

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the People's Insurance PLC ("Company") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss and statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations which I consider should be reported to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

**1.2 Basis for Qualified 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 qualified 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## 1.4 Audit Scope

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 scepticism 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 the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
(a.) The Insurance receivable ageing includes the related party insurance receivable amounting to Rs. 10,914,222 from five related parties. However, there is no separate ageing maintained for related party insurance receivables in respect of their own policies.	The related party policies also considered under general premium receivable ageing. The long outstanding receivables are monitored through the same.	It is recommended have a separate mechanism for identifying and monitoring of —insurance receivables from related parties.
(b.) No proper documentation reporting system in place for carrying out co-insurance activities. Therefore, it was unable to gather evidence of coinsurance commission rate, amount of coinsurance commission, premium rate, and liability distribution with co-insurers and period of co-insurance. The ten coinsurance support had been taken by the company and it was observed that co-insurance support was given only in one occasion during the year under review.	Noted. According to the given guidelines in the Reinsurance Manual Section 18.1, Legal Department prepares a placing slip and sends it to the Reinsurance Department. No outward coinsurance arrangements were made in year 2022. List of Coinsurances done from the inception of the company is attached There is no correspondence available as there were no outward coinsurance placements done in year 2022. Furthermore, in 2022 we have confirmed the support to one inward coinsurance request. More specific coinsurance guidelines will be incorporated to the Reinsurance Manual to be effective in year 2024.	It is recommended to have proper documentation system in place for co-insurance activities.

- (c.) The title insurance activities had been carried out in accordance with the Legal Procedure Manual approved by the Operations Management Committee (OMC) on 26 July 2022. However, it was observed that there was no segregation of duties to ensure that at least two individuals who responsible for completing a critical task that has financial consequences or has impact on financial reporting. Instead, it was observed that only Manager – Legal solely decide key processes such as, deciding premium rate, approve title insurance policies, title premium acceptance of risk below Rs.100 Mn and decide co-insurance arrangement by dealing with banks.
- As the management had noticed this gap, it was rectified in the Memorandum of Delegation of Financial Authority (MoFA) with segregation of duties. Co-insurance placements are decided by the Manger Legal with the support of Reinsurance Department.
- It is recommended to have proper internal control mechanism for major business processes including segregation of duties.

#### 1.5.2 Unreconciled Control Accounts or Records

Item	As per General Ledger Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Assessor Payments	3,324,686,005	3,231,391,598	93,294,407	The claim paid schedule is obtained from a dynamic report where some of the closed claims and rejected claims paid have not been captured from a front-end. However, GL balance indicates the correct claim paid as the voucher has been generated by the claims department and same is cross reconciled with the bank statements. The assessor payments are recorded separately in the respective claim accounts. The consideration will be given to maintain a separate GL accounts for assessor payments as suggested.	It is recommended to reconcile those differences in timely manner and make required adjustments to the financial records.

### 1.5.3 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(a.) The Company has an Investment Charter (IC) to provide guidance for Investment Committee of the Company and which had been last updated on 12 September 2017. According to the section 10 of the Methodology to achieve objectives of the IC, this shall be reviewed on regular basis. However, no review had been done for last 06 years since 2017. According to the answers given to the Internal Audit Report dated 26 July 2023 Management had agreed to review the IC before 31 August 2023. According to the management, the IC had been reviewed and approved at the meeting of the board was held on 24 August 2023. However, updated IC had not been available for the audit.	The management committee conducted a review of the investment committee charter, and the Board at its meeting on August 24 2023, approved the proposed amendments. Board secretary was advised to remind the committees regarding reviews of the charters of due time periods.	The board shall ensure periodic review of the company policies and which shall be submitted for the auditors for their review.
(b.) An Investment Operation Manual (IOM)/ Investment Policy (IP) had been developed to provide directions for the investment activities of the Company. According to the Internal Audit Report dated 26 July 2023 the investment operation manual/ investment policy had not been reviewed after 16 April 2018. According to the reply given to the Internal Audit Report, the management had agreed to update the IOM/IP before August 2023. Further, the management had confirmed that the required amendments had been done to the IOM/IP and submitted to the Operational Management Committee (OMC). However, the updated IOM/IP had not been submitted to the audit.	Since 01 January 2022, the Operations Management Committee prioritized the review and approval of policies, manuals, and processes, as well as the approval of new policies, manuals, and processes. The Investment Operations Manual was submitted to internal audit on November 23, 2023, following a review.	The board shall approve title insurance premium rates proposed by the professionals and which shall be submitted for the auditors for their review.
(c.) Board approved premium rates for title insurance had not been available for the audit. According to the manager-legal, the title insurance rates applicable were 0.35% for staff, 0.40% for normal risk, 0.45% for medium risk and 0.50% for high risk. However, the information in relation to approval of the title insurance premium rates and who approves the same had not been submitted for the audit.	Noted. The Board of Directors does not approve/decide the premium rates. The competent professionals in the relevant area of insurance decide the rates and conditions considering the risk, claim history and the market competition. Rates and discounts with authority levels will be submitted to the internal audit annually.	The board shall approve title insurance premium rates proposed by the professionals and which shall be submitted for the auditors for their review.

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| <p>(d.) According to “Instructions to the Applicants – Title Insurance” The documents such as Title Report, Certified extracts of encumbrances obtained, Title Deeds, Main Survey Plan, Street Line Certificate, Non Vesting Certificate, Ownership Certificate, Payment of Bills of Assessments and a letter from the lending institution had been presented when applying title insurance cover. However, there were no records in the title insurance files whether those documents had been obtained and filed prior to issue of the title insurance policy.</p> | <p>Noted. A check list has been introduced with effect from 08 December 2023</p> | <p>It is recommended to maintain proper documentation system in relation to issuance of title insurance policies.</p> |
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>It was noted that there are reinsurance recoverable outstanding balances amounting to Rs. 26,702,426 for claims which have already been settled by the company as at the year ended 31 December 2022. This recoverable of Rs. 26 Mn is pending from the SRCC &amp; TC funds even though the claims have been settled by the year ended 31 December 2022.</p>	<p>Even though the claims have been settled to the client, the salvages pertaining to the same have not been finalized. Until the settlement, NITF will not settle the balance outstanding. As a result, we are not in a position to complete the recoveries which is beyond company’s control. Total outstanding amount is Rs. 9,156,321 which was approved by the Technical Advisory Committee at NITF funds will be released within February 2024.</p>	<p>The company should take necessary actions to claim reinsurance receivables for the claims paid by the company.</p>

### 1.6.2 Payables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>It was noted that there is a long outstanding excess premium balance of Rs. 105,821,453 (outstanding for more than 365 days) as of 31 December 2022. Further, it was observed that there is no established process in place to clear the balances after a stipulated time period. This has resulted in accumulation of long outstanding excess premium balances.</p>	<p>This includes unidentified credits paid by the customers. These balances are been followed up with the respective departments on a regular basis. During the year Rs. 146 Mn has been refunded. However, as per IRCSL guidelines these balances have to be maintained as deposits and cannot be recognized to profit.</p>	<p>It is recommended to establish a mechanism to identify those balances and refund in timely manner.</p>

**1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a.) Section 35 of No. 43 of 2000 Regulation of Insurance Industry	<p>An insurer shall not be liable to pay amount due under any contract or policy of insurance affected or issued by such insurer in respect of insurance business other than life assurance business. Unless-</p> <p>a) The full premia due under such contract or policy on the date on which such amount becomes payable, has been paid; or</p> <p>b) A bank guarantee for the payment of such premia has been furnished by the insured or broker on the date on which such amount become payable and the insured or broker pays such premia within such period of time as may be determined by the board.</p> <p>However, It was observed that, 13 motor claim payments amounting to Rs. 514,434 had been settled without charging outstanding premium amounting to Rs. 153,789 by the insured. Further, it was observed that the entity had set-off claim payment against premium outstanding.</p>	<p>These vehicles were initially insured under private usage, but had been used for hiring purposes at the time of the claim. Therefore, the claims had been rejected. After receiving the appeals made by the insured, considering the business relationship and the future business potential the claims were paid after including the hiring cover. The additional premiums charged for the hiring cover had been deducted from the claim payments to expedite the process.</p>	<p>The company shall made claims in accordance of the provisions of the applicable laws and regulations.</p>
(b.) Section A.5.4 of Code of Best Practice on Corporate Governance 2017	<p>According to the guideline each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria set out in the Specimen in Schedule K. However, only six (06) out of seven (07) Directors had submitted the annual declaration.</p>	<p>The company secretary was advised to inform the Chairman of non-adherence of directors to stipulated guidelines.</p>	<p>The annual declaration shall be made by every directors on annual basis.</p>

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| (c.) Section B.3 of Code of Best Practice on Corporate Governance 2017                        | According to the schedule D, the annual report should cover the following disclosures under the remuneration policy;<br>- Basic salaries<br>- Perquisites and benefits<br>- Performance bonus<br>- Pension entitles etc.<br>However, those disclosures had not been made in the annual report of the Company for the year 2022.   | A summary of the remuneration of directors is disclosed on page 164 of our Annual Report for the year 2022.  | The management shall present their remuneration policy in the Annual Report in complete manner.                                 |
| (d.) Principle G.2 of Code of Best Practice on Corporate Governance 2017                      | According to the principle, the board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cyber-security risk management policy which should be approved by the board. However, it was observed that the CISO had not been appointed nor the cyber security risk management policy had not been developed for the entity. | Our IT function is managed by the PLC group IT department. They have appointed an ISO with sufficient expertise and authority and currently in the process of recruiting a CISO. As recommended by the Board sub-committees a Cyber Security Management Policy has been submitted to the Board IT sub-committee and recommendation has been obtained and will be submitted for Board approval on 04 December 2023. | There shall be a Chief Information Security Officer and a board approved cyber-security risk management policy for the company. |
| (e.) Determination No. 03 of the Insurance Regulatory Commission of Sri Lanka,                | According to the determination, the period for settlement of premia to be set at 60 days from the date on which the premium is payable. However company had been used the credit period of 90 to 120 days for different policies contrary with the determination No. 03 of Insurance Regulatory Commission of Sri Lanka.  | Noted. We adhere to this approach in a limited scale to maintain industry competitiveness. We are gradually reducing the credit periods granted to be in line with the determination no 03.  | The credit policy shall be in line with the statutory requirements of the country.  |
| (f.) Section 4.9 of “Guidelines on Policy Framework For General Insurance Products” issued by | It was observed that following elements does not include in policy schedule which is currently used by the legal department of the Company.<br>• Date of commencement of the policy and the period of coverage of the policy except marine policies in respect of period of coverage.   | The gaps were identified and SRS will be sent to ICT Department for the system modifications. Already available fields and the new fields to be incorporated from 2024 are mentioned below<br>• Date of commencement -   | All required elements shall include in the policy schedule of the company.  |



IRCSL on 24th April 2023	<ul style="list-style-type: none"> <li>• Name(s) of the additional cover(s) selected by the policyholder including the relevant additional premium(s). Reference to the section in the policy document shall be mentioned. h)</li> <li>• Code of the Broker or the Agent (if applicable)</li> <li>• Details (names, address, contact details etc.) of legal representative/assignee (if applicable).</li> <li>• Maximum cover limits, premium and any other charges if applicable.</li> </ul>	<p>Already available in the policy schedule</p> <ul style="list-style-type: none"> <li>• Period of coverage – To be incorporated</li> <li>• Additional Cover – Not applicable</li> <li>• Code of Broker or Agent – To be incorporated</li> <li>• Details of the legal representative/assignee – Not applicable</li> <li>• Maximum cover limits – Already available in the policy schedule</li> <li>• Premium – To be incorporated</li> </ul>	
(g.) Paragraph 03 of the operation practices under the Investment Committee Charter	The investment committee shall meet at least every two months. However, it was observed that only two meetings had been conducted for the year 2022.	Noted. This decision had been taken to maximize investment income after considering the claim payments expenses and short term cash requirements of the company after obtaining necessary Board approvals.	The investment committee shall meet on regular basis.
(h.) Legal Procedure Manual	As per the Legal Procedure Manual there shall be Co-Insurance process if the insurance amount exceeds ceiling of Rs.100 Million. The Co-Insurance arrangement should be followed before underwriting process and issue the title policy as per the normal procedure, after the confirmation comes from the Co-Insurer”. However, co- Insurance arrangements had not been obtained for three title insurance policies amounting to Rs. 589.5 mn and which exceeds Rs. 100 mn.	A Coinsurance closing slip had been introduced in respect of Title Insurance with effect from 08 December 2023.	There shall be Co-Insurance arrangements if the insurance amount exceeds the specified limit.

## 1.8 Cash Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a.) It was noted that the unidentified credits of Rs. 52,369,386 in four bank accounts have been accumulated in the bank reconciliations and have not been recorded in the accounts. Currently there is no identified process to record these balances in the financials. Therefore, Cash and Cash Equivalents has been understated by Rs. 52,369,386.	As per the company policy, these unidentified receipts are being recognized to GL upon completion of three months. Daily monitoring process is in place to ensure that these credits are cleared in an on ongoing basis. However, we are in the process of considering to establish a process of recording these balances in the financials.	It is recommended to identify direct credits in bank accounts in timely manner.
(b.) As per the paragraphs 2.1 of the Investment Operational Manual of the company, the investment mix of the Company should be 40 percent and 60 percent respectively for long term investment and short term investment. However company portfolio had been mixed with long term investment of 74 per cent amounting to Rs. 6,470,865,303 and short term investment of 26 per cent amounting to Rs. 2,223,514,875 as at 31 December 2022.	Noted. This decision had been taken to maximize investment income after considering the claim payments expenses and short term cash requirements of the company after obtaining necessary Board approvals.	There shall be prudent investment mix between long term and short term investments in accordance with the investment policy of the company.

## 1.9 IT General Controls

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a.) It was noted that the company had not performed an Information Systems Audit either as part of Internal Audit services or as an independent external review exercise. Absence of an Information Systems Audit could result in management being unable to obtain reliable financial reporting on its operations and also in preventing or reducing fraud and misappropriation of its assets which may result in failure to achieve the company's objectives. Therefore, it is vital that management performs an Information Systems Audit function to assure that controls over the IT environment are operating effectively.	Agreed with the observation.	It is recommended to conduct an information systems audits on regular basis.

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| <p>(b.) It was noted that active non-utilised 32 user accounts exist in both GIS and HR systems on 31st December 2022. The presence of non-utilised active user accounts within a system, significantly increases the chances of an individual gaining unauthorised access to the application. Furthermore, this could result in lack of accountability and misuse of information accessible through these accounts.</p> | <p>In GIS system, already a process has been implemented in January 2023 to automatically lock the user accounts which are not used for 90 days. Thereafter users are required to called personally to IT Department and unlock their accounts. For HRIS system, we will instruct the vendor to incorporate a mechanism for this.</p> | <p>It is recommended to promptly deactivate such user accounts from the application,</p>  |
| <p>(c.) It was noted that the company does not have adequate Information Security Policies and Procedures to provide management the direction and support for information security in accordance with business requirements.</p>   | <p>Agreed with the observation. Currently we have selected following policies also to implement within the company. Hope many areas that has been suggested will covered by these policies.</p>   | <p>Management should set a clear policy direction in line with all business objectives and demonstrate support for, and commitment to, information security through the issue and maintenance of an adequate information security policy across the organization.</p> |
| <p>(d.) It was noted that company does not employ a formal Business Continuity Plan. As a result, in the event of a disaster, the company may not be in a position to recover and restore its critical business operations and related resources (such as people, location, infrastructure, vital documents) within an acceptable period of time and commence business operations.</p>                                   | <p>Agreed with the observation. Currently up to the business impact analysis, has been completed. Once a new compliance officer recruited, will communicate the action required.</p>  | <p>It is recommended that management understand the need of a Business Continuity Plan and perform testing, training and continuous maintenance of such plan.</p>   |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 1,613.33 Mn and the corresponding profit before tax in the preceding year amounted to Rs. 1,095.85 Mn Therefore, an improvement amounting to Rs. 517.49 Mn of the financial result was observed. The reasons for the improvements are increase in Gross Written Premium by Rs 164.1 mn, increase of Interest and Dividend Income by Rs. 648.3 Mn and reduction of Underwriting and Net Acquisition Costs by Rs. 49.7 Mn for the year under review.

The Company had earned Rs. 402.6 Mn loss from the underwriting operations for the year under review. However, the company had made the net profit of Rs. 635.96 Mn for the year under review due to the investment income of Rs. 1,305.87 Mn for the year under review. However, it is doubtful whether company can maintain the same profitability in the event of reduction of general interest rates in the future.

## 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 four (04) years with the percentage of increase or decrease are as follows.

<b>Line Item</b>	<b>2022 Rs. Million</b>	<b>2021 Rs. Million</b>	<b>2020 Rs. Million</b>	<b>2019 Rs. Million</b>	<b>2018 Rs. Million</b>
<b>Gross Written Premium</b>	<b>6,132.06</b>	<b>5,967.95</b>	<b>6,011.57</b>	<b>6,029.97</b>	<b>5,591.82</b>
<i>Variance</i>	164.11	(43.62)	(18.41)	438.16	809.90
<i>Increase/(Decrease)</i>	3%	-1%	0%	8%	17%
<b>Change in reserve for gross unearned premium</b>	<b>189.88</b>	<b>18.03</b>	<b>(90.93)</b>	<b>(228.59)</b>	<b>(430.50)</b>
<i>Variance</i>	171.85	108.95	137.66	201.91	174.99
<i>Increase/(Decrease)</i>	953%	-120%	-60%	-47%	68%
<b>Gross Earned Premium</b>	<b>6,321.94</b>	<b>5,985.98</b>	<b>5,920.64</b>	<b>5,801.39</b>	<b>5,161.32</b>
<i>Variance</i>	335.96	65.34	119.26	640.07	634.91
<i>Increase/(Decrease)</i>	6%	1%	2%	12%	14%
<b>Premium ceded to reinsurers</b>	<b>1,428.95</b>	<b>923.80</b>	<b>674.92</b>	<b>580.76</b>	<b>482.18</b>
<i>Variance</i>	505.15	248.88	94.15	98.58	54.44
<i>Increase/(Decrease)</i>	55%	37%	16%	20%	13%
<b>Change in reserve for unearned reinsurance premium</b>	<b>98.78</b>	<b>58.45</b>	<b>57.67</b>	<b>41.11</b>	<b>30.35</b>
<i>Variance</i>	40.34	0.78	16.55	10.76	31.83
<i>Increase/(Decrease)</i>	69%	1%	40%	35%	-2150%
<b>Net Earned Premium</b>	<b>4,991.77</b>	<b>5,120.63</b>	<b>5,303.39</b>	<b>5,261.74</b>	<b>4,709.49</b>
<i>Variance</i>	(128.86)	(182.77)	41.66	552.25	612.30
<i>Increase/(Decrease)</i>	-3%	-3%	1%	12%	15%
<b>Fees income</b>	<b>74.52</b>	<b>54.30</b>	<b>53.09</b>	<b>53.99</b>	<b>49.39</b>
<i>Variance</i>	20.22	1.21	(0.91)	4.6	7.59
<i>Increase/(Decrease)</i>	37%	2%	-2%	9%	18%
<b>Interest &amp; Dividend income</b>	<b>1,305.87</b>	<b>657.54</b>	<b>751.89</b>	<b>781.34</b>	<b>664.30</b>
<i>Variance</i>	648.34	(94.35)	(29.45)	117.04	38.65
<i>Increase/(Decrease)</i>	99%	-13%	-4%	18%	6%
<b>Net Fair value gains</b>	<b>-</b>	<b>55.01</b>	<b>19.28</b>	<b>3.08</b>	<b>23.42</b>
<i>Variance</i>	(55.01)	35.72	16.20	(20.35)	(1.22)
<i>Increase/(Decrease)</i>	-100%	185%	526%	-87%	-5%
<b>Net benefits and claims</b>	<b>(3,638.29)</b>	<b>(2,994.32)</b>	<b>(2,699.55)</b>	<b>(3,552.58)</b>	<b>(3,237.23)</b>

<i>Variance</i>	(643.97)	(294.77)	853.02	(315.35)	(6,078.18)
<i>Increase/(Decrease)</i>	22%	11%	-24%	10%	-214%
<b>Finance Cost</b>	<b>(38.88)</b>	<b>(11.56)</b>	<b>(19.94)</b>	<b>(26.08)</b>	<b>Nil</b>
<i>Variance</i>	(27.32)	8.37	6.14	(26.08)	Nil
<i>Increase/(Decrease)</i>	236%	-42%	-24%	Nil	Nil
<b>Net Benefits, Losses and Expenses</b>	<b>5,394.38</b>	<b>4,736.63</b>	<b>4,495.21</b>	<b>5,196.50</b>	<b>4,585.65</b>
<i>Variance</i>	657.75	241.42	701.28	610.84	(8,510.37)
<i>Increase/(Decrease)</i>	14%	5%	-13%	13%	-217%
<b>Net Profit for the year</b>	<b>1,249.02</b>	<b>906.43</b>	<b>1,218.30</b>	<b>759.82</b>	<b>3,950.22</b>
<i>Variance</i>	342.59	311.87	458.48	30.76	364.64
<i>Increase/(Decrease)</i>	38%	-26%	60%	4%	10%
<b>Intangible assets</b>	<b>5.42</b>	<b>8.20</b>	<b>10.97</b>	<b>1.88</b>	<b>2.39</b>
<i>Variance</i>	-2.77	-2.77	9.09	-0.51	1.29
<i>Increase/(Decrease)</i>	-34%	-25%	485%	-21%	117%
<b>Property, plant &amp; equipment</b>	<b>381.71</b>	<b>123.15</b>	<b>185.48</b>	<b>238.21</b>	<b>82.01</b>
<i>Variance</i>	258.56	-62.33	-52.74	156.21	-2.38
<i>Increase/(Decrease)</i>	210%	-34%	-22%	190%	-3%
<b>Reinsurance receivable</b>	<b>557.60</b>	<b>421.01</b>	<b>211.14</b>	<b>503.59</b>	<b>153.12</b>
<i>Variance</i>	136.60	209.86	-292.45	350.48	-96.60
<i>Increase/(Decrease)</i>	32%	99%	-58%	229%	-39%
<b>Cash and cash equivalents</b>	<b>154.22</b>	<b>68.32</b>	<b>50.97</b>	<b>128.77</b>	<b>221.39</b>
<i>Variance</i>	85.91	17.34	-77.80	-92.62	104.73
<i>Increase/(Decrease)</i>	126%	34%	-60%	-42%	90%
<b>Other financial Liabilities</b>	<b>965.28</b>	<b>641.28</b>	<b>748.44</b>	<b>676.31</b>	<b>400.73</b>
<i>Variance</i>	324.00	-107.15	72.13	275.58	-8.23
<i>Increase/(Decrease)</i>	51%	-14%	11%	69%	-2%
<b>Reinsurance payable</b>	<b>180.79</b>	<b>244.38</b>	<b>65.50</b>	<b>7.53</b>	<b>61.81</b>
<i>Variance</i>	(63.59)	178.88	57.97	(54.28)	26.09
<i>Increase/(Decrease)</i>	-26%	273%	770%	-88%	73%
<b>Bank Overdraft</b>	<b>198.77</b>	<b>69.32</b>	<b>18.63</b>	<b>150.62</b>	<b>86.05</b>
<i>Variance</i>	129.44	50.70	-131.99	64.56	17.22
<i>Increase/(Decrease)</i>	187%	272%	-88%	75%	25%
<b>Technical reserve - Company</b>	<b>4,086.66</b>	<b>4,166.22</b>	<b>4,136.07</b>	<b>4,130.47</b>	<b>3,950.22</b>
<i>Variance</i>	79.56	30.15	5.60	180.25	364.64
<i>Increase/(Decrease)</i>	-2%	1%	0%	5%	10%

## 2.3 Ratio Analysis

Key ratios calculated for the company for the last five years were as follows.

<b>Company Specific Ratios</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>Comments</b>
Retention Ratio	81.4%	85.8%	88.2%	87%	84%	
Claim Ratio	72.9%	58.5%	50.9%	67.5%	68.7%	The claim ratio for the year under review had been increased by 14.4% when compared to the year 2021.
Expense Ratio	108.1%	92.5%	84.8%	98.8%	97.4%	
Combined ratio	181.0%	151.0%	135.7%	181%	166%	
Profitability Ratio	16.3%	19.6%	27.7%	15%	15%	The Profitability ratio of the Company had been decline for the last two years.
ROA	9.0%	10.8%	16.5%	10%	10%	
Investment Yield	14.7%	7.5%	14.7%	11%	10%	
Liquidity Ratio	134.8%	150.2%	144.3%	126%	136%	
Financial Assets to Total Assets	77.5%	81.8%	80.9%	77%	79%	
Capital to technical reserves ratio	113.9%	119.8%	111.7%	88%	85%	
Technical reserve ratio	122.1%	122.9%	128.2%	127%	119%	
<b>Market Ratios</b>						
Market Share (General )	5%	5.5%	5.7%	6%	6%	The market share of the Company has slightly reduced during last three years.
<b>Profitability and Return</b>						
Revenue Growth	7.6%	-4.4%	0.9%	11%	12%	
Return on Equity	13.7%	19.6%	25.9%	18%	22%	The Return on Equity has been reduced during last three years continuously.
Asset Turnover	1.07	1.03	1.15	1.44	1.40	
Net Profit Ratio	12.7%	19.4%	10.6%	12%	15%	The NP Ratio has been decreased by 6.7% for the year under review.
<b>Liquidity</b>						
Current Ratio	3.00	3.50	3.25	6.62	6.79	
<b>Investor Return</b>						
Earnings Per Share	3.2	4.9	6	3.24	3.65	EPS has been reduced during last

two years.

Dividend Per Share	2.5	3.0	3	1.85	1.85
Dividend Cover	1.3	1.6	2	1.75	1.97
Net Assets Per Share	23.3	25	23.1	18.21	16.88

		Industry					Company					Comment
Industry Comparison		2022	2021	2020	2019	2018	2022	2021	2020	2019	2018	It was observed that the company growth rate was below market rate for the last two years.
Growth Rate	(General Business)	12%	3%	(2%)	6%	9%	2.7%	(0.7%)	(0.3%)	7.8%	16.9%	

### 3. Operational Review

#### 3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(a.) A fire insurance was issued to People's Bank for an amount of Rs.137,894,556 for the period from 01 May 2011 to 01 May 2012. For this, a re-insurance arrangement was obtained by a foreign insurance company by paying Rs. 39,353,000. The following observations were made in this regard.	We had taken reinsurance from a foreign reinsurance panel for the period of 2011-2012 for this policy.	
(i.) A robbery was occurred at Putur Branch of People's Bank covered under this policy on 30 July 2011 and stolen 26.554 kg and 750 mg of gold and cash amounting to Rs.3,640,000. The company had paid Rs. 154,544,419 as insurance compensation to the insured . In relation to this theft, arrangements should be made to settle the wreckage owned by the insurance company, but the company did not take any action for the claim regarding 13.093 kg and 930 mg of gold found during the investigation and 13.461 kg of gold that was not found. Furthermore,	As an insurance company, it is our responsibility to settle the claims in accordance with the terms of the insurance policy in case of misfortunes faced by the insured under the insured perils.  The claim occurred in the year 2011, and according to the normal process of claim payment, the claim payment will not be made until the lawsuit related to the lost goods is settled and or until the court gives us the right to the found goods. But at the request of the top management of the People's	The management should actively engage with the parties to the legal case and make necessary arrangements to recover their portion of damages.

according to the last paragraph of the letter addressed by the company's lawyer to the company's senior manager (legal) on 24 January 2019, the company had not obtained a subrogation letter from the insured. Due to this, the loss to the company was approximately Rs. 255,759,000.

Bank, relatively small advances were released from time to time as the People's Bank made payments to customers as approved by the underwriters by the then Chief Operating Officer. The total claims paid as advances as of 31 December 2022 was Rs. 154.54 mn, from which Rs. 140.09 mn had been recovered from the re-insurers. Therefore the net claims paid by the company was Rs. 14.45 mn as of 31 December 2022.

Before settling the claims as per the terms of the agreement, we have obtained the subrogation form for the found gold articles.

Since the release of the goods is done according to legal proceedings, we have been constantly asking the bank for information about it, and the People's Bank has updated us from time to time about the status of the court proceedings. Our legal department was satisfied with the way People's Bank handled the case.

(ii.) Insurance compensation amounting to Rs. 15,908,884 due from the National Insurance Trust Fund for this loss has not been recovered even though it has been 12 years.

Regarding the money to be recovered from the National Insurance Trust Fund, the necessary documents were sent to them in 2019, which was the year when the claim was fully and finally paid, and reminders were also made, but it was informed that payments can be made after hiring an audit chief. Approval for this has been given in December 2023 after hiring an audit chief. As a public institution, their explanation was accepted by us as it was true. Therefore, we inform that no legal action was taken against them.



- (iii.) The reinsurance company that accepts 10 percent reinsurance went bankrupt according to the notice of the Financial Services Authority of the respective country on 12 March 2021. Therefore, the company had to bear the loss of Rs. 13,908,997 as their share of reinsurance claim.
- This reinsurance company supported to our reinsurance panel in the years 2010-2011 and 2011-2012, and the claim occurred in 2011. Since 2012, they have not been supported to our reinsurance panel. Best Re remained financially strong but was among the reinsurance companies that collapsed due to severe flooding in Thailand at the end of 2011. Their financial instability was due to the sudden natural calamity situation. Best Re went bankrupt in 2013. Not in 2021. An institution that was strong at the time of subscription to our reinsurance policy in 2011-2012 and during which time the claim occurred. The bankruptcy was caused by an unforeseeable natural disaster. In 2013 and 2019, Best Re has only contributed to the underwriting of claims paid.
- (iv.) Although the insurance company should pay only the amount actually paid to the customers by the Insured, the amount of Rs.154,544,419 was paid as insurance compensation, other than the loss adjuster's report, other documents related to confirming the loss (mortgage articles list, customer losses payments, mortgage receipts, (Daily cash position report) evidence was not obtained by the company .
- We have settled the claim after considering the amounts paid by People's Bank to the customers and after our loss adjuster has collected all the necessary documents (mortgage receipts/payment documents) etc. from the relevant departments of People's Bank for his report. Further, there was a large number of mortgage receipts and other documents and the said documents were required from time to time for the legal proceedings, they were allowed to remain in the custody of the bank.
- (v.) For this case, the insurance company should have taken legal action with the bank to claim the losses, however I was —not provided sufficient information to confirm that it was done accordingly. Out of 26,554.75 grams of
- The approval of our Legal Officer and People's Bank Legal Department has been obtained for the form of subrogation of claims submitted by our re-insurance companies. We have completed and obtained the said

stolen gold, only 13,093 grams of gold was recovered. Furthermore, discrepancies were observed in the reports submitted for legal proceedings. However, the company had not taken steps to correct the discrepancies in the legal documents and reports.

subrogation form with the signatures of the authorized officers of the bank. It can be submitted for investigation if required.

### 3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>There was no consistent methodology or structure in place to measure branch performance, where previous year performance figures are evaluated on the basis of zone wise while current year performance data evaluated on branch wise. Hence, no comparison is possible on yearly and cost center basis. According to the current year branch analysis 3 branches out of 21 branches earned profit and 18 branches out of 21 branches incurred losses for the year under review. The cumulative profits of profit-making branches were Rs.57,502,527 where cumulative loss for the year is Rs.486,742,147 for loss making branches.</p>	<p>In 2021 we had three business channels headed by three channel heads. In 2022 the three channels were amalgamated and one head of sales was appointed to reduce the cost and increase the operational efficiency. The details of the said three sales channels are given below</p> <p>Banc Assurance Channel: Less than 25 banc assurance officers had to cover more than 600 People’s Bank branches and other banks island wide to canvass business. Since the channel could not achieve the expected targets and the cost was very high, the banks were assigned to sales officers island wide to increase the company presence, service efficiency and to reduce costs.</p> <p>Broker &amp; Corporate Channel: About 5 sales officers and a channel head covered these two areas and could not achieve the expected target to generate a breakeven revenue. Therefore, the Broker and Corporate businesses were assigned to the business units under the current Head of Sales.</p> <p>National Sales: The head of this channel was overseeing our own branches which had been opened without a proper business plan and was overseeing the sales officers at People’s Leasing and Finance counters. The previous sales structure had been restructured to bring the operational efficiency by achieving the breakeven targets of sales officers. The sales figures of year 2022 and year 2023 can be compared. In 2023 the loss ratio has been improved. However, even during Covid-19 pandemic period the sales channels had not been able to perform up to the expected level. As per our Company</p>	<p>There shall be consistent methodology or structure in place to measure branch performance annually.</p>

Strategies, we are planning to make the sales clusters profitable within next 3 years depending on their current level of achievement and few clusters will be relocated if they are unable to cover their own costs. This will be incorporated in the Three Year Corporate Plan.

### 3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) Legal department has underwritten 10 title insurance policies valued at Rs. 1,616,250,000 without Debit Notes for the year under review. Co-insurance request slip is the only evidence available for the legal department to prove those Co- insurance arrangements.	Tax invoices / Debit Notes had been issued and were available in the Legal Department.	The company shall maintain proper documentation in relation to title insurance and shall available for the auditors' inspection.
(b.) The Company has placed nine (09) co-insurance arrangements valued at Rs. 936,250,000 out of ten (10) title insurance policies valued at Rs. 1,616,250,000 with only one co-insurer for the year under review and which represent 58 percent from total title insurance policies. Further Co - insurer selection criteria and process in relation to title insurance had not been made available for the audit.	Total number of Title Insurance policies issued in the year of 2022 was 844 out of which coinsurance was arranged for only 1 policy and coinsurance support was taken from HNB Assurance for that particular policy. Coinsurers are selected by the management considering their; Experience, Capacity to underwrite Title Insurance, Willingness to do coinsurance with People's Insurance, Business relationship with People's Insurance, Speed and quality of service, Stability of the company and Cooperation in claim settlements. Based on the above factors, the underwriter and the reinsurance officer decide the coinsurer.	There shall be balance approach in managing co-insurance arrangements with other insurers in order to manage the title insurance risk.

### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
It was noted that at present the company does not have a Chief Human Resources officer (CHRO) as required by the Board approved Governance structure. A Manager who is heading the HR division at present.	Management is in the process of engaging the most suitable candidates. The evaluations are in progress and the process will be concluded upon selection of most suitable person.	It is recommended to adhere to the governance structure of the company.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
(a.) Internal audit plan of the year 2021 had been executed in the year 2022 due to covid pandemic situation. Fourteen (14) business processes of the company had been planned to cover in both years. However, only eight (08) audit reports of processes had been issued for both years.	Agreed. As stated in the audit report, proposed audit plan for year 2021 was not completed due to the Covid-19 pandemic situation. The matter has been presented and discussed at the Board Audit Committee meeting held in November and agreed to continue the plan in 2022. With the resignation of the former Head of Internal Audit and other staff members in the Audit Department, the team was able to complete only 8 process audits, 8 interim financial reviews and cover 8 branches during the period from 2021 to 2022. Apart from that 4 special reviews and other investigations were carried out by the team during the said period. During 2022, status of the audit plan was tabled and discussed with the Board Audit Committee regularly and revised considering the risk, operational significance and resources availability as applicable, prioritizing critical and high risk areas. Further as per the advice of the Board Audit Committee, Internal Audit team has been strengthened with additional staff, while continuous and consistent auditing is currently being performed in line with the approved plan. Any deviations are duly reported and reviewed by the Board Audit Committee on a regular basis.	The management shall ensure the sufficient quality and coverage of the internal audit across the organization.
(b.) Only five (05) branches in the year 2022 out of 18 branches had been audited by the internal audit department for the year under review.	Agreed. Frequent branch visits have not been performed due to travel restrictions and fuel shortage prevailed during the period under review. However as approved by the Board Audit Committee, 32 main branches (including 16 regional branches) have been proposed to be audited considering the significance of operations and the risk, during year 2023. Accordingly, existing plan covers all the main branches of the company and the key functions handled at those branches. 80% of these audits were completed as of 30.11.2023.	The management shall ensure the coverage of branch network by the internal audit in reasonable and regular intervals.