People's Insurance PLC - 2023

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1. Financial Statement

1.1 Opinion

The audit of the financial statements of the People's Insurance PLC ("Company") for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 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. My report to parliament in pursuance of provision in Article 154(6) of the constitution 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 2023, 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 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 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 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 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
The Company has not prepared an aging analysis for the amount of Rs.1,598,823 owed by related parties. Unavailability of aging analysis for related party receivables, would impact on the correct assessment of recoverability of such balances.	Under the existing age analysis, Related Party receivable is captured under separate debtor code and outstanding balance of related party debtors are monitored on regular basis. People insurance have been started performing separate age-analysis for related parties to monitor the outstanding balance.	The age analysis of the related party debtors should be maintained and should closely monitor such balances.

1.5.2 Unreconciled Control Accounts or Records.

Item	As per Financial Statements Rs.	As per Corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Insurance Receivable	164,121,716	1,175,483,103	(11,361,387)	Differences were Identified and adjusted in the GL to rectify the mismatch between debtor GL balance and debtor's aging balances. A process has been implemented to reconcile any deviation on monthly basis. In Q3 2024 the deference had been rectified.	There should be a process to monitor the receivables and should ensure that the correct debtor balance is appeared in the Financial Statements and reconcile any deviation between different records.

Current Accounts With branches	17,380,588,324	17,378,175,788	2,412,536	Noted. We have initiated a discussion and assigned task to IT department to identify and rectify the error. We Will expedite the process.	Steps need to be taken to identify the differences and to rectify such differences without much delayed.

1.5.3 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
It was observed that the assumptions used in the Expected Credit Loss (ECL) model for Insurance receivables have not been updated to reflect the current economic situation prevailed in the country. This could lead to a significant understatement of ECL provision and overstatement of Insurance receivables. Summery is given below; TotalDebtor– 1,329,531,963 E.C.L - (57,058,293) Total Debtor Net of Impairment - 1,272,473,670	The assumptions used in ECL model have been updated now but we were unable to complete the same task before year end accounts finalization, as advisory consultant (EY) requested historical age analysis by applying the new assumption through the system. There was a limitation in the IT system to extract such information. Subsequently, IT Department had provided same information by using the backup data and now the task has been completed. It was noted that impairment provision under new assumption was less than Rs. 11 Mn. Compared to the year-end impairment provision, which we had made based on the previous assumptions. Therefore, there is no underestimate in ECL provision based on the old assumptions as of 31st December 2023.New model have already updated in 2024.	Assumptions used in the Expected Credit Loss (ECL) model for Insurance receivables should be updated to reflect the current economic situation.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Re insurance Confirmation	170,427,779	External payable balance	We have requested the balance confirmation from all the brokers as requested and since there was a time restriction we have submitted the balance confirmation we have received, and rest can be made available upon receipt. We will continue this practice to obtain balance confirmations from reinsurers and reinsurance brokers as applicable going forward. The process will be rectified.	All the requested documents should be submitted to the audit in a timely manner.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
It was observed that reinsurance recoverable balances amounting to Rs. 130,395,708 is outstanding for claims which have already been settled by the Company. These claims from class of Motor – XOL were intimated during the current and previous financial years. The recoverable balance of Rs.44 Mn from Settled Claims was pending from Foreign Reinsurers & Rs. 86 Mn was pending from the NITF even though the claims had been settled by the Company as at 31 December 2023.	The recovery process of the motor claims is different compared to non-motor process. If the loss is a total loss, the settled loss advice is sent to the reinsurer after disposal of the salvage items. The reason for this is that the Company has to reinstate the XOL treaty layers after the final settlement. Therefore, the actual recovery amount has to be communicated to the reinsurers before obtaining the recoveries. The process laid down by the Company had not been followed up by the previous Head of Reinsurance. Now the recovery process is monitored and followed up without delays. With regard to all the sold salvages, the recoveries have been sent to reinsurers. Some constructive total loss vehicles have not been sold due to lower offers we got considering the market price. NITF reimbursements for riot motor claims received on following dates, but the system had not been updated due to an oversight. As of now the outstanding amount is Rs 52,812.50 with regard to riot recoveries. Outstanding had been recovered in 2024.	Management should take proactive steps to recover the reinsurance receivable balances.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
There was a long outstanding excess premium balance of Rs. 129,079,927 (outstanding for more than 365 days) as of 31 December 2023 and the particular balance has been increased significantly when compared with the previous year. As per the process, a debit note is issued for the excess premium amount when a new policy is raised by the customer.	This is in the form of normal business transaction where customer has the discretion to keep the excess credit for the future utilization. However, a process has been developed to minimize premium accumulations by getting a notification from a system of any unutilized premium. New premiums paid through PB counters- A new system will be implemented this year and the premium accumulation will be minimized.	The company should actively follow-up to clear these balances regularly and to reduce these balances up to a low level since it has resulted in accumulation of long outstanding excess premium balances.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i)	Section B.1.2 of Code of Best Practice on Corporate Governance 2017	Remuneration committee's chairman should be an Independent Non-Executive Director and should be appointed by the board. However, chairman of remuneration committee was a non-independent director.	As of 1 st October 2024 the chairman of the remuneration committee is a non- executive independent director.	Management should comply with the relevant laws and regulation.
(ii)	Section B.4 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, - Basic salaries - Perquisites and benefits - Performance bonus - Pension entitles etc. However, above mentioned disclosures had not been disclosed in the annual report of the Company.	Completed Company has disclosed the related details on the director's remuneration.	Management should comply with the relevant laws and regulation.
(v)	Principle G.2 of Code of Best Practice on Corporate Governance 2017	The board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cybersecurity risk management policy which should be approved by the board. However, neither the CISO had been appointed nor the cybersecurity risk management policy had been developed by the Company.	IT functions are managed by Group IT department. A group ISO has been appointed by People's Leasing and Finance PLC, covering all specified responsibilities of CISO, which we will inform to the board at next board meeting. Cyber security management policy is currently in place with the board approval on 30.08.2024	Management should comply with the relevant laws and regulation.

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 784.475 Mn and the corresponding profit before tax in the preceding year amounted to Rs. 1,000.276 Mn . Therefore, a deterioration amounting to Rs. 215.801 Mn of the financial result was observed. The reasons for the deterioration are decline in both underwriting profit and other income due to industry challenges faced by the Company during the year under review.

The Company had incurred a loss of Rs. 762 Mn from underwriting operations during the year under review. However, the Company had made a net profit of Rs.521.57 Mn from its investment amounting to Rs.1,546.53.

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 percentage of increase or decrease are given below.

Line Item	2023 Rs. Million	2022 Rs. Million	2021 Rs. Million	2020 Rs. Million	2019 Rs. Million
Company					
Revenue	**5,716,731**	**6,394.66**	**5,905.72**	**6,162.73**	**6,108.52**
Variance	(677,933)	488.94	(257)	54.20	675.85
Increase/(Decrease)	-11%	8.28%	(4.17%)	0.89%	12.44%
Gross Written Premium	**5,762,723**	**6,132.05**	**5,967.95**	**6,011.56**	**6,029.97**
Variance	(369,334)	164.10	43.62	18.41	438.15
Increase/(Decrease)	-6%	2.75%	(0.73%)	(0.31%)	7.84%
Net Earned Premium	**4,170,199**	**4,991.77**	**5,120.62**	**5,303.39**	**5,261.73**
Variance	(821,570)	(128.85)	(182.76)	41.65	552.25
Increase/(Decrease)	-16%	(2.52%)	(3.45%)	0.79%	11.73%
Investment income	**1,458,336**	**1,305.87**	**657.53**	**751.88**	**781.34**
Variance	152,464	648.34	(94.35)	(29.45)	117.04
Increase/(Decrease)	12%	98.60%	(12.55%)	(3.77%)	17.62%
Net realized (loss)/gains	**-**	**(402.61)**	**383.99**	**808.18**	**65.24**
Variance	-	(786.61)	(424.18)	742.93	(58.59)
Increase/(Decrease)	-	(204.85%)	(52.49%)	1,138.78%	(47.32%)
Total Income	**5,716,730**	**44,380**	**5,905.72**	**6,162.735**	**6,108.52**
Variance	(1,290,992)	4,980	(257.01)	54.21	675.85
Increase/(Decrease)	-18%	12.64%	(4.17%)	0.89%	12.44%
Net benefits and claims	**3,125,705**	**3,638.29**	**2,994.31**	**2,699.55**	**3,552.57**
Variance	6,763,997	643.97	294.76	(853.02)	315.35
Increase/(Decrease)	-186%	21.51%	10.92%	(24.01%)	9.74%
Underwriting and net acquisition costs (including reinsurance)	**259,174**	**477.37**	**527.06**	**559.53**	**517.15**
Variance	736,542	(49.69)	(32.47)	42.38	55.36
Increase/(Decrease)	-154%	(9.43%)	(5.80%)	8.19%	11.99%
Other operating and	**1,474,023**	**1,239.84**	**1,203.69**	**1,216.19**	**1,100.69**

administrative expenses					
Variance	2,713,867	36.15	(12.50)	115.50	214.06
Increase/(Decrease)	-219%	3.00%	(1.03%)	10.49%	24.14%
Income tax expense	**262,898**	**364.32**	**189.42**	**472.21**	**264.38**
Variance	627,215	(174.89)	(282.79)	207.83	146.42
Increase/(Decrease)	-172%	92.33%	(59.89%)	78.61%	124.14%
Net Profit for the year	**521,578**	**635.96**	**979.67**	**1195.31**	**647.65**
Variance	-114,381	(343.71)	(215.65)	547.66	(81.41)
Increase/(Decrease)	-18%	(35%)	(18%)	85%	(11.17%)

2.3 Ratio Analysis

The key ratios of the Company calculated for the last five (05) years are given below

Ratios	**Year**				
	2023	**2022**	**2021**	**2020**	**2019**
Profitability and Return					
Revenue Growth	-12%	7.6%	-4.4%	1%	11%
Return on Equity	10%	14%	20%	26%	18%
Asset Turnover	1.07	1.03	1.15	1.44	1.40
Net Profit Ratio	12.7%	12.7%	19.4%	10.6%	12%
Liquidity					
Current Ratio	1.70	3.00	3.50	3.25	6.62
Investor Return					
Earnings Per Share	2.7	3.18	4.9	5.98	3.24
Dividend Per Share	2.5	2.5	1.5	3	1.85
Dividend Cover	1.1	1.3	1.6	2.0	1.7
Net Assets Per Share	26.2	23.3	25	23.1	18.27

Company Specific Ratios	**2023**	**2022**	**2021**	**2020**	**2019**
Retention Ratio	72%	81.40%	85.80%	88.22%	87.26%
Total Claim ratio	-75%	72.89%	58.48%	50.90%	67.52%
Expense Ratio	-118.3%	35.18%	34.03%	33.86%	31.24%
Combined ratio	-193.2%	108.07%	92.50%	84.76%	98.76%
Profitability Ratio	13.6%	15.64%	19.80%	27.06%	14.93%
ROA	3.4%	9%	11%	16%	10%
ROE	15.8%	14%	20%	26%	18%
Investment Yield	15.9%	14.73%	7.47%	9.44%	11.16%

Liquidity Ratio	3.2	1.2	1.6	1.4	2.0
Financial Assets to Total Assets	80%	93%	96%	94%	94%
Capital to technical reserves ratio	140%	88%	83%	90%	113%
Technical reserve ratio	111%	122%	123%	128%	127%
Market Share (Genaral Business)	4.5%	5%	5.5%		6%

Industry	**Industry**					**Company**				
Comparison	**2023**	**2022**	2021	2020	2019	**2023**	**2022**	2021	2020	2019
Growth Rate (Non-Life)	**5%**	**12%**	3%	(2%)	6%	**-6%**	**2.7%**	(0.7%)	(0.3%)	7.8%

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
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 insurance, a re-insurance has been obtained from a foreign insurance company after paying Rs. 39,353,000. The following observations are made in this regard. I. The reinsurance company that accepted 10 percent reinsurance went bankrupt in the year 2021. Therefore, the company had to bear the loss of Rs. 13,908,997 as their share of reinsurance claim.	We are in a position to recover this amount from the salvage recovery process.	Company should take appropriate actions to recover the losses from available sources.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(i)	A decrease in the surplus earned from insurance business by the company has been recorded negative in the years of	The negative variation is mainly due to the fact that underwriting results of the year 2020 & 2021 were overstated owing to low loss ratios	The company should ensure that surplus earned from

2022 and 2023. This situation may create a negative impact on the long-term profitability of the company.

Year	**2023**	**2022**
Underwriting result	(762,056,092)	(402,618,19
Growth	-359,437,898	-786,610,41
Percentage	-89%	-228

of 51% & 58% supported in the respective years as a result of mobility restriction and closure of repair centers created by Covid -19 pandemic. This has resulted in low vehicle repairs and the company had reported underwriting profit in 2020 & 2021 amounting to Rs.808 Mn & Rs.384 Mn respectively. This was common for most of the companies in the General Insurance Industry. However with the removal of mobility restrictions, opening up of repair centers, increased in 2022 was common to all the general insurance companies. Hence, there was a significant increase in the cost for previously incurred claims. Further significant portion of policies were cancelled due to non-payment of premium during the Covid period.

As a result, Company had reported an underwriting loss of Rs.787 Mn (with a 205% decrease) and claim ratio was significantly increased to 73% reporting total net claim expense of Rs.3,638 Mn which is highest ever reported for the company. This also was observed common for the general insurance industry a whole.

The underwriting results were further deteriorated in 2023 mainly due to the provision made with regard to motor SRCC & TC 100% ceding arrangement with NITF. As a result of the new arrangement with NITF the additional impact to PL was Rs.176 Mn. Therefore, underwriting results were further reduced by Rs. 359 Mn with a percentage of 89%. This was experienced by all general insurance companies in the market.

Another reason for this is a reduction in earned premium. This was due to few non-performing sales heads and officers in the direct sales channel.

To overcome this issue company has taken new measures by recruiting a well experienced CSO in April 2024 with a proven track record at Ceylinco and Allianze insurance companies and experienced staff to head the branches and the regional structure.

insurance business is adequate for long term survival.

	As a result GWP of Q3 2024 shows 14% overall growth in GWP when compared with Q3 2023 and a 17% growth in National Sales channel for the same period. Further we have become the most profitable listed general insurance company un Q3 2024. And planning to achieve more.	

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
An unidentified credit balance of Rs. 41,104,594 has been observed in the bank reconciliation statement which was not recorded in the relevant GL account. Unavailability of streamlined process to identify direct credits to the Company's Bank accounts will lead to over/under statement of respective balances in the Financial Statements.	We have streamlined our processes to identify the direct credits received to the respective bank accounts on timely basis and further Company is in the process of establishing an arrangement with People's Bank to integrate and validate customer details before accepting the money through over the counter deposit made by customers. Agreed and a new system will be implemented this year to rectify the issue	There should be a proper process to identify and record the direct credits received to the respective bank accounts on timely basis.

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