

## **Insurance Regulatory Commission of Sri Lanka - 2024**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka (the “Commission”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Commission.

## 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc.                        | Non-compliance  | Management Comment  | Recommendation   |
|--|---|---|--|
| a) Public Enterprises Circular No.01/2024 dated 28 February 2024 | (i) State-Owned Enterprises (SOEs) are required to maintain stringent financial discipline to control expenditure and ensure long-term sustainability by adhering to prescribed guidelines. However, a substantial increase in certain expenditure categories was observed, resulting in a significant rise in total expenditure without a corresponding growth in total income. Specifically, total expenditure increased by 43% in 2024 compared to 2023, while total income recorded only a marginal growth of 1%. | The annual fee has been charged from insurance companies at 0.125% of the GWP. IRCSL expected to increase the annual fee % from 0.125% to 0.2% for the year 2024 however, the regulation was signed only on 22.12.2024 (Gazette 2415/79) and implemented the increase from 1st January 2025.<br><br>Based on such increase the budgeted surplus is around 30% of the income for the year 2025, before tax.<br><br>IRCSL has contributed Rs. 45 Mn to the consolidated fund under two installments during the financial year 2025. | It is recommended that the management strengthen expenditure control measures and implement periodic financial performance reviews to ensure alignment between income growth and expenditure levels. Enhanced budget monitoring and cost rationalization initiatives should be introduced to prevent further erosion of profitability. |
|  | (ii.) Section 10 of the Circular emphasizes that State-Owned Enterprises (SOEs) must suspend entering into new rent or lease agreements for renting or leasing out new buildings unless prior approval is obtained from the   | The Commission wishes to reiterate that the decision to locate its Head Office at the World Trade Center (WTC) was made after careful consideration of multiple strategic, operational, and   | It is recommended that the Commission conduct a comprehensive cost-benefit analysis of   |

Public Enterprises Department (PED). It further states that existing agreements may be extended only after conducting a proper needs assessment and a cost-benefit analysis, and such extensions must be approved by the Board of Directors.

However, the lease agreement for office space on the 11th floor of the East Tower, World Trade Center, Colombo, has resulted in significant financial commitments for the Commission, totaling Rs. 48,569,153 in 2024 alone. This expenditure represents approximately 13% of the Commission's total expenditure and 10% of its total income for the year. The lease was renewed for another five years from October 1, 2024, to October 1, 2029, without conducting a thorough analysis of more cost-effective alternatives.

security-related factors. As the regulatory authority of the insurance industry, IRCSL is required to maintain a strong institutional image, accessibility, and operational efficiency when interacting with domestic and international stakeholders, including insurers, reinsurers, financial institutions, and global regulatory bodies.

The WTC premises provide several critical advantages which justify the investment, ensuring value for money and protection of stakeholder interests:

1. **Strategic Location:** Situated in the heart of Colombo's financial district, the WTC offers immediate proximity to the Central Bank, Ministry of Finance, other financial sector regulators, and key insurance institutions — facilitating coordination, supervision, and policy dialogue efficiently.

2. **Safety and Security:** As a high-security, internationally recognized commercial complex, WTC provides robust infrastructure, uninterrupted power supply, advanced fire safety systems, and disaster resilience that are essential for a regulatory agency safeguarding sensitive financial and policyholder data.

3. **Operational Efficiency and Reputation:** The WTC's professional environment enhances the credibility of the

alternative office spaces, adopt competitive leasing procedures, and regularly review lease arrangements to optimize expenditure and ensure prudent use of public fund.

IRCSL among international stakeholders, visiting delegates, and partner institutions, reflecting the standards expected of a national financial regulator.

4. Cost Justification: Although the lease expenditure represents a notable portion of total expenditure, the total cost-to-value ratio remains competitive considering the infrastructure quality, central location, maintenance standards, and the avoided cost of separate security, IT, and facility management arrangements that would otherwise be incurred elsewhere.

Nevertheless, in line with the Ministry of Finance's guidance, the Commission has initiated discussions with the Urban Development Authority (UDA) to evaluate alternative options for future relocation. A comprehensive cost-benefit analysis will be conducted as recommended to ensure continued adherence to the principles of economy, efficiency, and prudence in financial management.

The Commission had several discussions with the Ministry of Finance to find an alternative location and also in the process of finding an alternative place.

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|---|---|--|--|
| b) According to Section 40,45,46,48 and 51 of the | The Commission is required to employ qualified professionals with expertise in insurance and actuarial science to effectively | The Commission has made continuous efforts to recruit qualified professionals for the positions of Actuary and | It is recommended that the Commission take immediate action to |
|---|---|--|--|

Regulation of Insurance Industry Act No.43 of 2000 as amended, discharge its supervisory and regulatory responsibilities under the Act. However, despite the approval of the actuary position in 2016, the post has remained vacant for approximately eight years.

Assistant Actuary since the approval of these posts in 2016. Several public advertisements were published; however, due to the highly specialized nature of the field and the limited availability of suitably qualified candidates, most recruitment attempts were unsuccessful due to the remuneration offered. The Assistant Actuary who was recruited served only for a period of five months and migrated.

Considering the continued difficulty in filling these positions on a permanent basis, the Commission, at its 218th Meeting, decided to obtain actuarial services on a consultancy basis. Accordingly, the Commission entered into a two-year agreement with Willis Towers Watson (WTW) to deploy two qualified actuaries with effect from 01 August 2024 after obtaining approval from the Cabinet, to lead and strengthen the actuarial function at the IRC SL.

Furthermore, it is noted that the prevailing market rates for actuarial professionals are considerably higher than the approved government salary scales. Therefore, the Commission has submitted a Cabinet Paper through the Ministry of Finance on 22.08.2025 seeking approval

to offer a monthly salary of Rs. 2 million for the Actuary and Rs. 750,000 for the Assistant Actuary, in line with current market rates, to facilitate permanent recruitment to these critical positions. Awaiting a response from the Ministry of Finance.

- c) According to the Cabinet Decision No. CP24/0854/60 4/096 dated 23 May 2024, it had been resolved to remit 100 per cent motor & non motor insurance premium of the SRCC & T coverage by the General Insurance Companies to the NITF.
- In accordance with the Cabinet decision, the Insurance Regulatory Commission of Sri Lanka, through Commission Paper No. 252/03 dated 10th June 2024, resolved to charge the annual fee on Strike, Riot, Civil Commotion, and Terrorism (SRCC & T) Non-Motor premiums solely from the National Insurance Trust Fund (NITF) from 2024 onwards, and to deduct the same from primary insurance companies, as 100% of the gross written premium on SRCC & T coverage is collected by the NITF.
- However, it was observed that the Commission has continued to collect the annual fees on SRCC & T Non-Motor premiums directly from insurance companies instead of obtaining them from the NITF, contrary to the approved decision.
- IRCSL is in the process of carrying out annual fees' reconciliation and will settle any over/under payments for non-motor between insurance companies and NITF by the end of 2025.
- It is recommended that the Commission strictly implement the approved procedure by collecting annual fees on SRCC & T Non-Motor premiums exclusively from the National Insurance Trust Fund, ensuring compliance with the Cabinet decision and avoiding direct collections from insurance companies.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.104,265,232 and the corresponding surplus in the preceding year amounted to Rs. 194,444,641. Therefore, a deterioration amounting to Rs. 90,179,409 of the surplus was observed. The reasons for the deterioration are increase of staff cost and professional charges in the year 2024.

## 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are as follows.

| Description   | Amount (Rs.) |             | Percentage of change % | Reason for Changes   |
|---|--------------|-------------|------------------------|--|
|   | 2024         | 2023        | 2024                   |  |
| <b>Income</b>   |              |             |                        |  |
| Annual Fees From Insurance Companies                            | 341,550,938  | 318,586,057 | 7                      | Annual fee had been charged on Gross Written Premium at 12.2%. Due to the increase in GWP, annual fees was increased.    |
| Registration and Renewal Fees                                   | 34,497,564   | 17,817,822  | 94                     | There was a change in renewal of registration fee calculation based on Determination 9 issued on 27.09.2023.             |
| Interest on Repo and Call Account                               | 15,010,052   | 12,444,405  | 21                     | Based on the cashflow requirement, investments made in REPO, as a result there was an increment in REPO interest income. |
| Interest on Treasury Bills                                      | 22,001,462   | 31,099,450  | (29)                   | Negative interest income due to interest rate decrease.  |
| Interest on Fixed Deposits                                      | 11,587,030   | 34,979,369  | (66)                   | Negative interest income due to interest rate decrease.  |
| <b>Expenditure</b>  |              |             |                        |  |
| Staff Costs   | 198,801,875  | 132,146,344 | 50                     | There was salary revision during 2024.   |
| Staff Medical Insurance   | 4,182,995    | 2,937,423   | 42                     | The enhancement of the scheme resulted the Increase in the number of employees premium.                                  |
| Staff Medical Expenses  | 3,815,083    | 2,771,760   | 38                     | The enhancement of the scheme resulted the increase.   |
| Professional Charges  | 45,225,380   | 224,300     | 20,063                 | The Insurance Regulatory Commission has engaged Wills Towers Watson, India for Actuarial Professional Services.          |
| Staff Training Local & Subscription                             | 4,965,728    | 2,978,644   | 67                     | Number of staff training Programmes have been increase for 2024 compared to 2023.  |
| Commission Members and Staff - Overseas Training and Travelling | 2,607,620    | 970,359     | 169                    | A higher number of overseas training programmes are scheduled for 2024 compared to 2023.                                 |
| Directors Vehicle Allowance                                     | 5,166,438    | 4,550,000   | 14                     | The number of staff eligible for the vehicle allowance has been increased.   |

## 2.3 Ratio Analysis

Key ratios calculated for the commission and the industry for the last five years as follows.

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| <b>Commission</b>                        | 2024  | 2023  | 2022  | 2021  | 2020  |
| Growth of policy Holders Protection Fund | 14%   | 19%   | 10%   | 12%   | 19%   |
| Growth of Annual Cess Income             | 18%   | 9%    | 8%    | 7%    | 3%    |
| Cess Income as a percentage of GWP       | 0.24% | 0.23% | 0.22% | 0.23% | 0.24% |
| Growth of Annual Fees Income             | 9%    | 9%    | 11%   | 5%    | 9%    |
| Annual Fees Income as a % of GWP         | 0.11% | 0.11% | 0.11% | 0.11% | 0.12% |
| <b>Industry</b>                          |       |       |       |       |       |
| Insurance Gross Written Premium as a     | 1.08% | 1.01% | 1.07% | 1.38% | 1.39% |

|  |         |       |       |       |       |
|--|---------|-------|-------|-------|-------|
| Percentage of Gross Domestic Production                                      |         |       |       |       |       |
| Total Assets in Insurance Sector Rs. Billion                                 | 1219.27 | 1,087 | 947.3 | 879.8 | 789.7 |
| Total Assets growth of Insurance Sector                                      | 7.6%    | 15%   | 8%    | 11%   | 15%   |
| Assets in Insurance Sector as a Percentage of Total Assets of Finance Sector | 3.4%    | 3.27% | 3.02% | 3.29% | 3.37% |

### 3. Operational Review

#### 3.1 Management Inefficiencies

| Audit Issue  | Management Comment  | Recommendation  |
|--|---|---|
| <p>The Commission engaged an actuarial consultancy service from a private consultant in India for a two-year period effective 1 August 2024, incurring an expenditure of Rs. 44,761,668 for the year 2024. According to the agreement, the consultant's scope of work includes evaluating annual and quarterly actuarial returns submitted by insurance companies, ensuring regulatory compliance, assessing the adequacy of actuarial provisions, reviewing valuation returns, solvency ratios, assumptions, and surplus distribution, providing feedback to strengthen insurance companies financially, ensuring uniform application of Risk-Based Capital Rules across insurers, and proposing relevant guidelines.</p> <p>However, audit testing revealed that the consultant had issued actuary reports for Two Sri Lankan insurers. This dual role may compromise the independence of the Commission's supervisory and regulatory activities, as the consultant is simultaneously performing regulatory advisory functions and providing services to the same insurers being supervised.</p> | <p>As per the Contract signed with WTW, Section 3.2 (Conflicts of Interests) Indicates that "the Consultant shall hold the commission's interests paramount without any consideration for future work and enable the Commission to maximize benefits through personnel of the consultant who will work directly under the supervision of the Commission. The two experts are not involved with any of the insurance companies.</p> <p>This procurement was carried out by a Cabinet Appointed Procurement Committee, chaired by a Finance Ministry Official, and received cabinet approval for the procurement.</p> <p>Further, IRCSL has submitted a Cabinet Paper through the Ministry of Finance seeking approval to offer a monthly salary of Rs. 2 million for an Actuary and Rs. 750,000 for an Assistant Actuary, in line with current market rates, to facilitate permanent recruitment to these critical positions, without engaging external actuarial consultants.</p> | <p>It is recommended that the Commission ensure the independence of its regulatory functions by avoiding engagement of consultants who provide actuarial services to insurers under its supervision, and consider appointing independent consultants with no conflicts of interest. Also apply safeguards to mitigate the consequences.</p> |

### 3.2 Operational Inefficiencies

| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>a). According to the Supervision Manual, there is currently no established methodology for developing supervisory plans that define priorities or determine the appropriate depth and scope of off-site monitoring and on-site inspection activities. At present, the division primarily monitors day-to-day tasks and the activities earmarked for supervision within the organization's annual plan, without a structured framework to guide the overall supervisory process.</p>  | <p>Revised Supervisory Manual was approved by the Commission in 2025. However, a risk based supervisory framework is planned to be developed in 2026.</p> | <p>It is recommended that the Commission develop a structured methodology for supervisory planning that sets priorities and defines the depth and scope of off-site and on-site activities. This will ensure a systematic, risk-based approach to supervision, enhance oversight effectiveness, and align day-to-day monitoring with the organization's annual supervisory objectives.</p>  |
| <p>b). According to the Supervision Manual Completeness of the Returns should be certified by the Assistant Director. In general, the checklist needs to be completed within 7 working days of the receipt of return. Quarterly Return review should be completed within 3 months upon submission of the complete return. Annual Returns should be completed within 3 months upon submission of the complete return by the insurance companies. But it was observed delays of completing check list and time gaps between completing check list and review.</p> | <p>This will be implemented strictly from the year 2026.</p>  | <p>It is recommended that the Commission strictly adhere to the timelines outlined in the Supervision Manual by ensuring that checklists are completed within 7 working days of receipt, quarterly returns are reviewed within 3 months, and annual returns are reviewed within 3 months of submission. Further, implementing a tracking and monitoring system to flag delays will enhance compliance, improve efficiency, and ensure timely supervisory reviews.</p> |
| <p>c). According to the IRC SL website, a total of 28 companies are registered to operate in long-term and general insurance businesses. However, over the past five years, only three to five on-site inspections have been conducted annually. Inspections exceeding this number predominantly relate to money</p>  | <p>It will be captured through the Risk Based Supervisory framework. For the year 2025, five on site inspections have been completed.</p>                 | <p>It is recommended that the Commission enhance the frequency and coverage of on-site inspections for all registered insurance companies to ensure comprehensive supervision and regulatory compliance. A risk-based inspection plan should be implemented, aligned with both</p>  |

laundering compliance, carried out in accordance with the guidelines of the Central Bank. It was revealed that 50% of the general insurance market had not been inspected offsite in the last five years.

operational priorities and anti-money laundering guidelines, to strengthen oversight of the insurance sector.

### 3.3 Human Resources Management

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| a). It was observed that there were no proper approvals for Scheme of Recruitment (SOR), Salary Scale and Salary Codes to the employees of the Commission. | In order to fix salary codes, the existing Scheme of Recruitment (SoR) with salary scales has been sent to the Department of Management service (MSD) on 24.09.2025 and is awaiting a response   | It is recommended to develop a Scheme of Recruitment (SOR), Salary Scale and Salary Codes to the employees of the Commission as per the guidelines stipulated in operational manual for state own enterprises. |
| b). It was observed that there was no approved Specific “Salary Increase Policy” for the staff of the Commission.  | The Commission acknowledges the importance of developing a clearly defined Salary Increase Policy that formalizes the criteria, frequency, and methodology of salary adjustments. Such a policy will ensure transparency, consistency, and alignment with performance outcomes, cost-of-living movements, and market competitiveness—while remaining compliant with relevant governance and financial discipline frameworks. | It is recommended that the Commission need to develop and formally approve a Specific Salary Increase Policy for its staff, clearly outlining the criteria, frequency, and methodology for salary adjustments. |

## 4. Accountability and Good Governance

### 4.1 Effectiveness of Management Information System

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| An integrated and automated Management Information System (MIS) to provide timely and accurate information to management has not yet been established at the Insurance Regulatory Commission. Such a system is essential for processing data related to the insurance market, insurance companies, and reports generated by various divisions. | It has been budgeted for reengineering the regulatory IT System. Further, Web based Information gathering portal has been developed as per the guidance of the IT Steering Committee. It is in its pilot version in the meantime, IRCSL has initiated the process of procuring a system of regulation. | It is recommended that the Commission establish an integrated automated Management Information System to streamline data processing and information sharing, thereby enhancing efficiency and supporting timely, informed decision-making. |

Currently, inter-divisional information sharing is carried out through emails, shared folders, and printed documents. This manual process has resulted in delays in information flow, thereby adversely affecting the timeliness and effectiveness of the Commission's decision-making process.