

# THE OPERATIONAL LANDSCAPE WE NAVIGATE

Facing another year replete with challenges, yet maintaining optimism for the future

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As we direct our business towards its objectives, we maintain a sharp focus on changes in the external environment. The year 2023 illustrated how external factors can profoundly affect businesses across the board. However, we acknowledge that the internal environment also holds significant influence over our ability to achieve targets. Consequently, we conducted a thorough analysis of our operational landscape before charting out future strategies. From this point onward, our discussion will delve into forward-looking insights that have been factored into the reshaping of our future targets.

## EXTERNAL ENVIRONMENT ANALYSIS

The external environment undergoes analysis through PESTEL factors to ensure comprehensive coverage. The results of the analysis indicate an overall positive outlook for the insurance business, presenting growth opportunities and areas for improvement.

## POLITICAL ENVIRONMENT

Political instability that has plagued the country over the past two years is anticipated to be resolved by 2024. The upcoming presidential election scheduled for the end of the year is expected to be a catalyst for significant changes in the country's economy, with far-reaching effects across all industries.

	World		Emerging Asia		Sri Lanka	
	GDP growth	Inflation	GDP growth	Inflation	GDP growth	Inflation
2023	3.1%	6.8%	4.7%	4.2%	-3.8%	18.7%
<b>2024</b>	<b>3.1%</b>	<b>5.8%</b>	<b>4.5%</b>	<b>3.3%</b>	<b>1.7%</b>	<b>5.5%</b>
2025	3.2%	4.4%	4.3%	3.8%	2.4%	Not-available

Source :-  
<https://www.imf.org/en/News/Articles/2024/01/30/013124-apdreo-presser-opening-remarks>  
<https://thedocs.worldbank.org/GlobalEconomicProspects--January2024>  
<https://www.adb.org/where-we-work/sri-lanka/economy>

Sri Lanka is anticipated to achieve GDP growth in 2024 and gradually transition towards a recovery trajectory, with inflation expected to stabilize soon. This presents a more positive outlook in terms of growth opportunities.

## SOCIAL ENVIRONMENT

Area	Fact	Impact to SLI	Opportunity / Risk
 <b>Increasing Aging population</b>	25% of Sri Lanka's population will be over 60 of age by 2035. (Source:- <a href="https://blogs.worldbank.org/">https://blogs.worldbank.org/</a> )	High	SLI has already expanded its health portfolio to cater to this segment.  Opportunity to expand pension portfolio
 <b>Time spent on social media</b>	People spent more time on social media platforms	High	Opportunity to do marketing campaign through social media  Could use as distribution channel
 <b>Per capita income</b>	The declining trend of per capita income is accompanied by a deteriorating purchasing power.	High	Risk of declining sales

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### TECHNOLOGICAL ENVIRONMENT

Area	Fact	Impact to SLI	Opportunity / Risk
 <b>Robotic Process Automation (RPA)</b>	Use of RPA for insurance under writing. We have already deployed RPA in our repetitive works.	High	Process efficiency, increase productivity, cost reduction and enhance customer satisfaction
 <b>Increase Cybercrime</b>	As we are increasingly adopting new technologies cyber security is paramount important	High	The risk of data theft and the impact of viruses are significant concerns
 <b>Big data and Predictive Analytics</b>	Bigdata and predictive analysis is used in risk identification and assessments	High	effective marketing, new revenue opportunities, customer personalization and improved operational efficiency
 <b>Machine Learning (ML)</b>	Global level trend to Increase use of ML to manage and analytics data in insurance industry	High	SLI is developed automated claim assessment system. Improve operational efficiency while reducing the existing risk of insurance fraud
 <b>Growing Internet and Mobile Penetration</b>	Society is experiencing a rapid increase in digital adoption.	High	Opportunity for new distribution options, focus on digital marketing

### ENVIRONMENTAL FACTORS

As an insurance service provider, we aren't required to follow environmental protection regulations. Despite this, we actively evaluate our environmental impact and have implemented several internal initiatives to minimize it. You can find a comprehensive outline of these actions in our Natural Capital report on page 142.

### LEGAL ENVIRONMENT

We regard the following requirements from various institutions as essential compliances within our legal environment, crucial for maintaining our organization as a legal entity. We have evaluated the new regulations enacted in 2023, recognizing their potential impact on our future operations and strategies.

Regulatory Requirement	Compliance	Impact to SLI
<b>Insurance Regulatory Commission of Sri Lanka - Industry Regulation</b>		
Direction 02 of 2023 (27th July 2023) - Principal Officers of Insurance Companies and Insurance Brokering Companies (in place of Direction #5 of 2021)	Complied	No Impact
<b>Colombo Stock Exchange - Listing rules</b>		
Submission of Financial Statement & Compliance Officer's Report - Revised	Complied	No Impact
<b>Inland Revenue Department - Tax Regulation</b>		
Exemption of goods and services under the Value Added Tax Act, No. 14 of 2002 [as last amended by the Value Added Tax (Amendment) Act, No. 32 of 2023] and amendments of VAT rate.	Complied	Will have significant impact on managing our expenses.
<b>CA Sri Lanka - Reporting Standards</b>		
Implementation of SLFRS 17 w.e.f 01 Jan 2026	Ongoing	Impact on performance measurement
Introduction of IFRS sustainability Standards (IFRS S1 & S2)	Ongoing	Changes are required to the business process in terms of climate change impact assessment (Refer page 69)

## INTERNAL ENVIRONMENT ANALYSIS

Our SWOT analysis, detailed below, aims to evaluate the internal environment. SLI possesses strengths and opportunities that can be leveraged in the execution of our future strategies to attain a competitive advantage, while also addressing weaknesses and threats.

### S Strengths

- Flexible business with automation process
- Innovative products
- Strong reinsurance panel
- Wide distribute branch network
- Maintain customer service above the industry
- Stable Agency channel with fast growing alternate channels

### W Weaknesses

- High attrition among sales force
- Certain business functions have been partially integrated but require further advancement.

### O Opportunities

- New customers through online platforms
- New business opportunities and process improvement with digital innovation
- Further Opportunities are identified through PESTEL analysis above
- Strategy related opportunities have short listed on page 70

### T Threats

- We identify threats through PESTEL analysis and stakeholder engagement, as detailed on pages 61 and 64, respectively
- Risk associated with strategic pillars provided on page 65

## UNDERSTANDING THE DYNAMICS OF THE INSURANCE MARKET

Global and regional Life insurance industry review

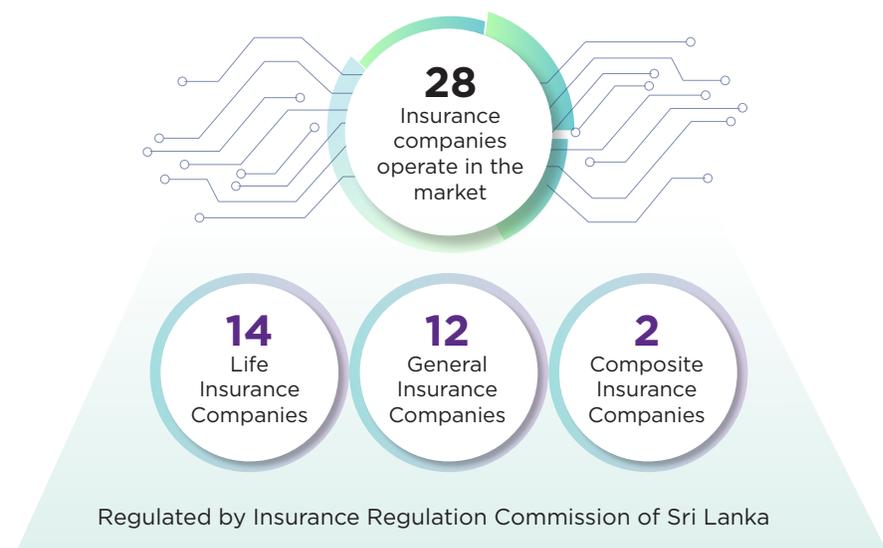


	Global Insurance Industry Overview	Regional Review (Advanced Markets)	Regional Review (Emerging Markets)
Life Insurance GWP growth	↑ 2.3%	↑ 2.2%	↓ 5.1%
Macroeconomic and market dynamics	<ul style="list-style-type: none"> <li>• Investment Returns</li> <li>• Geopolitics may impact negatively to the growth</li> <li>• High inflation</li> </ul>		

(Source :- Swiss Re Institute / Sigma report / no 6/2023)

It was forecasted to have negative growth in life insurance premium in Emerging Markets. This could have seen as risk to our growth.

## SRI LANKA INSURANCE INDUSTRY



Sri Lanka Life Insurance Industry - Statistics	2023	2022	G%
Total Life Insurance Premium (Rs. Mn)	<b>152,913</b>	136,255	12%
Number of New Policies	<b>474,750</b>	590,369	(20%)
Penetration - Premium (%) (estimated)	<b>0.5%</b>	0.5%	-

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### INSURANCE INDUSTRY ATTRACTIVENESS

The Sri Lankan life insurance industry undergoes analysis using Porter’s Five Forces analysis to comprehend the forces impacting the industry’s value creation process and profitability. With the insights derived from the analysis, Softlogic Life can adapt the company’s business strategy by capitalizing on advantages, seizing available opportunities, transforming threats into opportunities, and addressing weaknesses proactively. Furthermore, this analysis provides positive indicators to both existing and potential investors regarding the attractiveness of the life insurance industry in Sri Lanka.

Threat of New Entrants	Threat of Substitutes	Bargaining power of Suppliers	Bargaining power of Buyers	Rivalry among Existing Life Insurance
<ul style="list-style-type: none"> <li>Difficult - being the minimum capital requirement is Rs. 500 Mn.</li> <li>Brand equity significantly influences customers’ decisions to switch from one insurance provider to another. A newcomer in the industry cannot cultivate as much brand awareness and equity as an established player within shorter timeframes.</li> <li><b>Risk</b> - There is a chance of established financial industry players or any other high brand equity firm entering into the insurance industry.</li> </ul>	<ul style="list-style-type: none"> <li>SLI is leading health insurance space in Sri Lanka</li> <li>There isn’t an exact alternative to health insurance</li> <li>While investments, savings, and pension plans can be seen as alternatives to health insurance, they don’t offer the same benefits or coverage for healthcare expenses.</li> <li><b>Risk</b> - Health benefits can be replicated by other players in the industry</li> </ul>	<ul style="list-style-type: none"> <li>Demand from Insurance expertise like Actuarial valuers, reinsurers and sales forces are high as there is a scarcity of resources.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate customers have the bargaining power than individual customers</li> <li>Customers have Weak perception over Insurance Products and need massive effort to attract new customers</li> <li>High switching cost due to low surrender value at the initial stage</li> </ul>	<ul style="list-style-type: none"> <li>There are a decent number of players in this industry already.</li> <li>We have the opportunity to leverage product differentiation, pricing strategies, and competitive customer service to our advantage.</li> <li><b>Risk</b> - There is high risk of hiring high performing sales staff resulting disruption to the growth.</li> </ul>
<b>Moderate</b>	<b>Moderate</b>	<b>High</b>	<b>Low</b>	<b>High</b>
Impact to business model Refer Page 121	Impact to business model Refer Page 115	Impact to business model Refer Page 121	Impact to business model Refer Page 113	Impact to business model Refer Page 121

### ECONOMIC IMPACT ON LIFE INSURANCE INDUSTRY

The Sri Lankan economy has encountered numerous challenges over the past few years, starting from 2019. Each year brought its share of shocks, rendering the business operating environment exceedingly difficult. The impact on the life insurance industry mirrored that of other sectors, with direct repercussions on the shrinking disposable income of individuals. Nevertheless, the life insurance industry resiliently confronted these

challenges and sustained its growth trajectory. Despite extraordinary inflation increases and numerous tax hikes, the industry managed to achieve an impressive 12% growth in 2023.

### OUTLOOK OF THE LIFE INSURANCE INDUSTRY

In our assessment of the future, we designate 2023 as the baseline year, during which we experienced numerous negative impacts on the economy, leading to DGP degrowth

compared to the previous year. Presently, several positive indicators suggest growth prospects in the Life Insurance industry. Notably, positive GDP growth forecasts for 2024, along with easing inflation and a gradual decline in interest rates, signal optimism. A positive outlook is evident for the Life insurance industry in Sri Lanka. However, potential concerns arise from fuel and electricity price hikes, considering the global economic scenario, which may warrant caution regarding prospects.