



RATINGS

Media Release

INSURANCE SECTOR REPORT BY RAM RATINGS LANKA - SHIFT IN COMPETITIVE LANDSCAPE

The Sri Lankan insurance sector is a crucial component for economic development. Nonetheless, it only accounts for a small segment of the domestic financial landscape. The sector's potential is underscored by its low penetration rate; this segment only represented 1.32% of the country's GDP and 3.2% of the system's financial assets as at end-December 2008. Insurance is vital for economic development, providing a cushion against calamities faced by enterprises and individuals.

The concept of insurance had originated in the colonial era, with a view to providing coverage for the booming plantation sector. In 1961, the government nationalised this industry, at which point there were more than 60 local and foreign insurance companies and agencies. After more than 2 decades of state monopoly, the industry was liberalised in 1986, soon after which 3 local players had established themselves. At present, there are 19 players in the insurance sector; of these, 2 concentrate solely on the life business while 5 focus on only the general sector.

With an increasing number of players and the removal of fixed tariffs, market competition has heightened, especially in the general segment. On the other hand, price-based competition is easing, with more emphasis on product innovation and service quality. Not surprisingly, overheads eat into the profitability of the general segment. Some industry players focused on increasing reach by opening branches, however, corresponding premium growth was not achieved. As a result overheads were further pushed up. Profitability is, instead, driven by investment income. Prospectively, companies will focus on redefining their business models to maintain performance in light of the increased competition and receding interest rates. Improving operational efficiencies will be a key factor, together with rationalising of product portfolios to more appropriately reflect risks underwritten.

Going forward, macroeconomic fundamentals must improve before the industry can reach its full potential. The growth prospects afforded by such a change would also ease competitive pressures and facilitate risk-based premiums. Increased penetration, together with prudent underwriting standards, will enable the industry to amass diversity in its portfolio, thus augmenting its risk-absorption capacity. At the same time, the industry must place greater emphasis on risk management and balance sheet strength. However, the lack of qualified personnel is a major hindrance that could limit the industry's growth.

Analyst Contact

Khailash Weeralingam
khailash@ram.com.lk

RAM Ratings (Lanka) Ltd
Wholly owned by
RAM Holdings Berhad

No 9, Arthur's Place
Colombo 4
Sri Lanka

T +94 112 553089
F +94 112 553090
E ram@ram.com.lk
www.ram.com.lk