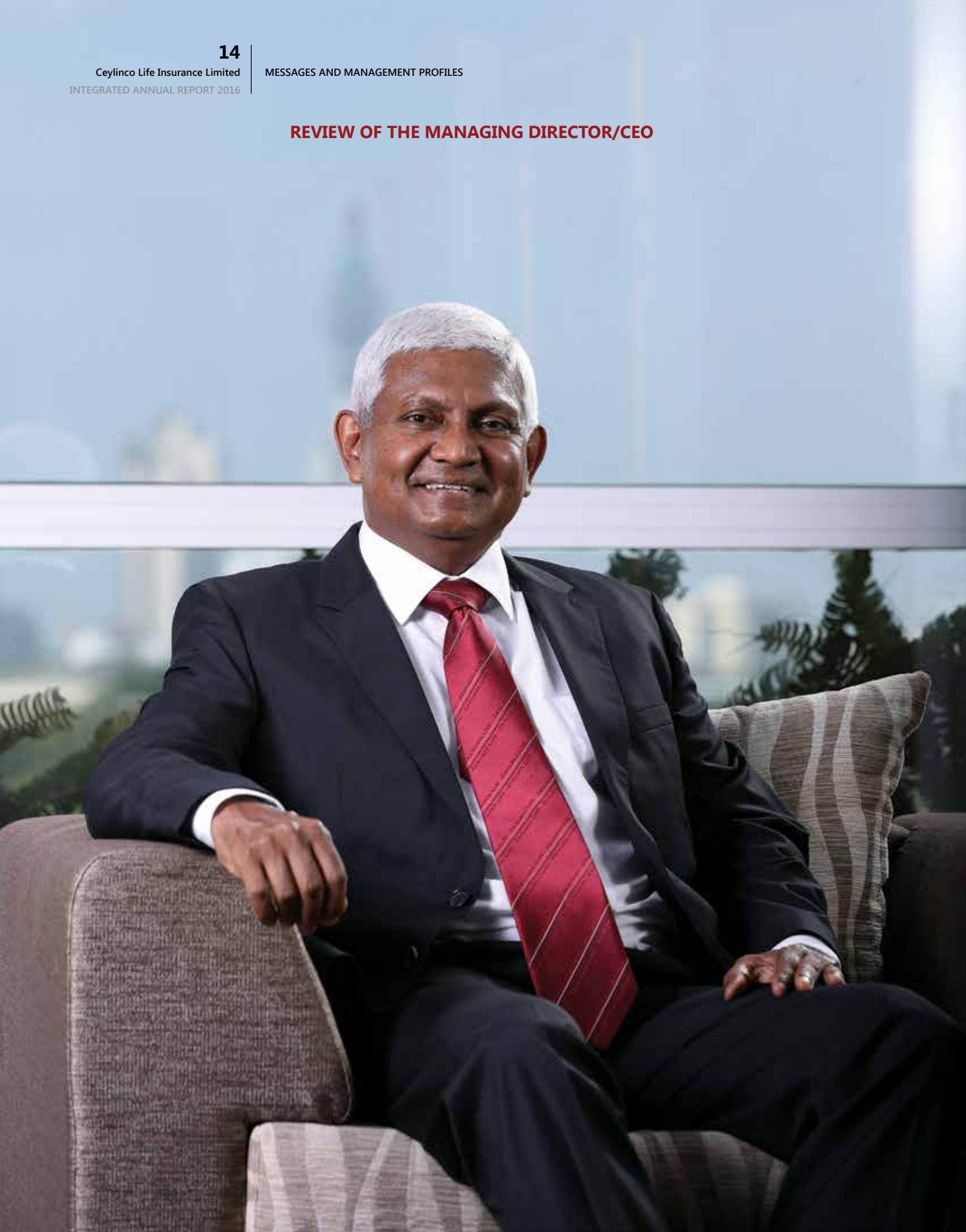


**REVIEW OF THE MANAGING DIRECTOR/CEO**



***‘An investment in knowledge always pays the best interest’***

Benjamin Disraeli (1804-1881)

The concept of life insurance is simple.

It ought to be easily understood and trusted.

And yet, only 13% of our population is protected by life insurance. In the intense competition to tap this market, life insurance has acquired a great deal of window dressing and spawned copious volumes of fine print. And trust in its promoters is not as high as it should be.

How then, does one persuade an unreceptive prospect to enter into a contract for 20 years or more to secure the future well-being of his or her loved ones?

Building trust and confidence in the credentials of the provider of protection – the life insurer – is clearly the first step. Hence our recurring title ‘Know Your Life Insurer’ for this Annual Report – the first covering a full year of operations as a standalone life insurance company.

We welcome scrutiny. We invite policyholders, shareholders and potential customers to study our track record, our passion, professionalism, commitment, culture and performance. Get to know us intimately because what Ceylinco Life offers is ‘A Relationship For Life’. And, as a two-time Prime Minister of England once said, “An investment in knowledge always pays the best interest”.

Like its predecessor, our 2016 Annual Report is dedicated to promoting a deeper knowledge of who we are, going beyond the dictates of standard disclosure to give readers a deep insight into the Company that has led Sri Lanka’s life insurance industry for 13 consecutive years.

This year, I would also like to draw special attention to the remarkable progress we have made in our efforts to make our operations more environment friendly. This is covered in some detail further on in this review.

**PERFORMANCE**

I am pleased to report that your Company posted total income of Rs. 23.4 Bn, a sound improvement of 17.83% over 2015. Within this, Gross Written Premium Income topped Rs. 15 Bn, reflecting growth of 12%. We are satisfied with this growth in the context of the general sentiment that prevailed in the market during the year reviewed. The new business captured was adequate to maintain our position at the helm of the industry, with a market share of 23.76% at the end of the third quarter of 2016. The number of new policies sold and active at the end of the year totalled 143,622 at a monthly average of 11,968 new life policies per month.

Investment income improved by a respectable 30% to Rs. 8.78 Bn through the professional management of your Company’s investment portfolio, which grew by a solid 20.27% to Rs. 80.7 Bn as at 31 December 2016. Total assets grew by Rs. 16 Bn or 20.22% to Rs. 96.5 Bn.

At the end of the year under review, the Ceylinco Life investment portfolio comprised of Government Securities (53%); Fixed Deposits (9%); Real Estate (8%); Corporate Debt (29%) and Others (1%). Shareholders are aware that these investments are made in conformity with the investment guidelines stipulated under the Regulation of the Insurance Industry Act No. 43 of 2000 and are subject to regular monitoring by the Insurance Board of Sri Lanka (IBSL).

A key performance indicator (KPI) that represents your Company’s financial strength and ability to meet its financial obligations in respect of its insurance contracts is its Capital Adequacy Ratio. I am proud to report that Ceylinco Life’s Capital Adequacy Ratio stood at 335% at the end of 2016, well above the statutory requirement of 120%.

**LIFE FUND**

Our Life Fund grew by 14.58% to Rs. 77.9 Bn at the end of the year under review, following a transfer of Rs. 9.9 Bn to the fund after the final shareholder transfer. This represents a 24% increase over the transfer made in 2015. We have always taken pride in the speed at which our Life Fund has grown. Your Company was in fact the fastest to build up a Life Fund of Rs. 60 Bn, a feat it achieved in 2014. Over the past two years alone, the Fund has grown by nearly 30%.

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#### **BENEFITS TO SHAREHOLDERS**

Your Company recorded a net profit of Rs. 3 Bn for the year and transferred Rs. 2.3 Bn to shareholders. Earnings inclusive of dividends to shareholders for the 12 months exceeded Rs. 2.5 Bn.

#### **BENEFITS TO POLICYHOLDERS**

Gross claims and benefits paid to policyholders in 2016 surpassed Rs. 6.8 Bn, an 11% improvement over the previous year. This included Rs 2.9 Bn in annual bonuses and 'Avurudu Cash' bonuses to more than 300,000 policyholders and maturities totalling Rs. 4.2 Bn. The annual bonus pay-out in 2016 was the highest in your Company's history.

As I have done in the past, I would like to emphasise the importance of our 'Pranama' scholarships programme as a policyholder benefit that continues to grow in monetary value and societal impact. The programme reached a milestone in 2016 with the 15th round of scholarships awarded, which took the number of high achieving young Sri Lankans benefited, beyond the 2,000 mark. Your Company presented another 154 scholarships worth more than Rs. 10 Mn in the year reviewed.

Additionally, we launched a new initiative called 'Pranama Weerayo' under the Pranama banner to motivate young students. The programme recognises that heroes come in many shapes and sizes and we chose one segment – students that pass the Year 5 Scholarship Examination – for special recognition. The 'Pranama Weerayo' programme presents every preregistered student that passes the examination, usually conducted in August, with a personalised certificate as a special form of recognition of his or her potential. preregistered students that are placed within the top 10 island wide at the examination also win cash prizes of Rs. 25,000/- each.

#### **BRANCH NETWORK**

We inaugurated three new buildings in the year under review, all of them custom-built for eco-friendly operations. The Horana building is a two-storey building of 5,870 square feet at a prime location on the Horana-Panadura Road. It has provision to expand to four storeys and is designed for optimal use of natural light and is entirely solar powered. The building is also equipped with the latest energy-efficient lighting and air conditioning systems and has a facility for rainwater harvesting.

Our new, purpose-built environment-friendly building in the heart of Panadura is a three-storey, 7,713 square foot edifice powered by solar panels. It is equipped with energy-efficient air conditioning and lighting systems, has rainwater harvesting facilities and uses recycled sewage water for the sustenance of its garden, significantly reducing consumption of resources and minimising its carbon footprint. The building has a fully-equipped conference hall and ample parking for customers.

We also opened an eco-friendly building in Wennappuwa on 37.4 perches of land to accommodate five branches serving the area. The three-storeyed building with a floor area of approximately 8,760 square feet has a solar-powered electricity system and is fitted with energy-efficient air conditioning and lighting. It is designed to maximise availability of natural light.

#### **GOING GREEN**

As already indicated in my preamble to this review, one of the highlights of 2016 was our increased emphasis on greening our operations. Besides the eco-friendly branch buildings opened, the year began with the management, staff and sales team of your Company undertaking to plant approximately 4,000 trees. A Tree Planting Week from 11 to 17 January required every employee to plant a tree and furnish photographic evidence of it. The activity led into a series of other environment-related initiatives across our branch network under a year-long sustainability drive comprising of three elements – 'Reuse', 'Reduce' and 'Encourage'.

Overall, our efforts to reduce use of resources in the year reviewed generated a saving of more than 43,000 litres of fuel, an improvement of 12% over 2015; a saving of 46,228 units of electricity and a reduction of 2.8 Mn sheets of A4-sized paper. I congratulate the team for these achievements and look forward to seeing further reductions in the years ahead.

As part of our dedication to the environment, we broke new ground in 2016 with the installation of the biggest solar electricity system in the city of Colombo at our Head Office. With a system capacity of 63.18kW, the solar power unit generates a saving of 7,200 units of electricity per month, resulting in an annual reduction of 65 tons of CO<sub>2</sub> emitted to the environment as a result of consumption of power from the national grid and thermal power generators.

## THE COMMUNITY

Our commitment to the communities we serve has always been a distinguishing facet of Ceylinco Life. We continued to support the education and health-related needs of under-served areas in 2016. Some of the projects worthy of special mention are:

- We built and presented a purpose built classroom to the Sithyvinayakar Hindu College in Mannar, a Government school of 1,700 students and 80 teachers.
- The KN/Kanagambikaikulam G.T.M. School in Kilinochchi which accommodates 372 students in Grades one to 11 received a building to house a library for its students and teachers through a collaboration between your Company and the 57th Division of the Sri Lanka Army. This was the 66th classroom building funded by Ceylinco Life for a rural school in Sri Lanka, and the second donated by the Company this year. Three more classroom buildings are under construction at beneficiary schools for completion in 2017 under this programme.
- Nearly 3,000 people received free medical checks in 2016 under our 'Waidya Hamuwa' (Meet the doctor) community programme, which has benefited some 135,000 people in 13 years. The *Waidya Hamuwa* programme is carried out by a team of doctors, medical and ophthalmic technicians and nurses that travels across the country, offering communities the facility of free consultancy and diagnostic tests such as random blood sugar, ECG and blood pressure. The team also offers eye checks free of charge.

I would also like to pay tribute to a small group of Senior Executives of your Company for effectively demonstrating how disproportionately large undertakings can be accomplished by a few people by adopting five leadership practices that engage and inspire others. The group was challenged to conceptualise and execute four corporate social responsibility (CSR) projects as part of a leadership training exercise and formed four teams of six each for the purpose. The work of this group of 24 in the course of just one month helped a remote community protect itself from Chronic Kidney Disease (CKD), gave a rural school a library, stimulated tree planting in communal institutions and renovated a dilapidated Pre-school.

## MARKET EXPANSION

Stakeholders are aware that the 'Family *Savari*' mega promotion conducted every year is one of the principal market expansion initiatives of the Company. In the year reviewed, the families of five policyholders – the lucky winners of the grand prize in 'Family *Savari* 9', received a sensational four-day tour of Germany. This was the climax of the 2016 edition under which another 60 policyholder families were taken on holidays to Dubai and Singapore and 500 families enjoyed a full-day of fun at the Leisure World theme park.

In the next edition of Family *Savari* – the 10th – an all-expenses-paid holiday in England for five of our policyholders and their families will be the grand prize. Family *Savari* 10 will also offer prizes of holidays in Dubai and Singapore and a day-long visit to Leisure World for policyholder families. Over the past three years, we have presented winners of the grand prize at the Family *Savari* with holidays in Japan, Switzerland and Germany. The feedback from policyholders on the Family *Savari* programme is extremely encouraging. For many, the experience has created memories that will last a lifetime.

## AWARDS AND RECOGNITION

Your Company was declared the 'Best Life Insurer in Sri Lanka' for a third consecutive year in 2016, following an in-depth assessment of key performance indicators by World Finance, the authoritative UK-based international publication. The magazine's eminent panel of international experts analysed multiple aspects of sector-specific performance in FY 2015 before naming its country winners for 2016. Among the areas looked at were average time to underwrite and to issue a policy; how risk exposure is assessed and accommodated; achievements in the 12 months reviewed; how appropriate cover is ensured for new and existing clients; Customer Retention Rate; Average Time in Claim Settlement; New Customer Acquisition Rate; Average Cost per Policy and Net Premium.

We also take pride in the fact that Ceylinco Insurance won its 10th consecutive People's Award in the Insurance Category at the 2016 'SLIM-Nielsen People's Awards – billed the hallmark awards event of the Sri Lanka Institute of Marketing (SLIM). Your Company enjoys the rare distinction of being adjudged the 'People's Insurance Brand of the Year' every year since the awards programme was launched ten years ago.

Additionally, we are most encouraged by the success of our 2015 Annual Report which won two important accolades at the prestigious ARC Awards presented by MerComm Inc. in New York. We won the Silver Award for 'Financial Data' in

the 'Insurance – Life & Health' segment of the awards, as well 'Honors' in the same segment in the 'Traditional Annual Report' category. Last year's Annual Report was your Company's first since the segregation of Life and General Insurance into separate business entities under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, which came into effect last year.

Your Company also reaffirmed its supremacy in the sphere of sales, winning seven awards at the 2016 National Sales Congress (NASCO) Awards presented by the Sri Lanka Institute of Marketing (SLIM). This rich haul of awards included all three awards in the 'Frontliner' category in the Life Insurance sector, and comprised of two Golds, three Silvers and two Bronze awards. I congratulate the Company's star at the awards, Ms. Kumari Danapala who won the Gold Award in the Frontliner Category in the Life Insurance sector, the joint Gold Award for the Outstanding Female Salesperson of the Year across all categories, and the joint Silver Award for the Outstanding Frontliner of the Year across all industry sectors.

I am proud to report that your Company also produced 44 qualifiers to the Million Dollar Round Table (MDRT) in the year reviewed two of them became Court of the Table members.

Congratulations also to our Toastmasters Club which was awarded the prestigious 'Golden Gavel' in 2016 by Toastmasters International in recognition of the progress of the club and its members. Presented at an Ovation Ceremony in Chennai, the Golden Gavel is considered a significant achievement for a club in only its second year of existence.

## HEALTHCARE

Our fully-owned subsidiary Ceylinco Healthcare Services Limited (CHSL) made steady progress in the year reviewed, more than doubling its profits. The Company operates four centres of excellence, the Ceylinco Healthcare Centre specialising in screening for cancer, the Ceylinco Radiation Treatment Unit which introduced the Linear Accelerator to Sri Lanka several years ago, the Ceylinco TomoTherapy Centre, which offers one of the most advanced forms of 3-D image-guided radiation treatment in Sri Lanka and the Ceylinco Diabetes Centre.

## NEW VENTURES – SERENE RESORTS

Policyholders are aware that the Company owns a beachside property in Hendala, which has served as a residential training centre in the past. We are in the process of refurbishing and refurbishing the property which is to be launched in 2017 as Sri Lanka's first retirement resort for active retirees. This ground-breaking project is intended to be the first in a series of investments in infrastructure and care for the elderly, taking into consideration the needs of our ageing population. We are also looking at a second and third stage in the care cycle and will report on our plans at the appropriate time.

## THE FUTURE

We believe that there can be no better platform to address the future than the 13 consecutive years of market leadership that we have achieved. In 2016, your Company engaged in an in-depth study of the market and its own position within it. As a result, we have developed a comprehensive road map for short and medium term growth through a realignment of our strategic direction. We have looked at our products, our communications and our human resources and have developed plans that will see the Company moving up the value chain with new products that respond to the needs and aspirations of higher net worth customer segments, while retaining its position in the mass segment.

For the short term, we have set ourselves several targets. For 2017, we are challenging ourselves to achieve 25% growth in GWP, to grow our Life Fund by Rs. 10 Bn, to recruit and maintain our sales force at 4,500, to roll out our new brand identity across our network and to complete the 'digitisation' of our sales force.

We have developed training courses for sales officers and supervisors and introduced a training credits programme which requires every sales officer to undergo a minimum number of training courses per year. We are deploying new software for Finance and Treasury management and expanded our premium collection channels. These and other internal measures will support the achievement of our ambitious growth targets.

I am also happy to report that we embarked on a programme of leadership training and assessment of senior management as part of the Company's succession planning agenda. A group of 24

Senior Executives at Deputy General Manager (DGM), Assistant General Manager (AGM) and Senior Manager level joined the Company's Directors in the first of these programmes, conducted by the well-known corporate trainer Doug Adams. Comprising of individual interviews with the trainer/assessor, a three-day residential training session, one-to-one counselling sessions, execution of tasks set and a second three-day training session and evaluation, the programme was intended to expose senior managers to leadership challenges and prepare them for future leadership of the Company.

We have now nominated successors to every member of the first and second tiers of your Company's senior management and are in the process of looking at the third tier.

#### **THE POLICY AND REGULATORY ENVIRONMENT**

As a long term insurer, we need stable long term investment options, and have urged the Government to look at launching Rupee Development Bonds to raise funds locally for its infrastructure projects. In many other countries, life insurers invest in such bonds to balance their investment portfolios.

We are also closely observing the discussions between the Life Insurance Association and the Department of Inland Revenue on the basis of calculation of taxes for life insurance companies. As long term insurers, we make assumptions on projected returns for 15 or 20 years and ad hoc changes in the basis of taxation could adversely impact on those projections. It is our view that taxing the profits of life insurers would address this concern.

#### **THANK YOU**

I would like to place on record my sincere gratitude to my colleagues on the Board of Directors, the staff, policyholders, the shareholders and regulators for their guidance and support in 2016. I look forward to their continued assistance and co-operation in 2017.



**R Renganathan**  
Managing Director/CEO

23 February 2017  
Colombo