



Media Release

RAM Ratings Lanka upgrades Sri Lanka Insurance Corporation Ltd's rating to AAA

RAM Ratings Lanka has upgraded Sri Lanka Insurance Corporation Ltd's ("SLIC" or "the Company") claims-paying ability rating, from AA- to AAA. Concurrently, the outlook on the long-term rating has been revised from positive to stable.

SLIC's rating had been placed on a positive outlook in June 2009, subsequent to its reinstatement as a state-owned entity. The rating upgrade reflects the stronger degree of financial flexibility derived from such state support. The rating is also supported by the Company's competitive position and strong capitalisation.

Incorporated as a state-owned monopoly in 1962, SLIC was privatised in 2003. However, the Supreme Court overturned the privatisation decision in 2009; the Company was re-nationalised in June the same year. SLIC is the oldest insurer in Sri Lanka, and the second-largest in terms of premiums underwritten; the Company accounted for 23.45% of the industry's composite premiums as at end-December 2009. Given SLIC's systemic importance, RAM Ratings Lanka opines that state support will be readily extended if needed. Prospectively, SLIC's strategic direction will be broadly in line with the government's long-term economic development plans.

The Company has maintained its strong competitive position as the second-largest premium writer in both the life and general segments. While it has lost some market share since relinquishing its monopoly status upon the industry's liberalisation in 1986, we opine that credibility associated with state ownership, the captive business derived from state institutions and SLIC's aggressive expansion plans will shore up its market share over the medium to long term. On a separate note, the Company's capitalisation remained strong as at end-September 2009, with a staggering LKR 10.37 billion of shareholders' funds.

Meanwhile, SLIC's investment portfolio amounted to LKR 59.09 billion as at end-December 2009, the largest in the domestic industry. While investments had traditionally been focused on government securities, the Company has in recent times adopted a more aggressive stance with regard to equity; SLIC's total exposure to equity securities increased to 32.17% as at end-December 2009 (end-December 2008: 29.23%). RAM Ratings Lanka opines that the Company's investment portfolio is adequately managed. Meanwhile, SLIC's reserving is deemed strong as both its life and general reserves are actuarially assessed.

SLIC's underwriting standards are deemed adequate; life underwriting standards are derived from the Company's international reinsurer, Munich RE whereas in the general segment the Company has experienced relatively low claims in 3 major classes of business. However, RAM Ratings Lanka notes with concern that the Company's life

underwriting performance has been weakened by a high incidence of maturity claims in its currently maturing life portfolio. As such total claims in the segment increased from LKR 2.50 billion during FYE 31 December 2007 ("FY Dec 2007") to LKR 3.29 billion during FY Dec 2008; it further increased by 5.88% on an annualised basis during the 9 months ending September 2009. Meanwhile, we note that in the Company's general segment, SLIC is plagued with high claims in the miscellaneous segment owing primarily to the general accident and bankers' indemnity policies.

On a separate note, SLIC's information system has much room for improvement, as independent functions have yet to be integrated. In this regard, the management intends to implement a comprehensive, integrated information-technology framework over the coming year. RAM Ratings Lanka will continue monitoring developments in this regard.

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