Sri Lanka Non-Life Insurance Dashboard: January 2025

Underwriting Pressure Continues

Fitch Ratings expects Sri Lankan non-life insurers' underwriting profitability to improve gradually as they refine underwriting practices and focus on expanding non-motor segments in a more profitable manner. Insurers are also progressively adjusting policy pricing, particularly motor and medical, to better align with high inflation and claim costs.

Underwriting performance has been under pressure since 2022, driven by inflationary pressures, rising administrative costs and increased claim costs due to higher spare part prices and medical costs from the depreciation of the Sri Lankan rupee. The average "combined ratio" of Fitch-rated insurers', excluding National Insurance Trust Fund Board (NITF, BBB(lka)/Stable), was around 107% in 1H24 (2023: 112%, 2022: 105%).

What to Watch

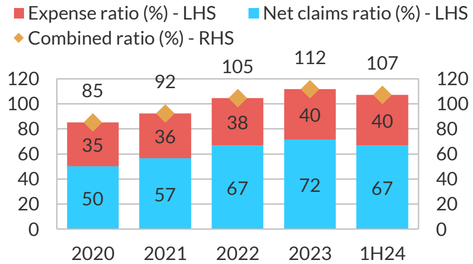
Motor Profitability: The profitability of the motor insurance business is under pressure following the regulatory requirement to remit 100% of premiums to NITF. Insurers could previously retain 88% of motor premiums for strikes, riots, civil commotion and terrorism, a low claim segment. The 35% commission on remitted premiums provides partial relief, but sustained profitability will hinge on repricing of motor policies to offset the impact of the reduced retention.

Investment and Liquidity Risks: Fitch believes investment and liquidity risks have eased further following upgrades to Sri Lanka's sovereign rating in December 2024. The Long-Term Local-Currency Issuer Default Rating (IDR) was upgraded to 'CCC+' from 'CCC-', while the Short-Term Local-Currency IDR was affirmed at 'C' and the Long-Term Foreign-Currency IDR was upgraded to 'CCC+', from 'RD'.

Non-Motor Growth: Prolonged import restrictions on motor vehicles have prompted non-life insurers to gradually diversify their portfolios into non-motor segments such as health and other miscellaneous insurance products. Non-motor gross premiums grew by 11% in 2023, while motor gross premiums declined by 4%. The non-motor segment's contribution to gross premiums rose to 47% in 2023 (2022: 44%), largely due to growth in the miscellaneous and health segments.

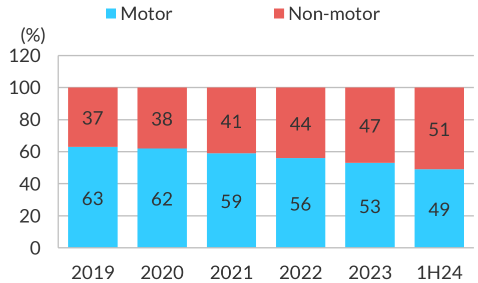
IFRS 17 Implementation: Sri Lanka will adopt the IFRS 17 accounting standards in January 2026. Fitch believes the principles IFRS 17 introduces to insurance contracts will enhance transparency and comparability within the insurance market. However, smaller insurers with limited resources may face challenges in implementing the new standard.

Underwriting Profitability - Fitch-Rated Insurers



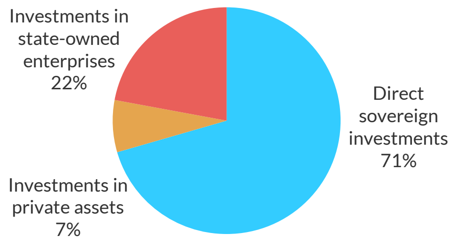
Note: The above results exclude NITF
Source: Fitch Ratings, Fitch Solutions, companies

Product Mix - Industry



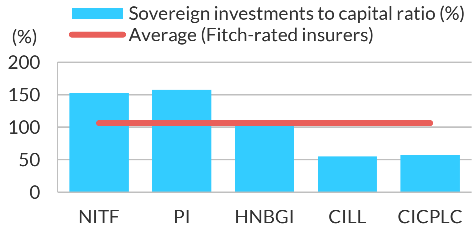
Source: Fitch Ratings, Fitch Solutions, IRCSL

Investment Mix 1H24 - Fitch-Rated Insurers



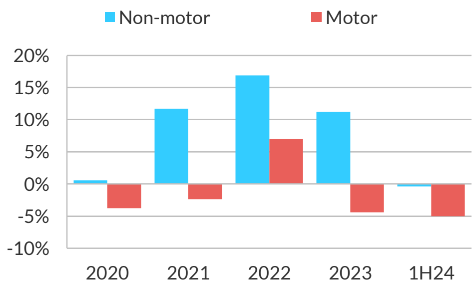
Source: Fitch Ratings, Fitch Solutions, companies

Sovereign Investments to Capital - 2023



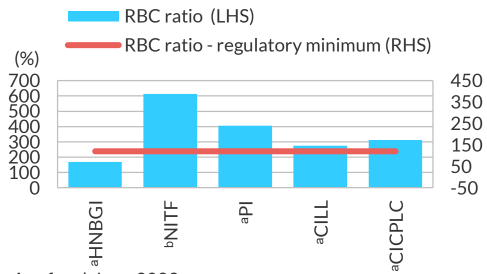
NITF: National Insurance Trust Fund Board, PI: People's Insurance PLC, HNBGI: HNB General Insurance Limited, CILL: Continental Insurance Lanka Limited, CICLC: Co-operative Insurance Company PLC
Source: Fitch Ratings, Fitch Solutions, companies

Motor vs Non-Motor Growth - Industry



Source: Fitch Ratings, IRCSL

Risk-Based Capital Adequacy Ratios



[a] As of end-June 2023
[b] As of end-December 2023
Source: Fitch Ratings, Fitch Solutions, companies

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