

SIMPLIFIED INSURANCE FINANCIALS

Insurance Accounting is different from the accounting for a manufacturing or trading organisation, due to the uniqueness of the business and terminology associated with the transactions.

Summary of the extract of Income Statement is as follows:

Income Statement	Note	2024 Rs. '000
Gross written premiums	A	31,573,467
Less: Premium ceded to reinsurers	B	(2,509,698)
Net written premiums	C	29,063,769
Net insurance benefits and claims	D	(14,249,713)
Net acquisition cost	E	(5,790,389)
Increase in life fund	F	(5,270,740)

Summary of the extract of Statement of Financial Position is as follows:

Liabilities	Note	2024 Rs. '000
Life insurance fund	G	31,233,665
Surplus created due to change in valuation method from NPV to GPV	H	1,056,535
Claim payable / unclaimed benefits		1,000,078
Life insurance contract liabilities		33,290,278

Note: Only the insurance specific part of the Income Statement is extracted above

Gross written premiums >>> / NOTE A

Gross Written Premium (GWP) represents the price charged by insurance companies in order to pay claims or benefits applicable under the Life Insurance policy. GWP is comparable with the 'turnover' of a trading or manufacturing organisation. However, GWP is accounted on an accrual basis.

Premium ceded to reinsurers >>> / NOTE B

Reinsurance is the process whereby part of the risk(s) undertaken by the Insurance Company is transferred to another entity called the reinsurance company, for which the Insurance Company pays a premium known as the 'Reinsurance Premium'.

Net written premiums >>> / NOTE C

This is the portion of premium which is applicable for the financial year and earned by the insurer. This represents the amount of GWP less reinsurance outgo that is relevant to the accounting period.

Net insurance benefits and claims >>> / NOTE D

If the incident against which the insurance cover was obtained occurs, the Insurance Company indemnifies the insured with an agreed sum, which is known as a claim. If the customer survives till the policy expiration date, the maturity proceed will be paid. If customer requests proceeds before the maturity date, accumulated fund is paid which is called Surrenders.

Part of the claim payment is reimbursed by the reinsurance company to the Insurance Company based on the proportion of risk(s) transferred. This is known as the Reinsurance Recoveries.

The benefits and claims net of reinsurance recoveries are treated as net benefits and claims.

Net acquisition cost >>> / NOTE E

This consists of commission, franchise fee, deferred acquisition expenses net of Reinsurance commission.

Increase in Life fund >>> / NOTE F

For the purpose of meeting the policyholders' future liabilities, the insurer is required to maintain a separate fund with sufficient assets to cover an actuarially determined provision which is known as the Long Term Insurance Fund. The amount added to the fund during the current year will appear in the Statement of Income as change in Insurance Contract liability - Life Fund.

Life Insurance Fund >>> / NOTE G

In Long Term insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policyholders' obligations. This is known as the 'Long Term Policy Liability'. The size of the fund that needs to be maintained is determined by the actuarial valuation.

This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year-end. The excess is generally known as the Life Surplus and referred to as Transfer to Shareholders Funds in the Financial Statements.

Surplus created due to change in valuation method from NPV to GPV >>> / NOTE H

This represents a change in the valuation method from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). As directed by the Insurance Regulatory Commission of Sri Lanka, these reserves are maintained under Life Fund until 2016.

However, as at 31 December 2024, Life fund only includes One-off surplus relating to the participating fund.