

PRESS RELEASE

Risk Sensitive Capital Model for the Insurance Industry Supervision

The insurance industry in Sri Lanka is closely monitored and regulated by the Insurance Board of Sri Lanka (IBSL) under the Regulation of Insurance Industry Act due to its high impact towards the economy and the society. An efficient, competitive and reliable insurance industry greatly contributes to the economic development of a country. Therefore, the existence of an effective regulatory and supervisory framework which takes into account the modern developments taking place in the insurance industry both locally and internationally is essential for the operation of a healthy insurance market in the country. With the objective of achieving its mission of “ensuring that the insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policyholders and potential policyholders” in a more effective manner, the IBSL has embarked upon a revision process to its supervisory system.

The current supervisory system which is commonly known as the “Rules Based Supervisory System” is focused on establishing reasonable rules that scrutinize aspects such as the solvency margin, investments, minimum capital requirement, etc. However, this supervisory approach is perceived to be insufficiently reflective of varying risk profiles of different insurers, inconsistent with a risk based approach to management and considered as out of line with international best practices and emerging standards of the International Association of Insurance Supervisors (IAIS).

The IBSL after carefully analyzing the international experience on insurance supervision has taken a decision to carry out a modernization process to its supervisory system which focuses on the concepts of risk sensitive capital model for insurance industry supervision with the assistance of the World Bank. The main objective of this project is to develop and support the implementation of a risk sensitive minimum capital regime which is consistent with the industry risk profiles, practices and market dynamics for the insurance industry in Sri Lanka in consultation with the industry and under the collaborative control of the IBSL.

At the inauguration of the project held on 30th November 2009 at the IBSL, the World Bank consultants educated the staff of IBSL on various processes involved in the programme. The Chairman of the IBSL, Mr. Udayasri Kariyawasam delineated the project parameters set out by the World Bank at this meeting. The IBSL has appointed Mr. Damitha Narangoda, Director-Supervision, as the Project Head of IBSL who is currently serving as a member of the International Association of Insurance Supervisors (IAIS) Sub-committee for Solvency and Actuarial Issues. Subsequently, the consultants carried out a series of meetings with the industry representatives in order to understand and analyse the local insurance market and to ensure that the basis for the development of this new model is focused on the industry business profiles, practicalities and realities. A comprehensive report on Market Analysis ensuring that the project is consistent with the local market conditions is expected to be handed over to the IBSL by the consultants before the end of February 2010.

With the implementation of this new risk sensitive capital model for the insurance industry supervision, it will enhance the ability of insurance companies and the supervisory authority processes to focus on “risk rather than rules” and to provide a more flexible framework for maintenance of the regulatory minimum capital regime. Further, it will contribute to strengthening the risk management system of insurance companies and to have a supervisory system in line with international standards which supports a risk oriented management of insurers.