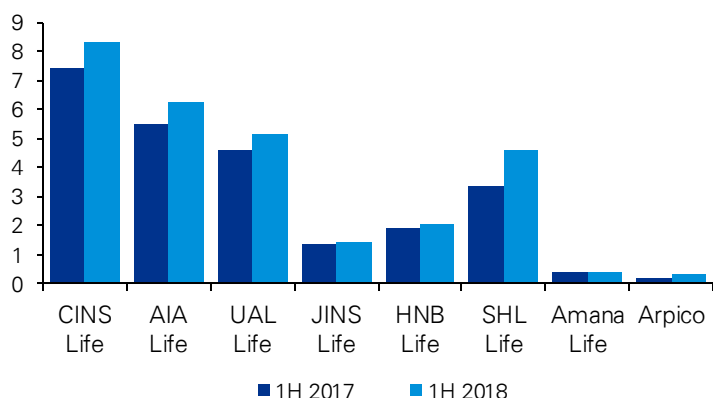
The life and general insurance GWP grew at a 4 year CAGR of 14.4% and 12.4% respectively for the period from 2013 to 2017. Moreover the segregation of composites have helped the life insurance industry growth to record a double digit growth rate over the last 3 years.

Sri Lanka's general insurance is driven by the motor insurance segment similar to Thailand and Malaysia which are quite similar in product segmentation, which in turn makes the industry growth quite volatile depending on tariffs and regulation to the motor industry. The peer countries in review are looking to circumvent this issue by aggressively venturing into the health care sector, an initiative the Sri Lankan insurers are looking to implement as well.

Furthermore we expect a shift of focus into micro insurance in the life insurance sector after a global partnership was formally forged between the global insurance industry and the UN in 2017, to help boost the segment. Subsequently government support for the life insurance sector in both Malaysia and Thailand focused on increasing awareness of micro-finance schemes.

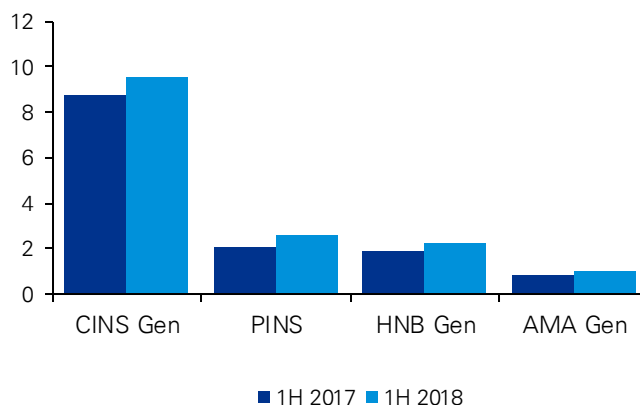
## GWP - First half (1H) 2018

**GWP- Life Insurance (LKR Bn)\***



Source: CSE

**GWP - General Insurance (LKR Bn)\***

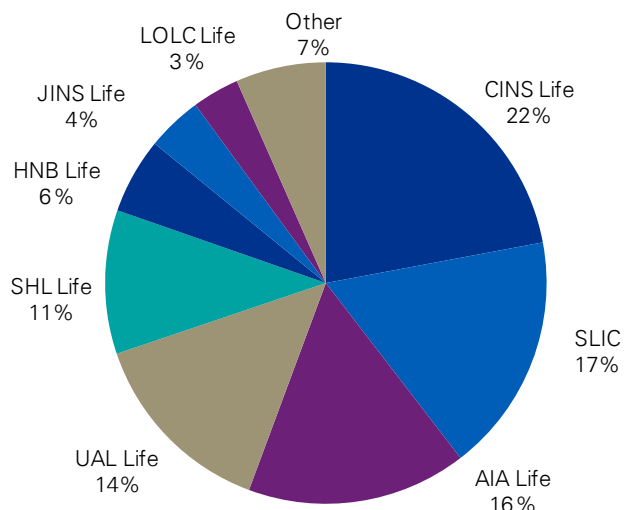


Source: CSE

\*Includes listed companies only

# Market share by GWP

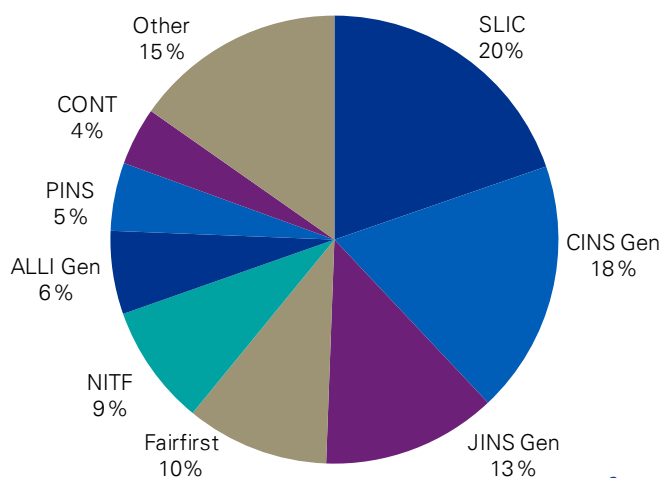
## Market Share based on GWP-Life Insurance



Source: IRCSL

Sri Lanka life insurance industry was dominated by few large players as at 31 December 2017. Ceylinco Life insurance held the largest market share of 22% in terms of GWP, followed by the state owned insurer Sri Lanka Insurance (SLIC) with 17% of the market.

## Market Share based on GWP-General Insurance



Source: IRCSL

Sri Lanka general insurance industry was dominated by few large players as at 31 December 2017. Three players controlled a total of 51% of the market.

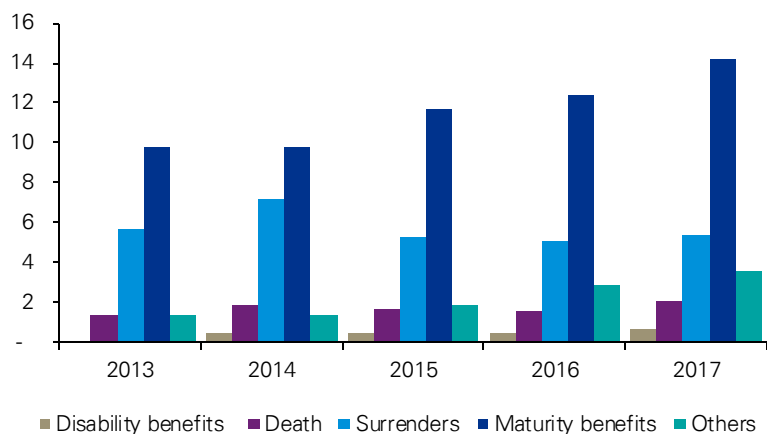
Many insurers provide innovative product offerings which will help them grow in this low penetrated market.





# Claims incurred

## Claims incurred – Life insurance (LKR Bn)

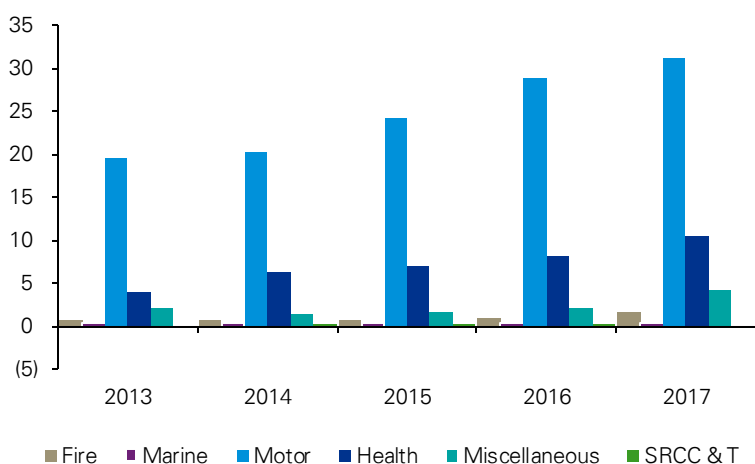


Source: IRCSL

Total claims of life insurance companies grew at a 4 year CAGR of 9.1% over the period of 2013 to 2017 recording to LKR 26Bn.

2017 recorded the highest claims in the life insurance business over the last five years. Maturity benefits represented the majority of the claims incurred during this year.

## Claims incurred – General insurance (LKR Bn)



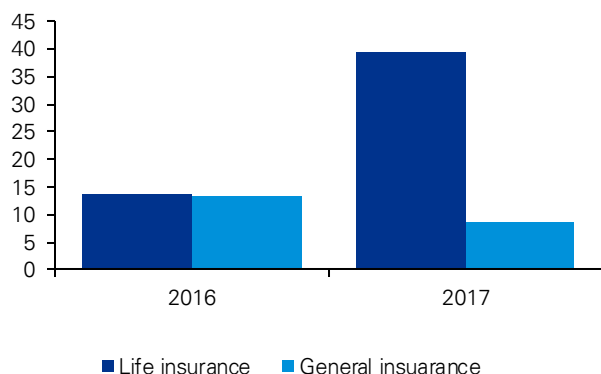
\*SRCC & T-Strike, Riot, Civil Commotion & Terrorism

Source: IRCSL

General insurance claims incurred over the year 2017 displayed a moderate increase which amounted to LKR 48Bn compared to LKR 47Bn in 2016. Total claims of general insurance grew at a 4 year CAGR of 15.5% over the 5 year period.

The increased number of claims was largely due to the adverse weather conditions that prevailed in the country. Due to the increase in the number of natural disasters such as floods and earth slips a greater number of people and property were affected, resulting in an increase in risks for insurers. However, motor insurance remained the largest sub sector incurring net claims over the year which amounted to LKR 31Bn.

## Profitability (LKR Bn)



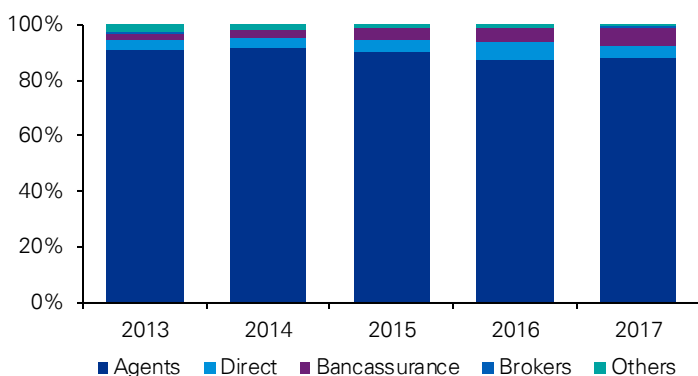
Source: IRCSL

The profitability of the insurance industry grew by 78.1% YoY to LKR 47.8Mn in 2017 compared to LKR 26.9Mn in 2016. This significant growth was fueled by the 118.4% YoY growth in the life insurance sector profits to LKR 39.3Mn in 2017 as a result of the transfer of one-off surplus of the insurers to shareholder funds within the year. The general insurers saw their profits decline 35.5% YoY to LKR 8.5Mn in 2017 compared to LKR 13.2Mn in 2016. The drop in general insurance segment profits in 2017 was a result of the receipt of an extraordinary dividend to an insurer in the segment in 2016.

# Distribution channels

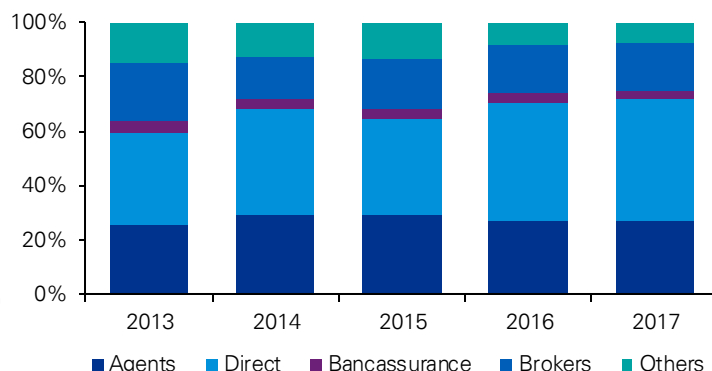
## Distribution Channels of Insurance Companies

### Life Insurance



Source: IRCSL

### General Insurance

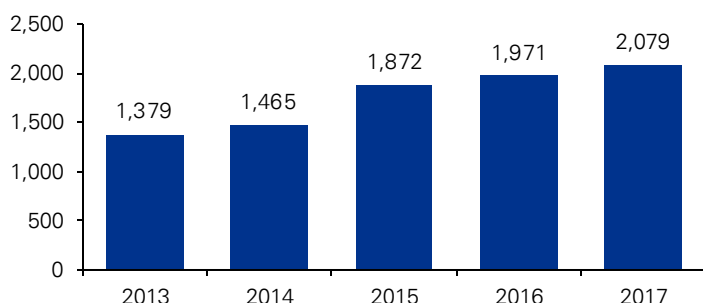


Source: IRCSL

The growth in the branch network and agents supported insurers to access more customers scattered around the country. At present most branches are located in the Western province. In 2017 a total of 108 new branches were added to the insurance sector. Out of the total 2,079 branches as of 2017, 1,151 branches offered life insurance products, 765 branches offered general insurance products and 163 branches provided composite insurance services.

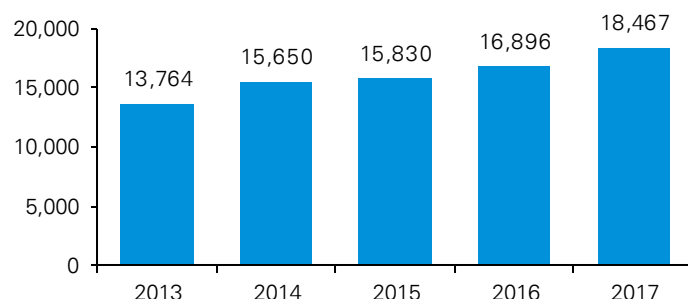
A major distribution channel underutilized by the insurers is the bancassurance channel. However insurance companies have joined hands with banks and increased the bancassurance channels to offer an array of insurance products to a wider customer base. This is expected to benefit insurance companies to grasp the strong branch network of the key banks in Sri Lanka with an extended customer base.

### No. of branches



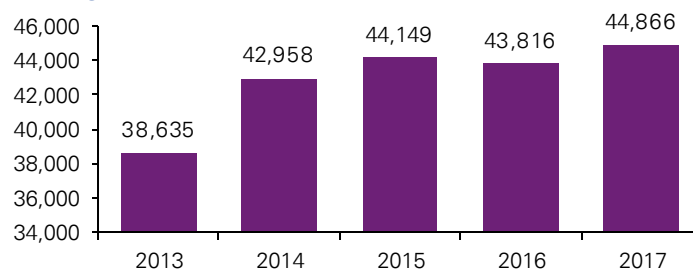
Source: IRCSL

### No. of employees



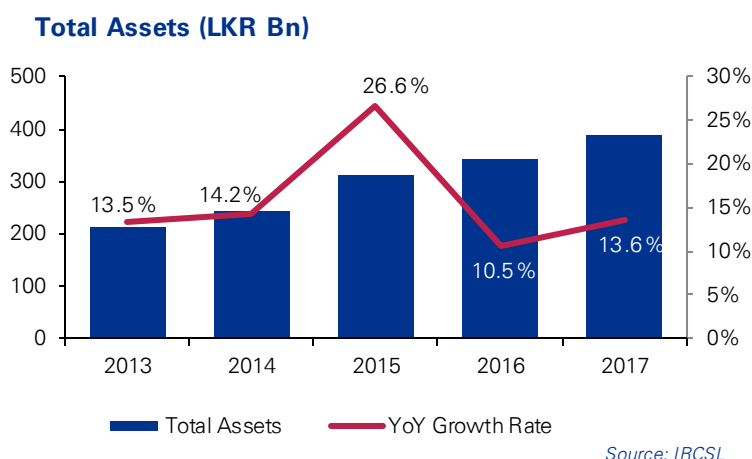
Source: IRCSL

### No. of agents

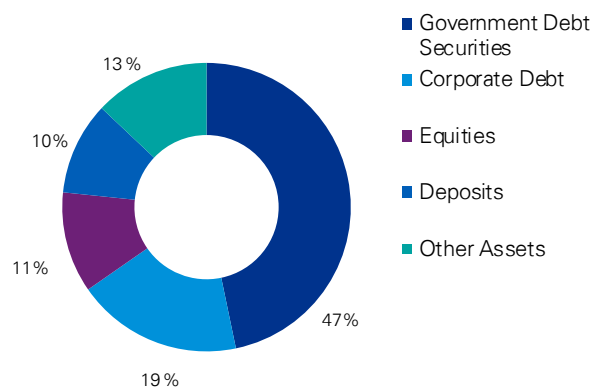


Source: IRCSL

## Life insurance



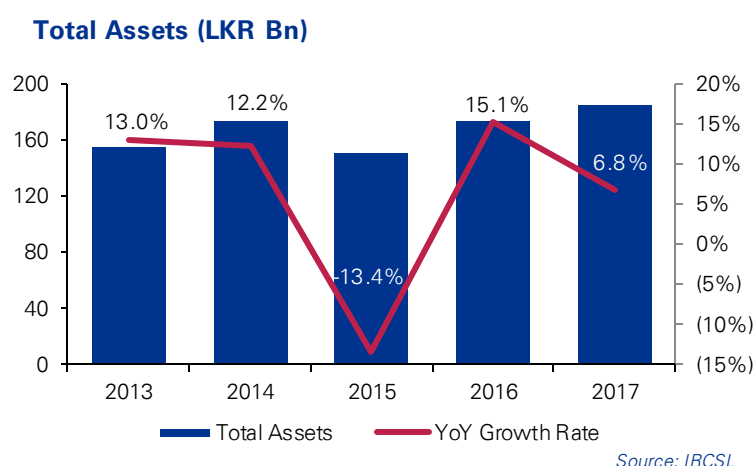
### Concentration of Assets (4Q 2017)



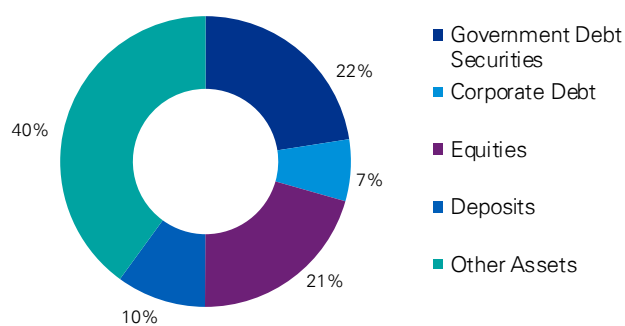
Total assets of life insurance companies grew at a 4 year CAGR of 16.1% over the period of 2013 to 2017. Due to the regulatory requirements and the lower risk involved, majority of the assets (47% of the total investment portfolio in 2017) were invested in government debt securities.

A significant rise in deposits for the last year was observed as a result of attractive rates offered by banks and other finance companies. A notable increase was recorded in investment in unit trust funds during 2017 due to the attractive interest rates offered and the returns being tax free. However it is expected that unit trust fund investments will reduce going forward due to the removal of tax concessions on returns from unit trust funds effective from 1 April 2018 based on the new IRA.

## General insurance



### Concentration of Assets (4Q 2017)



Total assets of the general insurance business grew at a 4 year CAGR of 4.5% over the period of 2013 to 2017. Similar to life insurance companies, government debt securities remained the single main category of investment for general insurance companies as well. Investment in deposits were also comparatively higher than 2016 due to the favorable interest rates offered by the banks.

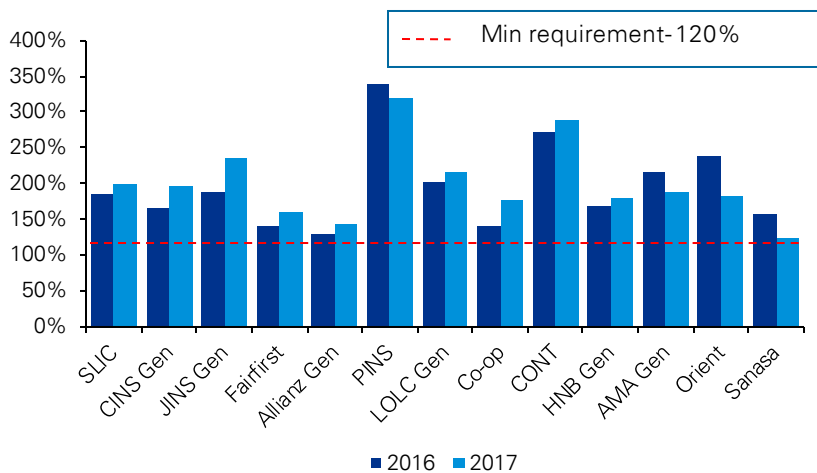
IRCSL requires a minimum investment of 20% of the technical reserves in government securities. However the investment in government securities declined over the last year, as many insurers increased investments in fixed deposits and other investments.

Strong asset bases are maintained by the insurance companies to ensure that the minimum regulatory requirements are met and that the companies are able to absorb internal and external shocks.



# Risk Based Capital

## Capital adequacy ratio



Risk Based Capital (RBC) framework was implemented in Sri Lanka with effect from 01 January 2016 onwards, which replaced the Solvency Margin Rules.

The RBC methodology measures the amount of available capital relative to the risks inherent in liabilities and the adequacy of capital to absorb unforeseen losses.

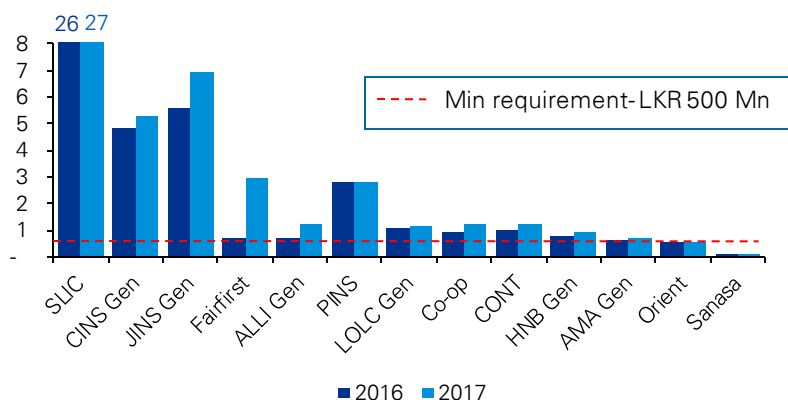
The risk based formula introduced to Sri Lanka includes credit risk, concentration risk, reinsurance risk, market risk, insurance liability risk and operational risk.

RBC imposed 2 main requirements

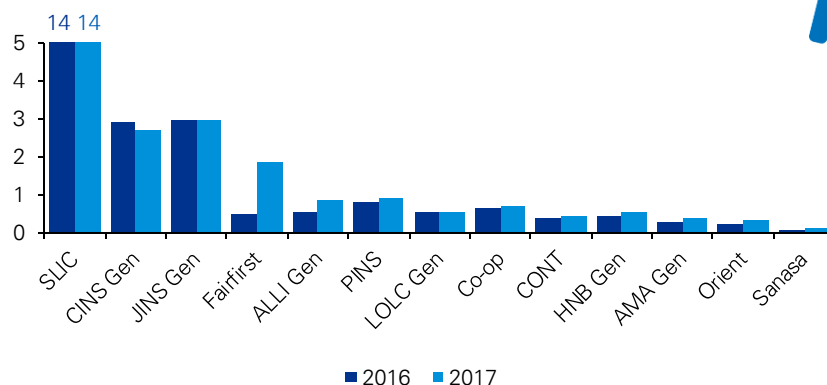
1. Capital Adequacy Ratio (CAR) above the 120% level
2. The Total Available Capital (TAC) of minimum of LKR 500 million

RBC requirements are expected to minimize the risk of defaulting on policy holders.

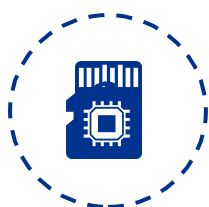
## Total available capital (LKR Bn)



## Risk based capital (LKR Bn)



Insurance companies in Sri Lanka are engaging in various product development and marketing efforts to grow the under penetrated insurance sector.



## InsurTech

This is the latest development in insurance that many insurers worldwide are drawing their attention to. It is the use of technology innovations designed in a way that will be an efficient method for the current insurance products. Sri Lankan insurance companies will also need to advance their services by moving towards InsurTech, as it will give the opportunity to grow. It is noteworthy to state that, Life insurance companies with legacy issues risk stagnation and potential leakage to InsurTech innovators. Moreover, insurance policies in a technology platform will be more attractive to the tech savvy general public and InsurTech will have a significant growth potential. Few companies who are building digital capabilities appear to have identified a big opportunity to transform their business model and are set to differentiate themselves. This platform will;

- Simplify the insurance process
- Lead to offering new innovative products
- Result in significant cost and time savings in the future, due to efficient and transparent claim handling



## Development of Micro insurance

Sri Lanka micro insurance is untapped to its potential. Hence it is very important that insurance companies expand towards micro insurance which will give them the opportunity to grow island wide and offer affordable insurance policies.



## Integrated Training & Development

All insurers will continue to focus on providing quality services by ensuring that adequate ongoing training is provided to the sales force. A competent sales force enables companies to sell sophisticated insurance products.



## Expanding the branch network

Many insurers have rapidly expanded their branch network island wide. Many insurance companies will target the rural population and facilitate to offer more schemes which will generate positive demand among the general public.



## New innovative products

Insurers can focus on developing innovative insurance policies combined with digitalization.

# IFRS 17



# IFRS 17

**The revised standard on insurance: IFRS 17 is expected to become effective from January 2021 replacing the existing interim standard IFRS 4. The expected impact is unprecedented as the standard significantly redefines existing accounting methodologies. Complex liability measurement methods have been introduced and Suren Rajakarier, Head of Insurance, explains the key changes to the recognition and valuation of insurance contracts that will affect general insurers in this thought leadership.**

IFRS 17 will give users of financial statements a whole new perspective. For the first time, insurers will be on a level footing internationally. It will simplify current insurance accounting. Analysts currently have to adjust insurance companies' financial positions and performance to be able to compare them. IFRS 17 increases transparency about profitability and will add comparability which will eliminate the difficulty in comparing financial statements across different industries, products, companies and jurisdictions.

With IFRS 17 making significant changes to the valuation of liabilities of insurers, IFRS 9 has made changes to the valuation and income recognition of assets. The effect of IFRS 9 can be split into three categories, namely:

1. Classification and measurement (C&M)
2. Impairment
3. Hedge accounting

Although the C&M requirements and conclusions under IFRS 9 may not be significantly different from those under the current Financial Instrument Standard (IAS 39), the process of reaching these conclusions, information required and prescribed method of reporting are quite different.

There are two methods which can be followed in IFRS 17, namely the General Measurement Model and the Premium Allocation Approach.

## General Measurement Model

The general measurement model, also known as the Building Block Approach (BBA), is a comprehensive and coherent framework that provides information relating to different features of insurance contracts as well as ways in which insurance income is earned by insurers.

This model is primarily used in measuring the value of insurance contracts, where all reinsurance contracts will be measured as the sum of:

- Fulfilment cash flows
- Contractual service margin, which is the expected profit from the unearned portion of the contract.

## Simplification Approach – Premium Allocation Approach (PAA)

One of the decisions general insurers need to make will be whether to use a simplification option known as the premium allocation approach (PAA). This is an alternative to the BBA.

This simplification is only permitted in certain circumstances and is only applicable to unexpired risks, but the incurred claims liabilities must still follow the BBA model. Under this, the Contractual Service Margin (CSM) is not required. Instead, at the beginning, the liability for unexpired risks, is calculated as the premiums received minus associated acquisition costs.

## IFRS 17 limits offsetting of onerous contracts against profitable ones

According to the standard, forecasting future cash flows are primarily achieved through estimating the expected value of a range of possible outcomes likely to materialize from the entity's contracts—estimating the probability weighted mean cash flows.

A range of scenarios reflecting the full range of outcomes would be developed where each scenario indicates the amount and timing of the outcome as well as the probability of outcome being materialized. These values are then discounted, thus arriving at the expected present value of the future cash flows.





The objective laid down by IFRS is to identify all reasonable and supportable information without undue cost or effort, in an unbiased way than to identify every possible outcome.

The PAA will be permitted for contracts where the period of cover is one year or less, or where the measurement of the liability for remaining coverage would not differ materially from that estimated using the BBA.

IFRS 9 adds a layer of complexity by looking at the business purpose of the investment for each of the product types. With the contractual cash-flow test and business model assessment being introduced to reach the amortized cost classification, the possible difficulty in satisfying the criteria for complex instruments is likely to result in more financial instruments being classified in the residual category of Fair Value through Profit and Loss (FVTPL) than under IAS 39.

IFRS 17 allows an election for the effect of changes in discount rate to be recognized through Profit and Loss (P&L) or through Other Comprehensive Income (OCI). Because of this, insurers must be cognizant of how their balance sheet management strategies, and the accounting treatment under IFRS 9 of the asset used for these strategies, will impact the presentation of their statement of comprehensive income. Choices will impact the volatility of their income statements and net asset positions.

## Impairment of financial assets

Under the previous accounting standards, a financial asset could only be impaired if there was objective evidence of impairment. Losses expected as a result of future events, no matter how likely they are, could not be recognized. This was known as the incurred loss model.

Following the credit crunch, it was argued that banks and insurance companies has not written down assets, despite having little expectation of receiving any benefits. With the benefit of hindsight this resulted in profit and assets being overstated. No early warning system was in place. In response, the IASB has introduced the expected loss model for financial asset impairment accounting.

The expected loss model requires a lot of judgement. This could be argued to reduce the verifiability and also increase the scope for the manipulation of profits. Another criticisms is that the cost of implementing the expected loss model will be high for businesses that hold large volumes of financial assets.

Initially SLFRS 9 was meant to be implemented in 2019 and SLFRS 17 was due in 2021. Due to the different Implementation dates of SLFRS 9 and SLFRS 17 Several insurance companies raised this issue with the IASB, citing key concerns:

- Explaining the impact of SLFRS 9 on performance prior to the adoption of the new measurement requirements for insurance liabilities could prove challenging for some insurers
- Temporary increases in accounting mismatches and other sources of volatility in profit and loss
- Confusion for users of financial statements
- More cost and effort for both preparers and users of financial statements in adopting two major standards at different time periods

## Asset – Liability management considerations

When considering IFRS 9, it is important to understand the asset-liability management of insurance companies which is centered on ALM where liabilities, guarantees and related assets (including derivatives) are managed together. The accounting practices should reflect this strategy. Accounting treatments that deal with components in isolation will result in different measurement and presentation requirements and will not adequately reflect insurance business and the related performance in earnings.

## Level of granularity

In essence, insurers will need to account for their business performance at a more granular level. Information should be disclosed at a level of granularity that helps users assess the effects contracts have on financial position, financial performance as well as cash flows.

Specifically, the principles should be applied at a portfolio level, where a portfolio is defined as a group of contracts with similar risks which are managed together.

## Disclosures

Financial statements will look different under IFRS 17. The biggest change will be to the income statement, which will no longer show written premiums (these will be disclosed in the notes instead) and revenue and expense will be recognized as earned (not received) or incurred (not paid).

Disclosures will be complex under IFRS 17 and in particular will involve detailed reconciliations between opening and closing balances as well as disclosure of the confidence level of the insurance liabilities.



Disclosure requirements	What's new?
<b>Amounts recognized in the financial statements</b>	
Reconciliation of the net carrying amounts of contracts analyzed by: <ul style="list-style-type: none"> <li>the net liabilities (assets) for remaining coverage excluding the loss component</li> <li>any loss component</li> <li>the liabilities for incurred claims</li> </ul>	●
For contracts not measured under the PAA, reconciliation of the net carrying amounts of contracts analyzed by: <ul style="list-style-type: none"> <li>the estimates of the present value of the future cash flows</li> <li>the risk adjustment for non-financial risk</li> <li>the CSM</li> </ul>	●
Disclosure and explanation of the total amount of insurance finance income or expenses – specifically, the relationship between insurance finance income or expenses and the investment return on assets	●
<b>Contracts measured under the PAA</b>	
How the entity has satisfied the eligibility requirements	●
Accounting policy choices about: <ul style="list-style-type: none"> <li>Whether to adjust the liabilities for remaining coverage and liabilities for incurred claims for the time value of money and the effect of financial risk</li> <li>Whether to recognize insurance acquisition cash flows as expenses when they are incurred</li> </ul>	●
<b>Contracts not measured under the PAA</b>	
An analysis of insurance revenue and the effects of contracts initially recognized in the period	●
An explanation of when the entity expects to recognize the remaining CSM in profit or loss	●
<b>Direct participating contracts</b>	
The composition of underlying items and their fair value	●
If an entity chooses not to adjust the CSM for some changes in the fulfillment cash flows under paragraph B115 of IFRS 17, the effect of that choice	●
If the basis of disaggregation of insurance finance income or expenses changes under paragraph B135 of IFRS 17, why the change is required, the amount of any adjustment for each financial statement line item affected and the carrying amount of the group of contracts to which the change applies	●



**New disclosure required under IFRS 17**



**Existing requirement**



**Similar disclosure requirements exist under current standards: however, they are more detailed or specific under IFRS 17**



Disclosure requirements	What's new?
<b>Amounts recognized in the financial statements (continued)</b>	
<b>Transition amounts</b>	
<p>For contracts measured under the modified retrospective approach or the fair value approach on transition of IFRS 17:</p> <ul style="list-style-type: none"> <li>reconciliation of the CSM and amounts of insurance revenue separately for contracts under each approach and other contracts</li> <li>how the entity determined the measurement of the contracts at the date of transition</li> <li>if insurance finance income or expenses are disaggregated between profit or loss and OCI, a reconciliation of the cumulative amounts included in OCI for related financial assets at FVOCI</li> </ul>	●
<b>Significant judgement made when applying IFRS 17</b>	
<p>Significant judgements and changes in judgement made when applying IFRS 17- specifically, the inputs, assumptions and estimation techniques used, which include:</p> <ul style="list-style-type: none"> <li>methods used to measure insurance contracts and processes for estimating the inputs to those methods</li> <li>any changes in methods and processes for estimating inputs used to measure contracts, the reason for each change and the type of contracts affected</li> <li>the approach used to: <ul style="list-style-type: none"> <li>identify changes in discretionary cash flows for contracts without direct participation features</li> <li>determine the risk adjustment for non-financial risk, including whether changes therein are disaggregated into an insurance service component and an insurance finance component</li> <li>determine discount rates</li> <li>determine investment components</li> </ul> </li> </ul>	●
If insurance finance income or expenses are disaggregated between profit or loss and OCI, an explanation of the methods used to determine the amount recognized in profit or loss	●
Yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items	●
Confidence level used to determine the risk adjustment for non-financial risk	●
If a technique other than the confidence level technique is used to determine the risk adjustment for non-financial risk, disclosure of the technique used and the confidence level that corresponds to the results of that technique.	●
<b>Nature and extent of risk from insurance contracts</b>	
Information about the effect of the regulatory frameworks in the which the entity operates	●
If contracts are included within the same group as a result of law or regulation under paragraph 20 of IFRS 17, disclosure of that fact	●



**New disclosure required under IFRS 17**



**Existing requirement**



**Similar disclosure requirements exist under current standards: however, they are more detailed or specific under IFRS 17**

Disclosure requirements	What's new?
<b>Nature and extent of risk from insurance contracts (continued)</b>	
For each type of risk: <ul style="list-style-type: none"> <li>The exposure to risks, how they arise and changes therein</li> <li>The entity's objectives, policies and processes for managing the risks, methods used to measure the risks and changes therein</li> <li>Summary quantitative information about exposure to the risk at the reporting date, based on information provided internally to key management personnel or, when this is not provided based on the specific disclosure requirements below</li> </ul>	●
Information about risk concentrations	●
<b>Insurance and market risks</b>	
For insurance risk, a sensitivity analysis that shows the effect for insurance contracts issued, before and after risk mitigation by reinsurance	●
For each type of market risk, a sensitivity analysis that explains the relationship between the sensitivities from insurance contracts and those from financial assets.	●
Methods and assumptions used in preparing sensitivity analyses, changes therein and the reasons for such changes	●
If an entity discloses an alternative sensitivity analysis in place of any of those specified above, explanations of the method used and its objective, the main parameters and assumptions and any limitations that may result in the information's provided	●
<b>Insurance risk</b>	
Claims development – i.e. actual claims compared with previous estimates of the undiscounted amount of the claims	●
<b>Credit risk</b>	
The entity's maximum exposure to credit risk and information about the credit quality of reinsurance contract assets	●
<b>Liquidity risk</b>	
A description of how liquidity risk is managed	●
Maturity analyses that show, as a minimum, net cash flows for each of the first five years after the reporting date and in aggregate beyond the first five years, which may be based on the estimated timing of: <ul style="list-style-type: none"> <li>The remaining contractual undiscounted net cash flows; or</li> <li>The estimates of the present value of the future cash flows</li> </ul>	●
Amounts that are payable on demand and their relationship with the carrying amounts of the related groups of contracts	●



**New disclosure required under IFRS 17**



**Existing requirement**



**Similar disclosure requirements exist under current standards: however, they are more detailed or specific under IFRS 17**



The impact of the new standard will vary significantly between insurance companies. Implementing it will require substantial effort, and new or upgraded systems, processes and controls. The task will be even more challenging given the long time horizons over which many insurance companies operate and the legacy systems that many still use.

While IFRS 17 represents the biggest accounting change for insurers in many years, the impacts will be felt far beyond accounting, in areas such as finance, actuarial, IT and even the regulatory departments. IFRS 17 takes effect in January 2021. That may seem a long way off, but the timescale will be a challenge for many. A coordinated response will be essential. Finance, Actuarial and IT functions will need to work closely together like never before.

We feel that 2018 should see firms begin a process of engaging with key stakeholders, establishing timelines to perform impact analyses and making plans for implementation which would prepare companies to have a timely implementation with time for a dry run before 2021.



# Inland Revenue Act



# Implications of IRA

The introduction of the Inland Revenue Act No. 24 of 2017 (new IRA) has challenged the business of insurance as it brings out significant amendments to the applicable tax rates and calculation of tax liabilities. The key focus of this article would be the tax implications on life insurance as the taxation on general insurance was not subjected to significant amendments by the new IRA.

## Former application under old IRA

The taxable profit calculation under Section 92 of the previous Inland Revenue Act No. 10 of 2006 was directed only towards the difference of investment income and management expenses of the life insurance business. The investment income is related to any interest, dividend or disposal gain earned through the investment of funds obtained as premiums from policyholders. The deductible expenses under this calculation were particularly any expense for management of the business of life insurance, other than expenses directly incurred for the issuance and maintenance of insurance policies. The disregard of the premium income collected from policyholders while allowing the deduction of expenses attributable to the management of the business led to the computation of a very low or no taxable profits for most life insurance businesses under the old IRA.

## Broad tax base under new IRA

Section 67 under the new IRA amends the tax law applicable to the insurance business where it specifically affects the life insurance segment, the new IRA impose taxes on the surplus distributed to share holders. This amendment is set out in Section 67 (1) of the act as follows:

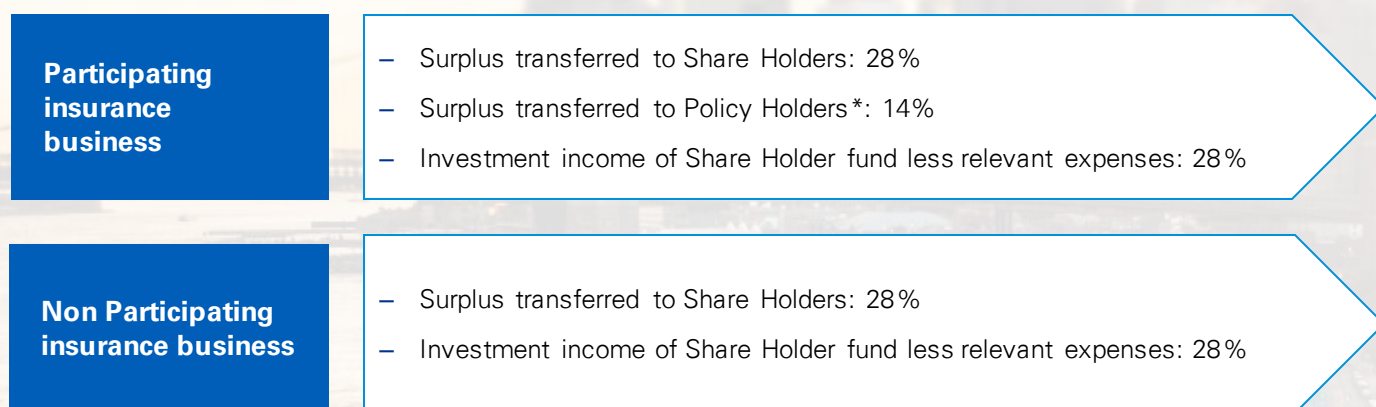
*“In the case of a person engaged in the business of life insurance, whether mutual or proprietary, the gains and profits from the business on which tax is payable shall be ascertained by taking the aggregate of–*

- (a) the surplus distributed to share holders from the life insurance policy holders fund as certified by the Appointed Actuary functioning within the Regulation of the Insurance Industry Act, No. 43 of 2000; and*
- (b) the investment income of the share holder fund less any expenses incurred in the production of such income, subject to the deductions claimable under section 19 in arriving at the income from the business.”*



The new IRA plugs the loopholes in the computation of profit from investment income through the new tax law as it avoids the ambiguity on tax deductible expenses. The act specifically allows only the expenses relating to management of the investment portfolio for tax computation. Tax rates imposed on the profit from investment is illustrated in the diagram below.

The life insurance businesses are required to perform an actuarial valuation of the life insurance funds and any difference should be transferred to/from the policy holder's fund from/to the Profit Before Tax(PBT) of the company. The PBT arrived to after this adjustment is the 'surplus distributed to share holders from the life insurance policy holders fund'. The surplus will be taxed at the following rates under the two categories of life insurance business; Participating and Non Participating as illustrated below.



\*This tax rate is applicable only for 3 years (year of assessment 2018/19, 2019/20 and 2020/21). Thereafter the surplus transferred to policy holders will be taxed at 28%.

The insurance companies will face increased challenges in the sale of life insurance policies with the implementation of the new tax law as potential market may find the participating insurance policies unattractive due to the imposition of an additional tax of 14% on their bonus. A higher tax expense could be anticipated considering the increase in the tax base, additional taxes and defined interpretations of ambiguous areas of the insurance tax law.



**Shamila Jayasekara**  
Partner, Head of Tax & Regulatory

Shamila is the Head of Tax and Regulatory division and counts over 20 years of experience in tax areas including 6 years of experience as the Head of Tax in a large local conglomerate in Sri Lanka. She has experience in tax engagements across a range of industries including banking, financial services, technology, telecommunication, energy, manufacturing, tourism, consumer markets, retail and infrastructure.

She has led engagement teams in conducting tax due diligences on target entities across a number of sectors covering banking, industrial, manufacturing, services and technology. Shamila handles tax advisory and compliance related services covering direct and indirect taxes. Her clients include local conglomerates, multinationals and companies listed on the Colombo Stock Exchange. In 2015, Shamila set up and now leads the Transfer Pricing Unit of KPMG.

# Valuing Insurance Companies

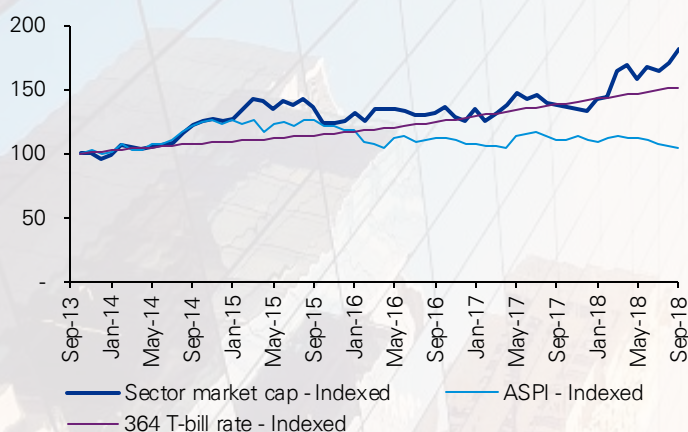


# Valuing insurance companies

The recent regulatory changes in the insurance industry has given rise to segregation of general and life insurance businesses, increasing minimum capital requirements and mandatory listings. As such, understanding insurance company valuations has become highly important to; insurers who plans to separate their composite insurance businesses, insurers who are looking to strengthen their insurance business (general or life) through mergers and acquisitions, the investing public who are looking to benefit from up-coming insurance IPOs, and to regulators of capital markets who stand to protect the investors and promote transparency.

Insurance companies mainly create value in two ways: 1) from its underwriting business, and 2) from its investment business. Given that underwriting profitability is typically under pressure due to competition, an insurance company's reliance on its investment business makes the sector's price performance to closely correlate to the performance of debt and equity capital markets.

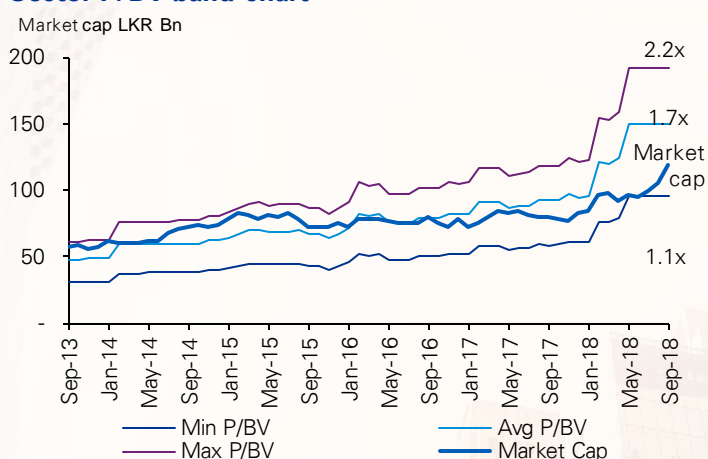
## Insurance sector performance over the past five years



The graph above compares the movement of an equivalent investment, invested in all shares listed on Colombo Stock Exchange (CSE), Insurance companies listed on CSE and in 364-day T-bill, indexed to September of 2013.

Source: CSE, CBSL, KPMG analysis

## Sector P/BV band chart



During the last 5 years, the insurance sector has traded between 2.2 – 1.1x its net asset value and currently trades c. 1.37x its collective book value.

Source: CSE, KPMG analysis

## Insurance sector – key considerations for Life and General insurance valuations

### Key drivers of General insurance valuations

General insurance companies create shareholders wealth through a combination of underwriting activities and investment activities. To underwrite policies, insurance companies allocate capital as a cushion against unexpected claims volatility and re-insure a part of its exposure to riskier businesses. As such, the risk based capital sourced mainly from shareholders' equity plays a key role in the value of a general insurer.



### Underwriting results

The underwriting performance of a general insurance company is determined by its' "Combined ratio", which is the combination of the loss ratio and expenses ratio which reflects insurance claims and the administrative and underwriting expenses as a percentage of net earned premiums, respectively.

Most of the Sri Lankan companies record combined ratios above 100%, reflecting underwriting losses due to the intense competition.



## ▪ Investment results

In the backdrop of marginal underwriting profits or losses, a key determinant of assessing overall profitability is how well the company earns investment income from its' debt and equity portfolios.

The composition of the investment portfolio is mainly determined by the current product mix, growth in its product categories, claims experience, market conditions, regulatory restrictions and finally expected returns of asset classes. In our experience, the majority of investments from insurance companies flow to debt capital markets and how well the equity capital market functions will determine the allocation to equity.

## ▪ Shareholders' equity/Net assets value

As discussed above, shareholders' equity will be one of the key drivers of an insurer's business, as it determines the capacity to grow by underwriting more business. From a valuation practitioner's standpoint, shareholders' equity will be the simplest form of capital available whereas advanced risk based methods can be employed to calculate the actual economic capital available, which will depend on factors such as regulatory provisions, non-equity and hybrid capital available to absorb risks and any policyholder capital available to absorb risks (e.g. unit-linked products).

## Key drivers of Life Insurance valuations

Often Life insurance policies are initially loss-making due to the policy acquisition, administrative and other underwriting costs at the outset. As the years progress, the pooled income from net premiums and investment returns exceeds the costs of claims and other underwriting expenses. Therefore, the longer the policy is in force the greater the value creation for the Life insurance company. This from a valuation point of view is defined as the value of in force policies.

Again the ability of the Life insurance company to write policies will depend on its capital allocated to absorb risks. As such, as discussed above, shareholders capital plays a key role in Life insurance company value creation and hence in its valuation.



## ▪ Shareholders' equity/Net assets value

Similar to our discussion under general insurance section, shareholders equity is the simplest form of capital available for a valuation practitioner.

## ▪ Value of in force policies

This is the present value of the future after tax profits generated by policies in force as at the valuation date. This value of inforce is typically affected by several factors, which needs considerable amount of projections and are based on actuarial assumptions:

- Value of new business – profit inflow from new policies written
- Assumption changes and experience variances – Actuarial changes made as the policies progress, such as mortality rates, morbidity rates, investment returns, expense and discount rates.
- Profits paid out – profits attributable to shareholders to be paid out from maturing life policies
- Unwinding – unwinding of the discount of anticipated profits from maturing policies

The combination of the Net Asset Value (NAV) and the Value of Life in Force will give the Embedded Value for a life insurance company, which reflects the economic worth of a life insurance business. However, it should be noted that calculation of the value of in force will depend on the availability of information, especially the actuarial inputs of the life insurance policy portfolio. In our experience the information that are publicly available in this space is very limited.



## Valuation methodologies

While appreciating the fact that fair market valuation of insurance companies should employ the methods which most reflect the economic value drivers of the company, as valuation practitioners we have access to the following methodologies, which can be selected based on the information availability on the value drivers (as discussed earlier) of the target insurance company.

### ▪ Residual Income Method

Residual Income is an approach to equity valuation which accounts for the Economic Value Added of a business. "Residual Income" is the excess income after accounting for the opportunity costs measured relative to the book value of Shareholders' equity. As per the Residual Income Methodology the intrinsic value of the insurance company is its current net asset value of the Company plus the present value of future residual income.

### ▪ Justified PBV Method

The Justified Price-to-Book Value is a form of intrinsic value calculation where it indicates the warranted PBV multiple given a company's expected return on equity, sustainable growth rate, and its cost of equity. The justified PBV multiple is then applied to company's net asset value to derive the fair value of the insurance company.

### ▪ Market Multiples Method

Insurance companies can be valued based on the market multiples of its listed peers. The commonly used market multiples methodologies to calculate the fair value of an insurance company are Price to Book value (PBV) and Price-to-Earnings (P/E) ratios.

Insurance companies listed on Colombo Stock Exchange (CSE)									
Company	Total assets (LKR Mn)	Total equity (LKR Mn)	GWP (LKR Mn)	ROE*	Profit margin	PBV	PER	Share Price (LKR)	Market cap (LKR Mn)
	FY17	FY17	FY17	FY17	FY17	19.09.2018		19.09.2018	
Ceylinco Insurance PLC	144,544	39,403	34,662	21.1%	24.0%	0.99	4.46	1,950.00	39,000
AIA Insurance Lanka PLC	52,584	11,284	11,511	11.3%	11.1%	2.47	3.79	906.20	27,865
Union Assurance PLC	43,067	11,965	10,118	33.4%	39.6%	1.56	2.53	317.60	18,716
Janashakthi Insurance PLC	36,843	11,315	15,115	6.6%	4.9%	0.44	4.76	22.20	5,029
HNB Assurance PLC	18,649	3,796	7,821	24.0%	11.6%	1.44	5.99	109.00	5,450
Softlogic Life Insurance PLC	12,478	3,886	7,531	39.3%	20.3%	2.61	4.35	27.00	10,125
People's Insurance PLC	7,745	3,057	4,782	25.3%	16.2%	1.26	4.96	19.20	3,840
Amāna Takaful PLC	5,936	1,770	3,641	8.8%	4.3%	0.75	74.00	7.40	1,332
Amāna Takaful Life PLC	2,810	574	792	8.7%	6.3%	0.87	100.00	10.00	500
Arpico Insurance PLC	2,104	933	1,038	22.1%	19.8%	1.27	5.76	17.90	1,186

\*ROE adjusted for one off surplus  
Profit margin = Profit after tax (excluding one off surplus)/GWP

Source: CSE, KPMG analysis



**Shiluka Goonewardene**  
Principal, Deal Advisory

Shiluka is the Principal of Deal Advisory division of KPMG in Sri Lanka. He counts over 20 years of experience in the spheres of Corporate Finance, Transaction Services, Mergers & Acquisitions and Real Estate Advisory Services and leads a team of 50 professionals and associates.

Has served as the Engagement Partner / Director in numerous advisory engagements ranging from business valuations, financial due diligences, private placements, restructuring and mergers for companies in varied industries.

Shiluka has carried out transaction and corporate finance related assignments and projects in the United States, United Kingdom, Netherlands, China, Turkey, Algeria, Egypt, Sri Lanka, Bangladesh, Pakistan, Dubai, Iran, India and the Maldives. Out of the engagements he has carried out, advising a number of privatizations and restructuring engagements for several key State institutions in Sri Lanka, serving as a key resource person in an advisory assignment involving the entry strategy for a multinational oil corporation in its entry to the petroleum and gas market in Sri Lanka and also carrying out due diligence for the divestment of a multinational financial services entity are significant.

# The Connected Car

# The Connected Car:

## Opportunities and risks in the Telematics ecosystem

The automotive industry has led to a remarkable shift with the digital disruption and innovative technology over the last decade. We live in an era of connected cars, connected homes and connected lifestyles that connects everything together.

### What is Telematics?

A combination of computers and wireless telecommunication technologies, put together with the aim of efficiently transferring information over vast networks, can be illustrated as telematics. Telematics is all about data that turns into actionable information affecting all the components of the insurance industry. It challenges traditional business models and creates new opportunities and nurtures innovation.

### Market Opportunities for insurance

Risk segmentation and pricing can be determined analyzing the real-time driver behavior gathered from the vehicle fleets along with the value-added services to policyholders. Extended solutions of big data and analytics platforms can be offered as enhanced solutions to improve competitive differentiation.

As a result of the digital enhancements and emerging new technologies, the connected car concept has been introduced enabling the car's ability to connect with the outside world and optimize its own operation using sensors and internet connectivity. The vast amount of data in terms of storage and analytics can be collected real-time through the telematics technology to precisely identify driving patterns. These solutions have the capability to provide the location of your fleet vehicles in real time, trip distances, time of day, speed, sudden acceleration or braking, idle time, number of other cars on the road, weather circumstances, fuel consumption etc.

The potential benefits of pay-how-you-drive, pay-as-you-drive are key factors for the insurance industry and may become a way of differentiating the service offering at different price points. Geo-fencing services can be offered by insurers who help promote driving safety, to boost fleet tracking strategies and help ensure policyholders have appropriate coverage at all times. Real-time analysis of telematics information can be pushed to insurers instantly after an accident and the decisions can be made by analyzing the data from sensors on seat belts, air bags, brakes and other systems in the vehicle. Subsequently, a set of necessary actions can be taken such as calling emergency personnel, sending a replacement fleet vehicle in the case of a commercial operation and various other post accident activities which are performed in isolation at present.

### Risks associated with Telematics

Companies can only capitalize on the data if they can ensure it is being used appropriately. Data can be hacked, lost or mishandled, disrupting lives, possibly putting them in physical danger, and leading to serious financial, regulatory and reputational consequences for the service provider. Quality and integrity of data are also vital; data that has been tampered with can't be used to generate valuable insights to a business.



## How to balance the risks and the potential business opportunities

Here are some key considerations that a company can look at to leverage market potential whilst reducing the risks that come from mishandling of data.

### Embed security and privacy at the early stages of product and software development

Security and privacy controls should be introduced at the first stage of the product development life cycle- from concept formation to designing, coding testing and configuring the final product. This would make the product secure by design and reduce the need for costly, disruptive fixes and product recall.



### Focus on the entire ecosystem and not on 'just' your data

In a connected car, there is data flowing not just through the car but also throughout an entire ecosystem. This may include data collected by the car and shared with third parties as well as data coming into the car from other sources such as public clouds.

The data of a connected car is used and analyzed by multiple participants in the ecosystem for different purposes. The entire ecosystem has to be secured and organized in a way that one weak participant shouldn't compromise the overall reliability and accuracy of data.



### Respect the data privacy of the customer

Customers don't think or have an understanding of the amount of data that can be collected by a telematics device. It is the responsibility of the service provider to ensure customer data is managed responsibly and appropriately.

When telematics are used for insurance, the Insurance companies must strive to provide total transparency about what data is collected and how it is used. Any changes in the data privacy policies should be communicated to the customer in advance, allowing them to opt in or out to control what is being shared and with whom.





## Follow the three tenets of data security

The fundamental of securing the internet of things, including connected cars, require control, privacy, and trust, which can be achieved by balancing confidentiality, integrity, and the availability of data. **Confidentiality** is the ability to restrict access to data to only those who need access to it. **Integrity** is making sure it does not change without permission. **Availability** is the ability to access it when needed.

The three tenets are often referred to as a three-legged stool, and if a service provider creates a product that is missing one leg of the stool, it will eventually topple.



## Encrypt information in transit and at rest

The communication channels used by external devices should always be encrypted, e.g. telematics devices sending data to the insurance company's data store. This will add to the cost of the cybersecurity program due to higher network traffic required to transmit the data and the additional computing power needed for the encryption. However, this would reduce the risk of data being intercepted by unauthorized parties and can be used as a differentiator to promote a service offering.

Although the challenges seem immense, telematics is the only way to differentiate a rather mundane motor insurance industry which has seen sluggish growth in the last few years. As in anything in business, there would be first mover advantages in adopting telematics to motor insurance and is much discussed at present due to this reason.



**Priyanka Jayatilake**  
Partner, Head of Advisory

Priyanka is the Head of Advisory and leads IT Advisory services.

Priyanka was the engagement and quality assurance partner for IT Infrastructure and Security Review carried out in the year 2005 for a leading international bank. He has lead many engagements related to core applications reviews and cyber security in Sri Lanka, Maldives and Bangladesh

Priyanka also leads engagements on implementing Oracle E-Business Suite for a large listed corporates automating the back office functions including inventory, GL, and accounts receivable





	Insurance Company Full Name	Abbreviation
1	AIA Insurance Lanka PLC	AIA Life
2	Allianz General Insurance Lanka Ltd	ALLI Gen
3	Allianz Life Insurance Lanka Ltd	ALLI Life
4	Amana Takaful PLC	AMA Gen
5	Amana Takaful Life PLC	AMA Life
6	Arpico Insurance PLC	Arpico
7	Ceylinco General Insurance Ltd	CINS Gen
8	Ceylinco Life Insurance PLC	CINS Life
9	Continental Insurance Lanka Ltd	CONT
10	Cooperative Insurance Company Ltd.	Co-op
11	Cooplife Insurance Ltd	Cooplife
12	Fairfirst Insurance Ltd	Fairfirst
13	HNB Assurance PLC	HNB Life
14	HNB General Insurance Ltd.	HNB Gen
15	Janashakthi Insurance PLC	JINS Life
16	Janashakthi General Insurance Ltd.	JINS Gen
17	Life Insurance Corporation (Lanka) Ltd	LIC
18	LOLC General Insurance Ltd.	LOLC Gen
19	LOLC Life Assurance Ltd	LOLC Life
20	National Insurance Trust Fund	NITF
21	Orient Insurance Ltd	Orient
22	People's Insurance PLC	PINS
23	Sanasa Insurance Co. Ltd	Sanasa
24	Softlogic Life Insurance PLC	SHL Life
25	Sri Lanka Insurance	SLIC
26	Union Assurance PLC	UAL Life





# At a glance

KPMG firms collaborate across the globe, addressing the needs of clients, making bold decisions on investing together and serving the needs of KPMG professionals, wherever they work. Find out more about our network below.

## KPMG in Sri Lanka



Part of KPMG  
global network

Established in,  
**1897**

The oldest Chartered  
Accountancy firm in  
the country

KPMG is expanded in,  
**6 districts**

KPMG value proposition,  
• **Our Values**  
• **Our Credentials**  
• **Proven Methodology**  
• **Experienced Core Team**

Celebrating,  
**120 years**  
Service

Professional Service Provider



**Audit**



**Tax**



**Advisory**

## People



**18**  
Partners

**1,300**  
People Locally

**197,263**  
People globally



**Lifelong learning**  
Is our global citizenship priority

**Dedicated to Learning & Development**

**Committed to developing a  
continuous learning culture**

**Global  
Existence**

- **Technical training,**
- **Coaching,**
- **Mentoring,**
- **Industry secondments and**
- **Skill-building programs**

**154**  
Countries



## Achievements

**Ranked 1<sup>st</sup>  
LMD Auditors League**

Auditing 45 of  
the top 100  
listed entities in  
Sri Lanka



**Most Respected 2017**

**- LMD**

KPMG was ranked among  
the most respected in the  
latest LMD rankings

becoming  
first in the  
financial  
service  
category



KPMG named **"Tax Firm  
of the Year – 2017 & Tax  
Disputes & Litigation  
Firm of the Year – 2017"**



by International Tax  
Review, Asia Tax  
Awards 2017

KPMG named **"The Best  
Advisory Firm – Sri Lanka  
2016"**



by International  
Finance  
Magazine

KPMG named **"Best Deal  
Advisory Firm in Sri  
Lanka 2015"**



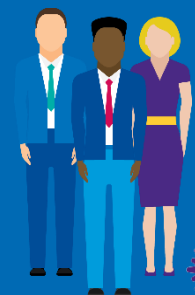
by Global Banking  
and Finance  
Review

## Customers



**1,500+ Clients**

**KPMG Industry Base**



# KPMG service offerings



## Audit

High quality, independent financial statement audits are essential to maintaining investor confidence.

Our audit professionals are committed to the public interest. They seek to challenge assumptions and unlock valuable insights based on a thorough understanding of an organization's business and industry, and innovative audit methodologies and approaches.

Understanding the financial performance of any business must be placed in the context of strategic priorities, risk appetites and competitive positioning. Our technology-enabled audit approach applies extensive data analytics to provide the necessary evidence confirming that critical controls and disclosures uphold the highest level of integrity.

- Audits of financial statements
- Audit-related services
- Audit data & analytics
- Accounting Advisory



## IT & Management Consulting

Our high capability teams offer deep industry and technical knowledge, and market-leading tools to deliver solutions across every business and industrial sector.

Our consultants assist clients to make better decisions that may reduce costs, enhance organizational effectiveness and develop appropriate technology strategies.

- People & Change
- Customer & Analytics
- Financial Management
- Operations
- Strategy & Economic Advisory
- IT Advisory
- Supply Chain



## Risk Consulting

Our risk consulting practice combines the knowledge and expertise of over 50 partners, directors and professionals. We help organizations transform risk and compliance efforts into competitive advantage by applying a risk lens to corporate strategy. This improves risk intelligence and decision making, protects financial and reputational assets, and enhances business value.

- Forensic
- Business Process Management
- Accounting Advisory Services
- Internal Audit & Risk Compliance



## Deal Advisory

Our experienced investment professionals skilfully assess how opportunities to buy, sell, partner, fund or fix a company can add and preserve value. Our teams combine a global mind-set and local experience with deep sector knowledge and superior analytic tools to support clients. From assisting to plan and implement strategic change to measurably increasing portfolio value, we deliver tangible results.

- Valuations
- Debt Advisory
- Transaction Solutions
- Mergers & Acquisitions
- Restructuring
- Real Estate Advisory



## Tax

A business's approach to tax is increasingly subject to public scrutiny and is now a major reputation driver. From company set-up to cross-border and transfer pricing solutions, we work with a wide range of national and multi-national organizations to deliver effective tax solutions. Our tax professionals combine international experience with local knowledge to provide leading edge commercial tax strategies tailored to specific client needs.

- Inbound & indirect taxes
- Mergers, acquisitions and restructuring
- International tax services
- Transfer pricing
- Tax management consulting
- Global mobility services
- Automatic exchange of information



# KPMG Leadership - Insurance



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