

MBSL Insurance Company Limited – 2016

The audit of the financial statements of the MBSL Insurance Company Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory 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. In carrying out this audit, My comments and observations on the performance of the company which I consider should be furnished to the parliament in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report. I was assisted by a firm of Chartered Accountants in public practice.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditors’ Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

- As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the followings.
 - a. The basis of the opinion and scope and limitations of the audit are as stated above.
 - b. In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

However, it should be noted that the Company's net assets are less than half of the stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No. 07 of 2007.

- As discussed in Note 33 to the financial statements, the Company has not segregated the long-term insurance business and general insurance business being carried on by it into two separate companies in accordance with Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.
- As required by Section 47(2) of the Regulation of Insurance Industry Act, No. 43 of 2000, as far as appears from my examination, the accounting records of the Company have been maintained in the manner required by the Rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

However, as disclosed in Note 33 to the financial statements, the non-life business does not fulfill the minimum required thresholds set for Capital Adequacy Ratio and Total Available Capital by the Regulation of Insurance Industry Act, No.43 of 2000, "the Solvency Margin (Risk Based Capital) Rules 2015" while the Life business does not fulfill the minimum required thresholds set for Total Available Capital.

2.2 Non-compliance with Laws, Rules, Regulations and Management Deficiencies

According to the insurance Industry Act No 43 of 2000, the minimum required thresholds set for Capital Adequacy Ratio and total available capital had not been full filled by the non- life business and life business of the company. As a result, the Company's license being suspended and the Company was unable to issue new insurance policies since 4 October 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2016 had resulted in a pre-tax net loss of Rs.220,524,000 as compared with the corresponding pre-tax net loss of Rs.100,568,000 for the preceding year, thus indicating a further deterioration of Rs.119,956,000 in the financial results of the Company. Increase of benefits and claims payments during the year under review as compared with the previous year and suspension of Company's license since 04 October 2016 were the main reasons attributed for the deterioration in the financial results.

3.2 Analytical Financial Review

The following observations were made.

- a) Payment of premium of life insurance policies had lapsed significantly by 3,616 policies or 82 per cent as compared with the previous year due to inefficiencies of sales and marketing personnel.
- b) Even though the value of gross premium for the years 2013,2014 and 2015 were Rs.1,414,107,678 , Rs.1,261,486,287 and Rs.1,436,431,766 respectively the estimated value for the year 2016 was Rs.2,600,000,000.which had exceeded the actual value for the year 2016 by Rs.1,355,241,000. Therefore attention had not been paid to prepare realistic estimates when forecasting of Gross Written Premium from Life and General Insurance business for the year 2016.
- c) Although it had been planned to earn a profit of Rs.50 million after taxation for the year 2016 by the company a loss of Rs.231 million after taxation had been occurred. Comparing with the corresponding loss of Rs.109 million for the previous year the loss after taxation had significantly increased by Rs. 122 million or 112 percentage.

4. Operational Review

4.1 Performance

4.1.1 Operating and Review

According to the Annual Report issued by MBSL Insurance Company Limited 07 main objectives had been mentioned to be achieved by the company However information had not been made available to audit for evaluating the achievements for the year.

4.2 Assets Management

A shortage of 128 assets items consisted with computer and accessories , office equipment and furniture and fittings had been observed by the Board of Survey report of the year under review. However, actions had not been taken in this connection.

5. Accountability and Good Governess

5.1 Audit Committee

The Audit Committee should be consisted with three independent Non- Executive Directors and Remuneration Committee should be consisted with two independent Non- Executive Directors. However, the members had not been appointed by the company for the Audit Committee and Remuneration Committee for the year 2016 due to frequent changes taken place in the Board during the year.

6. Systems and Controls

Performance bonds and adequate reinsurance coverage had not been obtained for the performance bonds issued by the company. Hence Special attention is needed in respect of the area of Risk Identification.

