OPERATIONAL REVIEW

Bold decision to navigate business through **Biggest** challenges

In 2023, the landscape was predominantly characterized by the aftershocks of soaring inflation. The introduction of a new income tax act effective January 1, 2023, notably affected salaried workers universally. This effect was compounded by successive escalations in fuel and electricity prices, consequently driving up the costs of essential commodities. Furthermore, the impact was compounded by the elevation of VAT and the broadening scope of VAT-eligible goods and services as of January 1, 2024. Towards the year's conclusion, interest rates experienced a gradual decline and reflected economic growth prospects. We manage the business through many headwinds during the year 2023. Our performance during the year is discussed below under each strategic pillar.

Below table analysed our performance against the target set for the year 2023.

PHENOMENAL SALES

Key Value Drivers		2023 Actual	2023 Target	A%		Discussion points
GWP contribution by Agency channel	%	**67**	**64**	104%	=	Channel wise performance
GWP contribution by non-Agency channel	%	**33**	**36**	93%	=	
GWP growth	%	**14**	**25**	56%	↓	GWP growth
Average Case Size (Rs)	Rs	**176,872**	**163,535**	108%	↑	Our Key value drivers
Annualized New Business (ANBP) growth	%	**2**	**19**	10%	↓	
ANBP per agent	Rs Mn	**2.1**	**2.2**	95%	↓	
Persistency – Year 1	%	**83**	**85**	98%	↓	
Persistency – Year 2	%	**61**	**67**	91%	↓	
Persistency – Year 3	%	**54**	**59**	92%	↓	

Five year analysis of all key performance indicators above are provided on page 56.

CHANNEL WISE PERFORMANCE

The Agency, Alternate, and Micro channels have experienced growth rates of 13%, 17%, and 15%, respectively, while the company itself reported a growth rate of 14%. The Agency channel accounted for 67% of the total, exceeding the budgeted figure of 64% by 3%. This variance can be attributed to the failure to achieve the DTAP target and the lower-than-anticipated traction of dividend-based investment products in a high-interest-rate environment, resulting in a deviation from the expected channel mix for the year.

Challenges we faced are explained below.

Channel Rs Mn	2023	2022	G%	Mix 2023	Mix 2022
Agency	**17,562**	15,545	13%	67%	67%
Alternate	**7,426**	6,361	17%	28%	28%
Micro	**1,353**	1,178	15%	5%	5%
Company	**26,341**	23,083	14%	100%	100%

G6-GROSS WRITTEN PREMIUM

OPERATIONAL REVIEW

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **High Interest Rates :-** we expected gradual increase of DTAP portfolio during the year based on our interest rates forecast during the corporate planning cycle which was not materialized during the year. therefore were have achieved 23% of the budget of DTAP segment. Nevertheless, we observed a gradual increase in the number of new policies issued during the fourth quarter of 2023, indicating a positive outlook for our short-term objectives.
- **High Inflation :-** The high inflation rate experienced during the year significantly affected new business generation, resulting in us achieving only 91% of our First Year Premium budget. The decrease in disposable income has had a notable impact on this underperformance.
- **Tax Increases :-** The significant tax increases introduced during the year 2023

GWP GROWTH

We recorded GWP growth of 14% during the year against 25% target due to many headwinds persist during the year 2023. However, we recorded a growth of above industry growth. Seeing long-term sustainability, we have reported 10 year CAGR of 26% which is almost double the industry growth of 14%.

26%
10Y CAGR SLI

14%
10Y CAGR Industry

STRATEGIES IMPLEMENTED

Throughout the year, we successfully navigated various challenges and achieved excellent results, thereby adding value to our stakeholders. Our management team implemented a set of strategies tailored to the prevailing operating conditions, outlined as follows.

Market Penetration Strategy

Leading the market as 2nd largest life insurer

The company pursued a market penetration strategy through three primary distribution channels (Refer to page 117 for distribution channels). The Agency channel notably expanded its branch network by opening 13 new branches, aligning with the company's market penetration objectives. To bolster this branch expansion and support the growth of the existing extensive network, we hired 2,287 new field staff throughout the year. The anticipated benefits of these initiatives are expected to materialize in 2024 and beyond.

The alternate channel implemented its strategies to attract new corporate clients and successfully surpassed the budget, achieving 123% of the target and recording a 41% growth. Additionally, the channel reinforced its bancassurance portfolio by onboarding a leading state bank. We are actively working to gain traction in this segment, recognizing its significant future potential (Refer to page 70 for opportunities identified in bancassurance). Furthermore, the channel introduced a new product during the year, which is elaborated on under the product development strategy below.

The Micro channel excelled in selling fund accumulative investment products, achieving 199% of the target. Additionally, the Micro channel concentrated its strategy onboarding another state bank to further promote our products.

Product Development Strategy

A premier insurance solutions provider in Sri Lanka

This activity stands as a cornerstone in SLI's value creation process. Our success hinges on our capacity to meet the diverse insurance expectations of our customers. In 2023, with people increasingly focused on investment opportunities due to prevailing high interest rates, we capitalized on this trend by introducing the "Unit Linked Product" to the market (Refer page 116 for more details on the new product development). This product offers investment opportunities to customers while addressing their insurance needs. It has gained significant traction, presenting another growth opportunity for the short to medium term future.

Product Mix Strategies

Capitalising on the opportunities through diverse products

The product mix in the Agency channel remained largely consistent with its original budget. However, the Alternate channel did not fully offset the deficit of the DTAP budget through fund accumulating investment-based products as initially anticipated. Nonetheless, efforts were directed towards compensating for this shortfall through Group Life products, which proved to be highly successful during the year. It's important to note that this shift had an impact on profitability due to variations in product margins.

Strategising renewal collection

Managing risk of our customer throughout their life

We encountered a substantial negative impact on our renewal portfolio due to adverse economic conditions in the country. This setback hindered us from reaching our renewal target, resulting in an achievement of 97%. The main contributors to this shortfall were the sudden effects of taxes and inflation, which affected our customers' disposable income. Consequently, our renewal persistency ratios experienced a significant decline, as highlighted in the Key Value Drivers. In response, during the year, we launched a policy revival campaign to enable customers to reinstate their policies. Additionally, we implemented rigorous collection follow-up through our unique operating model, the Policy Conservation Unit resulting 97% achievement of our target.

Digitalisation and innovation strategy

Innovation define our success

Digitalisation and innovation is integral parts of our strategy execution. We are taking bold initiatives to adopt new technology and introduce innovative solutions to our products and processes. This resulted we are introducing many industries first innovation focusing on better customer services and maintaining competitive edge over other industry players.

OUR KEY VALUE DRIVERS

The company's Gross Written Premium (GWP) performance is a direct result of the meticulous management of key value drivers outlined in the table below. Our internal processes, including compensation structures, are intricately linked to these key value drivers to enhance outcomes. Throughout the year, we diligently monitor and take necessary actions to align these drivers with the targets set for optimal performance.

Annualized New Business Premium (ANBP)

ANBP, serving as the measure of new business generated over a 12-month period, experienced a modest 2% growth in the face of challenging economic factors in 2023, as discussed earlier. Despite this nominal increase, our estimations for future years anticipate substantial growth aligned with our strategic initiatives and market conditions.

Average Premium Per Policy/ Average Policy Value

This demonstrates the quality of the business we underwrite. Despite the challenges we achieved the target per policy value demonstrating our commitment to get quality business. We reached to Average Premium per policy value of Rs 176,872 which above the industry average.

Premium Persistency/ Retention Ratio (Year 1 - 3)

In the Life Insurance industry, premium persistency refers to the timely payment of premiums throughout the policy period without any overdue amounts. Unfortunately, during the year, we witnessed a notable decline in persistency ratios primarily attributed to the lingering effects of the financial crisis situation in the country, as discussed in the challenges section above. Nevertheless, we have formulated strategies to mitigate these lapses to maximum possible extent and enhance persistency ratios in 2024.

Average ANBP per agent

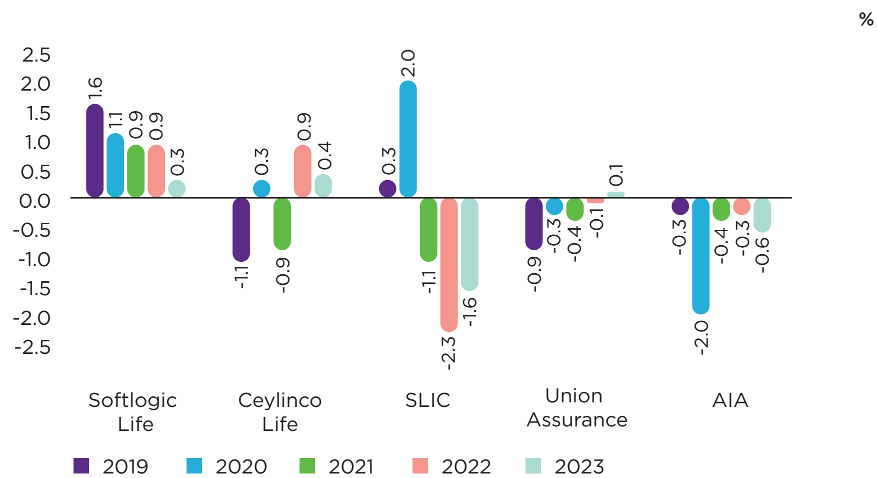
The productivity of our agents stands as a crucial value driver for the Company. Throughout the year, the Annualized New Business Premium (ANBP) per Agent was reported at Rs. 2.1 million per agent, achieving 95% of the target. While there was a marginal impact observed during the year, leveraging agent productivity remains a key method for fostering organic growth within a life insurance company. It's also recognized as the most cost-effective approach to acquiring new business.

OUR PERFORMANCE IN COMPARISON TO INDUSTRY

Market share growth

Continuous increase in market share

G7-MARKET SHARE MOVEMENT OF TOP FIVE PLAYERS IN THE INDUSTRY



OPERATIONAL REVIEW

During the year the Company increased its market share by 0.3% reaching to 17.2% compared to 16.9% market share held in 2022. SLI sustainable growth is showcased in graph 8 highlighting only insurer (among top 5) to continuously increase its market share over last five years.

INDUSTRY RANKING

Strengthening our position

G8-MARKET SHARE

With continuous market share increase we also ranked up in the market as the second largest insurer whereas six years ago we were fifth in the league table.

PRODUCT TYPE WISE GWP ANALYSIS

Products available in the life insurance industry can be categorised in many ways based on their characteristics. However, in assessing sustainability of bottom line we can have two product categories which is based on profit margins.

Protection products

This refers to the products that purely cover risk of policyholders. These risk includes health risk, death risk etc.

Fund accumulating investment products

These products have portion of fund accumulated with policyholder bonus or dividends and eligibility to maturity benefits.

The majority of our portfolio primarily consists of protection premiums, serving as a key indicator of profitability. However, due to the prevailing economic conditions in Sri Lanka, the investment-related portfolio has notably increased as a result of the strategies outlined earlier. Our future strategies are being developed to optimize the portfolio and yield improved results.

	2023	2022	2021
Protection Products	**65%**	72%	69%
Fund accumulating investment product	**35%**	28%	31%

MOST CARING LIFE INSURER

Below table analysed our performance against the target set for the year 2023

Key Value Drivers		2023 Actual	2023 Target	A%	
Digital proposal submission	%	**100**	**100**	100%	↑
One-day proposal acceptance	%	**77**	**75**	103%	↑
Auto underwriting of policy	%	**69**	**70**	99%	↓
One-day claim settlement	%	**75**	**+90**	83%	↓
Hospital discharge within one hour	%	**94**	**+90**	104%	↑
Acknowledge customer complains within a day	%	**100**	**100**	100%	↑

This strategic pillar focuses on critical activities within the business process aimed at delivering exceptional customer service. Consequently, we have established internal Key Performance Indicators (KPIs) to monitor our performance effectively. These KPIs are established based on the understanding that customers acquire life insurance policies to secure financial support during challenging times in their lives. Therefore, our responsibility lies in ensuring fairness and promptness in settling claims to ensure customer satisfaction. In the discussion below, we will provide insights into how we managed this strategic pillar, particularly focusing on claims payment and related activities throughout 2023.

INSURANCE BENEFIT AND CLAIMS PAID

Table 6 :- Insurance benefits and claims

Rs Mn	2023	2022	G%
Regular Claims			
Death, disability and other riders – Endowment	**4,660**	3,616	29%
Death and hospitalisation - Group life	**3,954**	2,733	45%
Death - Decreasing Term Assurance (DTA)	**1,529**	1,426	7%
Total Gross Regular Claims	**10,144**	7,776	30%
Re-insurance Recovery	**(553)**	(934)	(41%)
Net Regular Claims	**9,590**	6,842	40%
Benefits			
Policy maturities / surrenders - Investment products	**1,786**	743	140%
Policy maturities - Endowment	**764**	378	102%
Policy surrenders - Endowment products	**703**	431	63%
Total Benefit Paid	**3,253**	1,552	110%
Total Net Insurance Benefits and Claims Paid	**12,843**	8,394	53%

During the fiscal year, we disbursed a total gross benefit and claims summing up to Rs 13.4 billion, reflecting a 44% increase compared to the previous year. On a net basis (post re-insurance recovery), the growth stood at 53%. Adhering to our brand promise, we honoured every legitimate claim filed by our customers. Endowment products notably contributed to a 29% growth, driven partly by claims from the health portfolio and remaining by the significant 54% expansion in the bancassurance channel's portfolio. The 45% growth in claims related to group life products was primarily fuelled by health-related claims. Re-insurance recovery witnessed a decline due to optimization in the health portfolio. Policy maturities under endowment and investment products didn't impact profitability. Notably, surrenders surged by 140%, reflecting prevailing market conditions in 2023.

We also monitor claim ratios on regular basis in order to take management action during our management practices. The significant ratios are discussed on page 57.

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **Surge in Epidemics:** Throughout the year, we faced significant challenges stemming from epidemics such as Dengue and viral flu, among others. Sri Lanka witnessed its highest-ever Dengue cases in 2023, exacerbated by abnormal rainfall patterns that facilitated the spread of Dengue and other health-related issues. These social impacts translated into a substantial increase in claims outgo during the year.

- **Maintaining Service Standards:** Maintaining service standards related to claim settlement proved challenging due to the high volume of claims reported throughout the year. To address this, we implemented initiatives aimed at preventing fraudulent claims through additional verification methods. These measures were essential to safeguard our genuine policyholders and uphold the integrity of our processes.

STRATEGIES IMPLEMENTED

- **Introduction of Health Claim Analysis Team :** In response to the significant volume of claims received during the year, we allocated a dedicated team to analyse claim patterns and identify notable trends. These analyses encompass various factors such as districts, cities, and hospitals where high claims volumes were reported. Subsequent actions, including policyholder education initiatives, are being undertaken as preventive measures to address these trends proactively.

- **Suspicious Claims Analysis:** We conducted a detailed analysis of suspicious claims that were identified, and we monitored those policies for future reference and investigation.

- **Climate Actions:** There are numerous root causes contributing to the high volumes of claims, with climate change-related impacts playing a significant role. Recognizing

OPERATIONAL REVIEW

this as an emerging risk for the company, we initiated a process aimed at conducting impact assessments and strategising to mitigate these risks effectively. This initiative aligns with the newly issued IFRS standards S1 and S2, as outlined in detail on page 69.

- **Digitalization and Innovation:** We expanded our digitalization and process innovations to encompass claim assessment and payment-related activities as well. Details of these advancements are elaborated under intellectual capital on page 130.

OUR KEY VALUE DRIVERS

We've established key value drivers to gauge the efficiency and effectiveness of our procedures. As the Most Caring Life Insurer, these KVDs are established to guarantee customer satisfaction. We've met all the KVDs except for the one-day claims settlement ratio, as outlined below. This indicates our success in delivering on our strategic pillar. Additionally, our success is evident in achieving the highest "Net Promoter Score" in the industry, as detailed on page 119.

One-Day Claim Settlement

The ratio reached 75%, falling short of the 80% expectation primarily due to the strategies we implemented throughout the year to optimise the claim processing system. These strategies, outlined above, include additional verification processes that had an impact on this outcome.

The business environment in which we operate is evolving rapidly, and our customers expect fast service. Drawing from our accumulated experience over the years, we have been careful to integrate certain parameters regarding policy issuance under the strategic pillar of being the "Most Caring Life Insurer."

Consistent with this strategy, we have introduced numerous innovations in the past and continue to do so, enabling our customers to obtain insurance coverage quickly. We have digitized the process and monitor the following value drivers closely.

Digital proposal submission

We encourage our sales staff to submit customer proposals through digital platforms, and at present, we do not accept manual proposals.

One-day proposal acceptance

We have a dedicated team that meticulously reviews and processes the proposals. The conversion ratio has also been steadily improving year after year. In 2023, we achieved a conversion ratio of 77%, aided by the digitalization of certain aspects of the process.

Auto underwriting of policy

The feature is activated once all the requirements are fulfilled at the proposal stage, enabling automatic policy underwriting. Throughout the year, 68% of policies underwent underwriting.

Hospital discharge within one hour

This is a critical customer touchpoint where customers anticipate swift resolution. As a result, we achieved a 94% customer discharge rate within one hour, meeting their expectations for rapid service.

Acknowledge customer complains within a day

Customers expect personalized attention to their concerns, and we have a well-established approach for handling customer complaints. We ensure that we acknowledge 100% of complaints within one day, demonstrating our commitment to addressing their concerns promptly and effectively.

OUR CRITICAL SUCCESS FACTOR

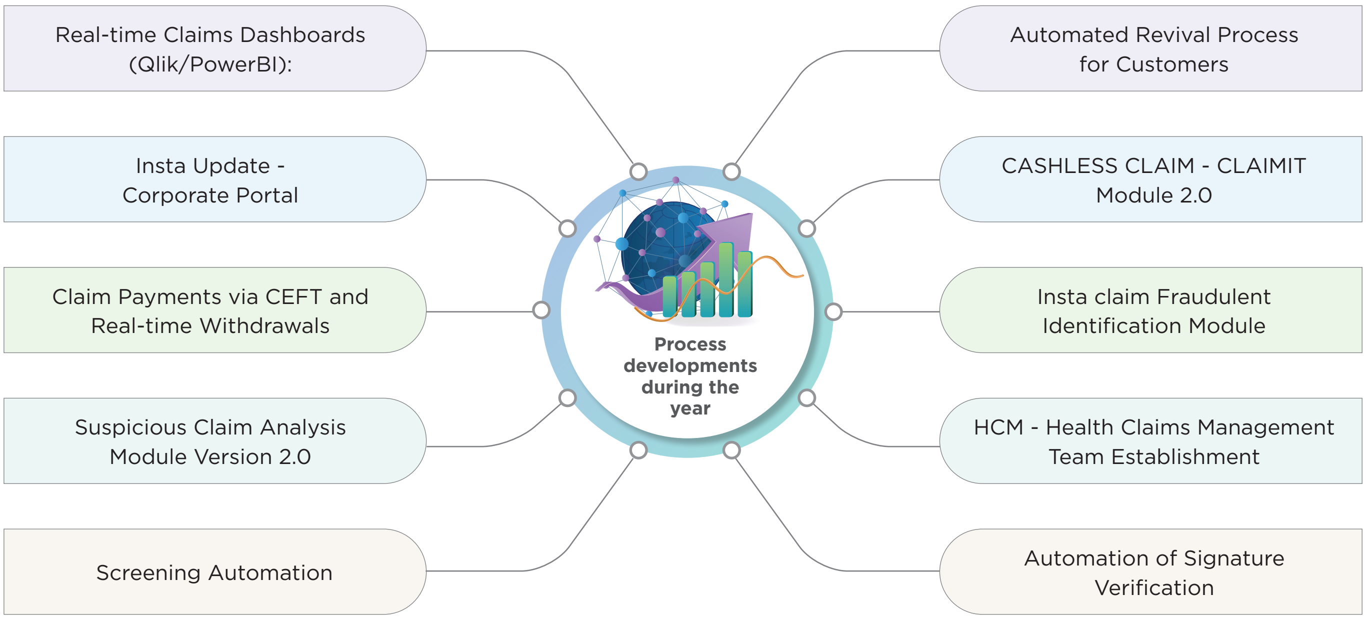
We consider our critical success factor in this area is our ability to handle customer claims quickly and fairly. We have introduced various digital tools and processes such as one-day claim settlement and life up app etc. to achieve this objective which are detailed on page 22.

SMART IT DIGITALISATION & KING OF DATA

Below table analysed our performance against the target set for the year 2023

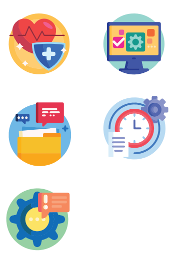
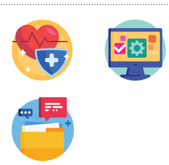
Key Value Drivers		2023 Actual	2023 Target	A%	
One-day proposal acceptance	%	77	75	103%	
Auto underwriting of policy	%	69	70	99%	

Throughout the year, we introduced numerous new solutions and innovations, as outlined below. At SLI, we attribute much of our success to our distinctive culture of innovation, considering it one of our key strategic pillars. During the planning stage, we evaluate potential value creation through innovation and digitalization to determine feasibility. Our innovations and digitalisation are presented below.



Detailed discussion on above innovation implemented during the year is provided under Intellectual capital on page 134.

The value creation through above innovation and digitalization is summarised in the below table.

Activity	Applicable Strategic Pillars	Value to SLI	Value to Stakeholders
Suspicious Claim Analysis Module Version 2.0 Screening Automation		• Prevent claims leakage from fraudulent claims	**Staff** - Efficient discharge of responsibility to identify fraudulent claims
Insta claim Fraudulent Identification Module		• End to end process automation enhanced efficiency • Prevent claims leakage from fraudulent claims	**Customer** – The rights of genuine customers are safeguarded Speedy settlement of claims
HCM - Health Claims Management Team Establishment		• Prevent claims leakage from fraudulent claims • Get more business insights for future business drive	
Automation of Signature Verification		• Prevent claims leakage from fraudulent claims	
Automated Revival Process for Customers		• Activating lapsed policies bring additional GWP as well as support the profitability	**Customer** - Convenient process to revive policy **Sales Staff** - Managing better relationship with customers
Real-time Claims Dashboards (Qlik/ PowerBI)		• Real-time monitoring claims status • Efficient resource allocation • Identify abnormal trends	**Customer** – Get faster and better service **Staff** – Ability to prioritise the work allocation based on the data driven process

OPERATIONAL REVIEW

Activity	Applicable Strategic Pillars	Value to SLI	Value to Stakeholders
Insta Update - Corporate Portal)		• Improve efficiency in the process • Cost efficiency due to no resources are required to enter data to the system	**Customer** – no time delays for getting insurance cover **Staff** - Reduce time allocation non value adding actions
Claim Payments via CEFT and Real-time Withdrawals		• Achieving our strategic goal of "Most Caring Life Insurer" • Maintaining efficiency through digital processing	**Customer** – Speedy settlement of claims
Cashless Claims - CLAIMIT Module 2.0		• End to end process automation enhanced efficiency	**Customer** – Speedy settlement of claims

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **Resource Allocation :** The primary challenge in managing this strategic pillar was determining the priority among the list of digitalization projects we had identified recognizing the limitations of our IT resources.
- **High Inflation :** The persistent high inflation experienced throughout the year led to an increase in the cost of digital infrastructure. Consequently, this prompted us to prioritize actions as explained below under strategy.

STRATEGIES IMPLEMENTED

We prioritized projects based on the value they would deliver to stakeholders. This approach served as the foundation for prioritization throughout the year.

LEAN AND FAST

Below table analysed our performance against the target set for the year 2023

Key Value Drivers		2023Actual	2023 Target	A%
Operating Expense (Ex: Finance cost)	%	**19.4**	19.9	97%
GWP per employee	%	**26.7**	23.5	113%

This strategic pillar centres around achieving efficiency and effectiveness. As a result, management decisions are made with the aim of attaining this target in every action. While our innovation and digitalization efforts improve the lean and fast aspects of our operations, management has also integrated expense and acquisition cost management into this strategic pillar.

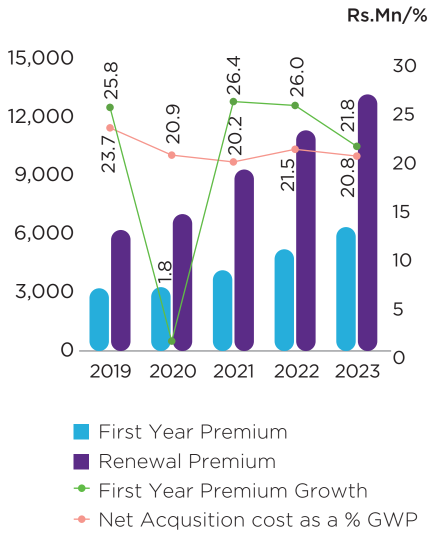
The impact on the Lean and Fast pillar from digitalization has been discussed in detail under "Smart IT Digitalisation and King of Data" strategic pillars and analysis on expenses and acquisition cost management is explained below.

UNDERWRITING AND NET ACQUISITION COST

Underwriting and policy acquisition costs, (including reinsurance commission income), refer to the commissions and incentives paid by insurance companies to intermediaries for acquiring business, minus any commission income received from reinsurers for placing business with them.

Management has identified this as a critical area for value creation within our business model. Consequently, we diligently manage this expense to improve efficiency while not disturbing the morale of the sales staff.

G9-NET ACQUISITION COST



The cost of underwriting and net acquisition reached Rs 5,486 million, marking a 11% growth compared to the previous year. The acquisition cost as a percentage of GWP stands at 17.4%, reflecting a 4% decrease compared to the 21.4% recorded in the previous year. This is mainly due to the 1% reduction in First Year Premium contribution under agency channel. (Refer page 45 for discussion on ANBP reduction)

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **New business slowdown :** Due to the economic conditions elaborated on page 61, the generation of new business was affected, resulting in a 2% growth over the previous year. This directly impacted our sales staff by reducing their income. Moreover, they experienced added stress due to the persistent high inflation throughout the year, which also affected their morale.

STRATEGIES IMPLEMENTED

Considering the business impact resulting from the aforementioned challenges during the year, management provided some relief by relaxing the evaluation criteria that defined the income level for the sales staff. However, this adjustment was implemented only in the second half of the year. With the situation showing signs of normalization, management decided to reinstate the stringent criteria that were previously in place.

OUR KEY VALUE DRIVERS

We monitor acquisition cost as a percentage to GWP on regular basis

OPERATING AND ADMINISTRATIVE EXPENSES

This was another challenging line item we put much effort to manage within the budget. Below table summarizes the expenses based on their nature.

Table 7 : Operating and administrative expenses

Rs Mn	2023	2022	G%	Mix 2023	Mix 2022
Staff related expenses	**2,461**	2,335	5%	**48%**	54%
Administration and Establishment Expenses	**1,552**	1,173	32%	**30%**	27%
Selling Expenses	**691**	426	62%	**14%**	10%
Depreciation / Amortisation	**408**	423	-4%	**8%**	10%
Total Regular Expenses	**5,111**	4,357	17%	**100%**	100%
Finance cost	**849**	654	30%	**17%**	15%
Impairment provision on financial investments	**1,082**	2,139	-49%		
Exchange gain	**402**	(2,722)	-115%		
Total Expenses	**7,444**	4,428	68%		

Total regular expenses amounted to Rs 5,111 million, reflecting a 17.3% growth over the Rs 4,357 million reported in 2022. When including one-off expenses, there is a 68% growth compared to 2022, primarily due to the exchange gain recorded in the previous year

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **High Inflation:** This has affected nearly all line items of our expenses. Sales-related expenses, which have seen significant growth, reflect the impact of currency depreciation, a key driver of high inflation.

STRATEGIES IMPLEMENTED

Management exercised strict budgetary control over expenses throughout the year and successfully managed to stay within the allocated budget. Budget allocations for certain non-core activities were redirected towards key activities critical for the value creation process.

OUR KEY VALUE DRIVERS

We monitor expense as a percentage of GWP to assess its efficiency. During the year expense ratio stood at 19.4% compared to 18.9% reported last year. The 0.5% negative deviation is a outcome of low top line growth.

OPERATIONAL REVIEW

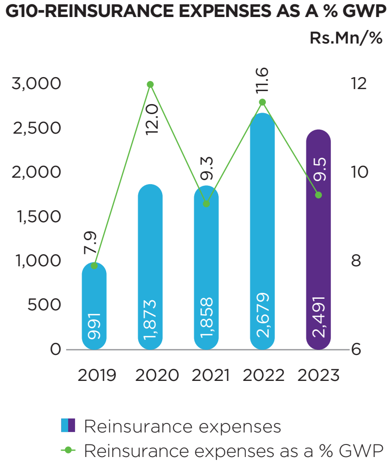
RISK MANAGEMENT

The insurance business involves assessing and pooling risks to mitigate adverse financial consequences for both policyholders and shareholders. Accepting and managing risks within an appropriate risk appetite is a key element of our value creation journey. We have integrated numerous areas of business processes related to risk management and regularly monitor them.

MAINTAINING ADEQUATE RE-INSURANCE COVERS

Insurance companies frequently transfer a portion of the risk they assume from customers to reinsurance companies in accordance with the Company's risk management policy. In exchange for assuming this risk, the reinsurers receive a portion of the premium paid by customers to the Company. Consequently, this expense is termed Reinsurance expense. Reinsurance stands as one of the key elements of our "Risk Management" strategic pillar.

G10-REINSURANCE EXPENSES AS A % GWP



The Company incurred Rs 2,491 million as reinsurance expense during the year, marking a degrowth of 7% compared to 2022. The reduction is mainly due to Re-insurance optimization did during the year 2023 which is detailed under strategies below.

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **Exchange Rates:** Exchange rate fluctuation was high during the year 2023 which result significant Re-insurance outflow in rupee term.

STRATEGIES IMPLEMENTED

As the first life insurer in Sri Lanka to venture into the health insurance segment, we initially relied heavily on our reinsurers due to limited data and experience in claim trends. However, over the past few years, we have emerged as leaders in the health insurance market in Sri Lanka and have accumulated substantial data and experience in this segment. As we gained more experience, we gradually reduced our dependency on reinsurance, and in the previous year, we eliminated it. This decision was made after a thorough assessment of past data and enabled us to optimize the creation of company value.

OUR KEY VALUE DRIVERS

The Company closely monitors the reinsurance expense as a percentage of Gross Written Premium (GWP) at various levels, including line of business (LOB) and product class levels. This allows for precise management of portfolio risk through reinsurance arrangements and optimization of the portfolio. Detailed analysis of reinsurance experience serves as a crucial factor in annual reinsurance negotiations.

OUR CRITICAL SUCCESS FACTORS

The Company upholds a reliable and transparent relationship with its reinsurers, offering assurance for the smooth implementation of its business strategies. This fosters confidence among customers, knowing that their future benefits are supported by the world's largest multinational reinsurers, in addition to the local Company. Moreover, there exists a mutual understanding with our reinsurers to monitor their profit margins, allowing us to extend benefits to our customers where feasible, without compromising our sustainable relationship.

MANAGING APPROPRIATE INVESTMENT PORTFOLIO – INVESTMENT AND OTHER OPERATING INCOME

Managing an appropriate investment portfolio is a crucial activity in the life insurance business. It is essential for generating high yields while effectively managing liquidity and risk. This section emphasizes income-related activities, and the investment asset portfolio is analysed under liquidity management on page 52. While prioritizing risk coverage, customers also expect fair yields on their accumulated funds, which ultimately determine the payout they receive at the maturity of their policy.

Investment yields were at high phase during first half of the year and then gradually decline towards the end of the year. Below table showcase our performance during the year.

Table 8 :- Investment and other operating income

Rs Mn	2023	2022	G%
Net finance income	**6,977**	4,991	40%
Net realised gains	**227**	170	34%
Net fair value (losses) / gains	**733**	-51	-1535%
Other operating income	**10**	10	-3%
	7,948	5,120	55%

STRATEGIES IMPLEMENTED

While actively pursuing high-yielding assets in the market, we also prioritize long-term investment options to ensure sustained future income and liquidity. During the year, we achieved a remarkable 55% growth in overall investment and other income, with a significant portion attributed to net finance income, which grew by 40%.

OUR KEY VALUE DRIVERS

Investment Yield – this is key KVD of investment fund manager where company expects to earn attractive yield to support policyholder dividend and bonus payments.

Maturity Matching – Company's expectation here is to match investment tenure with future liability in order to maintain sufficient liquidity at any given point.

CHALLENGES ENCOUNTERED DURING THE YEAR 2023

- **ISB Impairment :-** During the year we made Rs 1,082 Mn impairment on our dollar denominated investments tightening our profitability. More details are provided on page 286 under financial section.

- **Shortage of long term assets :-** As we maintain long term liability on our books it is important to have long term assets to match future liabilities. It was difficult to find long term assets in the market during the year.

CAPITAL & LIQUIDITY MANAGEMENT

Softlogic Life, as a life insurance company, considers managing liquidity and capital as its highest priority. A well-managed liquidity position and capital signify a well-managed company risk profile. Furthermore, accountability will be reinforced in this function through enhanced corporate governance practices.

OPERATIONAL REVIEW

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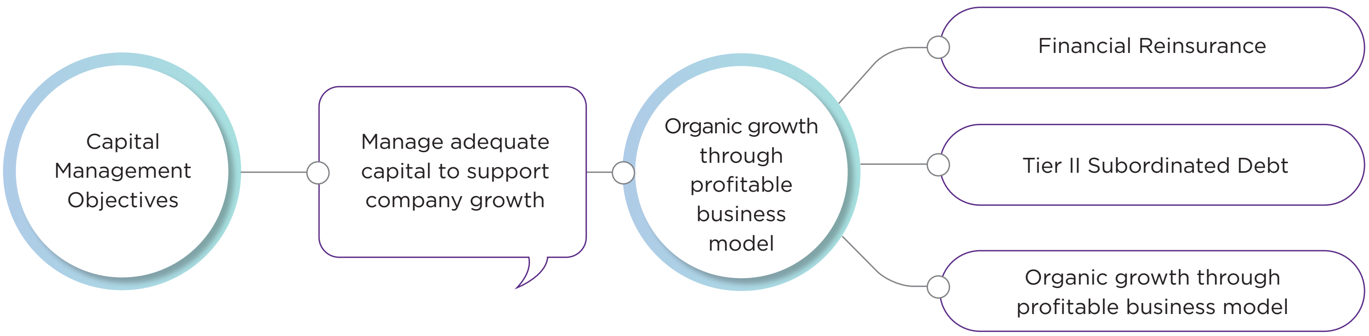


Financial Reinsurance

The Company entered into a Financial Reinsurance transaction of USD 15Mn in March 2020 with Münchener Rückversicherungs - Gesellschaft – MunichRe, one of the top providers of reinsurance, primary insurance, and insurance related risk solutions in the world based on the top quality portfolio of the Company. This arrangement is viewed as an innovative market leading transaction in the South Asian Life and Health Reinsurance arena.

Tier II Subordinated Debt

Development Financial Institutions; Finnish Fund for Industrial Cooperation Ltd – Finnfund and The Norwegian Investment Fund for Developing Countries - Norfund have collectively signed a USD 15Mn Tier II Subordinated Debt transaction for Softlogic Life.

Organic growth through profitable business model

We manage profitability of the Company as priority aspect in terms of shareholder value creation. Accordingly we are focusing on above 20% ROI every year and set our dividend policy to retain 50% of profit to strengthen capital position.

Regulatory capital performance

The detailed analysis below shows that Company has consistently maintained regulatory requirement while efficiently managing the liquidity position of the company.

Table 9: Capital Adequacy Ratio (CAR)

Rs Mn	2023	2022	2021
Total Available Capital (TAC) (Rs Mn)	**37,107**	32,302	27,082
Risk Based Capital requirement(RCR) (Rs Mn)	**10,113**	11,262	6,851
Risk Based Capital Adequacy Ratio (CAR) %	**367**	287	395
Required minimum Capital Adequacy Ratio (CAR) Ratio %	**120**		

The Statement of Solvency is prepared in accordance with Solvency Margin (Life Insurance) Rules 2015 and amendments thereto. The Company maintained healthy Solvency Margins throughout the year, well above the stipulated solvency margin requirement, adding a greater degree of confidence to the security of policyholders' liability.

Table 10: Statement of Approved Assets

Rs Mn	2023	2022	2021
Approved assets maintained in business (Rs Mn)	**37,888**	30,787	23,891
Insurance fund (Rs Mn)	**27,036**	24,469	20,880
Approved assets in excess of the insurance fund (Rs Mn)	**10,852**	6,319	3,010
Approved assets as a % of insurance fund	**140**	126	114
Required ratio %	**100**		

The above numbers were calculated as per Section 25 (1) of the regulation of Insurance Industry Act No.43 of 2000 and the determination made by the IRCSL in terms of the said Act. It is observed that the Company comfortably met the approved asset criteria throughout the year.

Table 11: Investment in Government Securities as % of Life Fund

Rs Mn	2023	2022	2021
Life fund (Rs Mn)	**27,036**	24,469	20,880
Investment in government securities (Rs Mn)	**26,014**	16,319	8,511
Investment in government securities as % of Life fund	**96**	67	41
Required ratio %	**30**		

The above analysis shows how the Company maintained a portfolio of government securities above the required level emphasising our risk mitigation actions within the market of ever increasing risk.

Table 12: Leverage and Capital Structure

Rs Mn	2023	Mix %	2022	Mix %
Stated capital	**1,063**	6	1,063	6
Restricted regulatory reserve	**798**	4	798	5
Other reserves	**(2,145)**	(12)	(3,100)	(19)
Retained earnings	**13,618**	75	12,112	74
Total equity	**13,333**	73	10,873	66
Loans and borrowings	**5,015**	27	5,644	34
Total Capital Employed	**18,348**	100	16,517	100

Total capital employed reached Rs. 18.3 Bn recording 11% growth over last year mainly due to increase in revenue reserves by Rs 1.5 Bn. This further elevated by reduction of other reserves by Rs 1.0 Bn. This increase was partly offset by Rs 0.6 Bn decrease borrowing. Borrowings represent dollar denominated capital which is decreased significantly due to changes in exchange rates. The total equity reached Rs. 13.3 Bn.

FINANCIAL LEVERAGE - DEBT TO EQUITY RATIO

The company maintained low gearing in its equity position by recording debt to equity ratio at 37.6% in 2023. Compared to 2022 this shows significant change in the structure. However it was due to revaluation of dollar liability at current exchange rates. Out of total available capital 88.3% qualified for Tier 1 capital under Risk Based Capital (RBC) framework, which is an indicator of the quality of the equity of the Company.

CASH FLOW MANAGEMENT

Managing a healthy cash flow is crucial for any company, and as a life insurer, we must exercise additional caution due to our responsibility to promptly pay claims and maturity benefits to our customers. During the year, we generated Rs 1.7 billion in operational cash flow, which includes settling all dues to our customers. However, this represents a 67% decrease compared to the previous year, primarily due to the slowdown in top-line growth and income tax payments.

IMPACT FROM IMPLEMENTATION OF SLFRS 17

The implementation of SLFRS 17 will have a significant impact on the insurance industry. Unlike previous standards, SLFRS 17 extends beyond financial reporting to include actuarial valuation, asset liability management, and risk management. The implications and requirements of SLFRS 17 will be felt across virtually every aspect of the insurance organization. These impacts range from the measurement of insurance contracts to recognition in financial statements and key metrics used to evaluate business performance. It is crucial for shareholders and other users of financial statements to understand SLFRS 17 and its implications moving forward.

As part of our commitment to educate relevant stakeholders, we periodically release technical updates and provide video content regarding the impacts of SLFRS 17 on Softlogic Life. Please refer to page 65 of this annual report to review the risks and challenges we face in terms of implementing SLFRS 17. Additionally, further content is available online to reach a wider audience of users.

SLFRS 17 Implementation impact on financial statement

Video version of impact SLFRS 17

BUSINESS RISK MANAGEMENT

Softlogic Life maintains a comprehensive framework of risk management to ensure that the entity remains within the boundaries of its risk appetite. Detailed information about this framework and how it is implemented within the organization can be found in the "Integrated Risk Management" section on page 242 of this report.

MEASURING OUTCOME OF THE STRATEGY EXECUTION

Evaluation of Business Key Performance Indicators

The successful implementation of the six discussed strategies has led to improvements in internal performance indicators, as listed below. The table provides an internal balanced scorecard of the Company, which is monitored on a monthly basis and reported to the Board of Directors quarterly. These ratios and numbers encompass all critical areas of the business and help identify potential issues that could impact business sustainability. Management prudently oversees the business, ensuring that many key performance indicators (KPIs) are positive year on year, while corrective actions are taken for others. This approach also offers valuable insights into the business's future viability.

OPERATIONAL REVIEW

Table 13: Life Insurance Industry Specific Ratios and Its Discussion - Income Statement

Description	Movement	2023	2022	2021	2020	2019	Growth 2023 %	Page Reference
Key Operating Ratios								
First Year / Renewal GWP Mix %	N/A	32/68	32/68	32/68	32/68	33/67	-	-
Net Claims Ratio								
Net Claims Ratio (with maturities and surrenders)	🔴	53.8	41.1	32.4	25.9	26.0	13	57
Net Claims Ratio Endowment (with Group life and DTA)	🔴	40.2	33.5	27.6	20.2	18.1	7	
Net Claims Ratio (without Group life and DTA)	🔴	26.0	20.0	17.3	10.0	9.7	6	
Expense Ratios								
Reinsurance Expense Ratio %	🟢	9.5	11.6	9.3	12.0	8.0	(2)	57
Net Acquisition Cost Ratio % GWP	🟢	20.8	21.5	20.2	20.9	24.0	(1)	
Operational expenses as a % of GWP	🟡	22.6	21.7	18.6	21.2	26.0	1	
Total Expense Ratio % GWP	🟡	43.5	43.2	38.8	42.1	50.0	0	
Total Expense Ratio % NEP	🟢	48.0	48.8	44.7	47.7	54.0	(1)	
Combined Ratio								
Combined Ratio % NEP - without maturities and surrenders	🟡	88	83	73	58	64	5	57
Combined Ratio % NEP - with maturities and surrenders	🔴	102	90	77	74	80	12	
Regulatory Ratios								
Capital Adequacy Ratio (Min 120%)	🟢	367	287	395	302	182	80	57
Determination Ratio % (Min 100%)	🟢	140	126	114	118	109	14	
Investment in Government Securities % Life fund (Min of 30%)	🟢	96	67	41	54	42	29	
Key Value Drivers								
Premium persistency – Year 1	🟡	83	84	85	83	85	(1)	43
Premium persistency – Year 2	🟡	61	66	67	65	64	(5)	
Premium persistency – Year 3	🟡	54	58	58	52	52	(4)	
Average Premium per policy (Rs.)	🟢	176,872	169,090	138,983	136,852	137,032	5%	
Annualised New Business Premium Rs. Mn	🟢	6,000	5,887	5,083	3,880	3,967	2%	
Annualized new Business per Agent Rs. Mn	🟢	2.1	2	1.6	1.3	1.4	5%	
No of New policies	🔴	74,827	133,872	237,453	262,605	250,407	-44%	-
Life fund Rs. Mn	🟢	27,202	24,469	21,493	17,484	10,377	11%	52
Surplus Rs. Mn (without one off surplus)	🔴	3,015	4,378	2,295	1,779	2279	-31%	

🟢 Positive variance 🟡 Variance up to 5% 🔴 Negative variance

Claim Ratio

The claim ratio in the insurance industry refers to net claims (gross claims deducted for reinsurance recovery) as a percentage of Net Earned Premiums. It is more appropriate to measure the claims ratio without considering maturities and surrenders, as they typically do not have a significant impact on the profitability of the Company. This allows for a clearer understanding of the actual claims experience relative to premiums earned.

Table 14:- Net Claim Ratio

Presented in %	2023	2022
Net Claims Ratio (without maturities and surrenders)	**40.2**	33.5
Net Claims Ratio Endowment (without Group life and DTA)	**26.0**	20.0
Net Claims Ratio (with maturities and surrenders)	**53.8**	41.1

Net Claims Ratio Endowment (without Group life and DTA)

The claim ratio for the Endowment product has increased by 6% to 26%. This increase is primarily driven by the high health claims reported due to influenza, dengue, and virus flu that spread throughout the community during the year. Details of the actions taken to address this issue are provided on page 129.

Expense Ratio

In the Life Insurance business, the expense ratio comprises Net Acquisition costs, which represent the net expenses (commissions/incentives) incurred for acquiring business, and other operating expenses, which are incurred for the maintenance (Management Expenses) of the business. Details of these ratios are presented in the table below.

Table 15: Expense Ratio

Presented in %	2023	2022
Net Acquisition Cost Ratio % GWP	**20.8**	21.5
Operational expenses as a % of GWP	**22.6**	21.7
Overall Expense Ratio % GWP	**43.4**	43.2

The overall expense ratio has marginally increased by 0.2% during the year. The operating expense ratio increased by 0.9% due to high inflation and the impact from exchange rates. However, this impact was partly offset by the reduction in Net acquisition costs, which was realized from changing the business mix.

Combined Ratio

Life Insurance industry combined ratio is defined as the combination of expenses ratio and claims ratio

Table 16: Combined Ratio

Presented in %	2023	2022
Combined Ratio % NEP - without maturities and surrenders	**88**	83
Combined Ratio % NEP - with maturities and surrenders	**102**	90

Regulatory Ratios

The regulator specifies key ratios and minimum standards, which will be discussed below.

Risk Based Capital Adequacy Ratio	Table 9
Determination Ratio	Table 10
Investment in Government Securities % Life fund	Table 11

Regulatory restricted reserve - Assets to one off surplus

The Company is required to invest in government securities and deposits at a minimum of Rs. 798Mn as required by Direction 16 - identification and treatment of One-off Surplus. As at 31st December 2023, the Company maintains assets of Rs. 1,251 Mn.

SEGMENTAL INFORMATION

The Company diligently tracks its operational efficacy through two distinct operating segments: the 'Policyholder fund' and the 'Shareholder fund'. These segments serve as pivotal indicators of strategic direction. Exploring deeper into the financial intricacies, the following summary encapsulates the Company's fiscal standing and operational efficiency across these key segments, offering stakeholders valuable insights into its overall performance and trajectory.

OPERATIONAL REVIEW

Table 17: Segmental Information

Rs Mn	Policyholder Fund		Shareholder Fund		Company	
	2023	2022	2023	2022	2023	2022
Net Revenue	**29,619**	23,721	**2,179**	1,803	**31,799**	25,525
Profit Before Tax	**3,015**	4,378	**182**	(348)	**3,197**	4,030
Total Assets	**39,400**	35,399	**11,939**	12,849	**51,339**	48,248
Cash flows from operating activities	**2,282**	3,750	**(594)**	1,374	**1,688**	5,124

Policyholder funds reflect the financial results of our interactions with customers, ranging from the sale of insurance policies to claim payments or maturities. Surplus evaluation occurs post-actuarial valuation, verified by external actuaries as detailed on page 264. Comprehensive analysis of this segment, covering key risks, strategies, performance assessment, and key value drivers, is presented on page 378. Further scrutiny of financial details, encompassing income statements, financial position, and cash flows, is available on pages 271 to 275.

The Shareholder Fund is established to acknowledge the surplus generated from policyholder funds. Its primary function is investment management, governed by the company's investment management policy and overseen by the board investment committee. Shareholder dividends are declared through this fund.

Segment strategies and risk management

Policy holder fund is strategised under six strategic pillars as discussed on page 82 and risks and opportunities are identified on page 65 and 70 respectively. Further financial risk management with regards to its investment portfolio and insurance risk is provided on page 291 to 319. Shareholder fund is created to separate shareholder value creation from policyholders in monitory terms. Hence increasing in policy holder value eventually increase the shareholder value also.

However risk management may be different based on the financial instrument the shareholder fund carry which also covered under financial risk management on page 291.

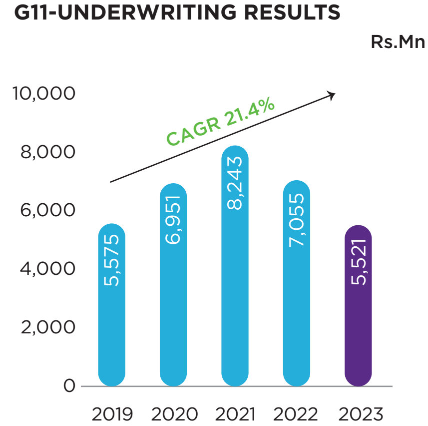
SUSTAINING PROFITABILITY

Underwriting results

Operating profit/ Gross Profit

Underwriting results showed the new inflow generated from the business before the investment income and expenses, but after paying the claims to policyholders and direct acquisition cost to intermediaries. In the Life insurance business, this is a critical factor and key value driver which contributes to the profitability. This is in combination with product we sell key insight of future profitability as well. Details are provided in the Graph 11.

G11-UNDERWRITING RESULTS



Underwriting results stood at Rs 5,521 Mn which is 22% degrowth compared to previous year. This is mainly due to High claims outgo we experienced during the year in combination with impact on our top line growth which are detailed on page 43 to 46. However we have taken corrective measures and set out future strategies to sustain business performance. These actions and strategies are outlined on page 82 to 87.

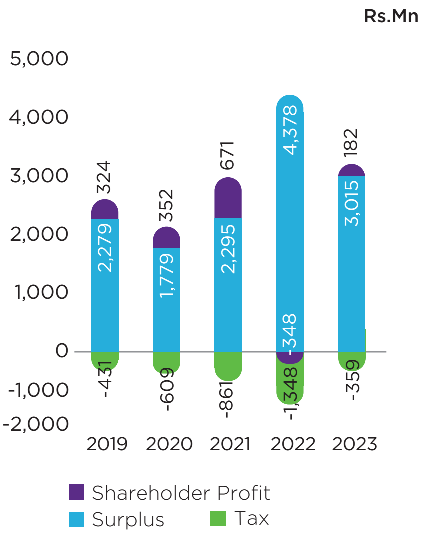
Profit before tax

The profit of the Life Insurance Company is mainly determined based on the actuarial valuation made by the Appointed Actuary which is called "Surplus". In addition to the surplus, the profit of the Company consists of investment income of the shareholder funds. The Company recorded Rs 3 Bn PBT in 2023 compared to Rs 4 Bn recorded in previous year. The variance primarily stems from the reasons outlined for underwriting results above, partially mitigated by the growth in investment income.

Profit after tax

Profit After Tax (PAT) for the year 2023 is Rs 2.8 Bn is a growth of 6% compared to Rs 2.6 Bn recorded in 2022. PAT growth is supported by the recognition of deferred tax asset of Rs 839 Mn Profit After Tax and its composition over last 5 years are provided in the Graph 12 below:

G12-PROFIT AFTER TAXATION



Profitability and Investor Attractiveness – Industry Peer Analysis

The Table below analyses the Softlogic Life share of profitability in comparison to listed insurance companies.

Table 18: Analysis of SLI's share of profitability

Rs Mn	2023	2022
Profit After Tax of the Company	**2,838**	2,683
Total profit from listed companies	**14,062**	14,803
SLI share of profit as a % of total profit from listed companies	**20**	18

It shows that the Company reported a significant percentage of (20%) profit out of total profit of listed insurance companies for the year 2023.

Dividend

The Company declared an Interim dividend of Rs. 3.75 per share amounting to a total pay out of Rs. 1,406 Mn for the year 2023.

Dividend Policy

According to the dividend policy of the company, it distribute 50% of profit after tax as dividend

GOVERNANCE

Below table analysed our performance against the target set for the year 2023

Key Value Drivers	2023	2023 Target
Compliance with mandatory provisions of corporate governance	✓	✓
Compliance with voluntary provisions of corporate governance	✓	✓

Within this strategic pillar, we evaluate our governance framework along with specific areas of governance actions, as described below

Area	Page reference
Performance Governance	185
Operations Governance	184
Investment Governance	219-220
Sustainability Governance	174
IT Governance	192
Risk Governance	186
Actuarial Governance	185

Statement of Compliance by Board of Directors

Softlogic Life Insurance PLC is a publicly listed company engaged in the life insurance business. The company's operations are managed by the management committee, which in turn reports to the Board of Directors. The Board offers insights and strategic guidance, while the management team executes these directions

As a Public Limited Company operating in Sri Lanka, Softlogic Life Insurance PLC is ruled by following laws and regulations.

Mandatory Compliances

- Companies Act No. 07 of 2007 and amendments thereto.
- Regulations and directions issued by the of Insurance Regulatory Commission of Sri Lanka (IRCSL).
- The Regulations of Insurance Industry Act No.43 2000 and amendments thereto.
- Sri Lanka Accounting Standards (SLFRSs/ LKASs)
- Statement of Recommended Practice (SoRP)
- Listing Rules of the Colombo Stock Exchange
- Laws and Regulations of the Companies Act No. 7 of 2007
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended).
- Corporate governance framework for insurers issued under section 96A of the Regulations of the Insurance Industry Act No. 43 of 2000 (IRCSL).

Board affirmation on this compliance is provided on pages 196 to 204.