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# **Sri Lanka**

## **Case Study on Terrorism Insurance Pools**

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# Contents

- Facts about Sri Lanka
- Background of Terrorism in Sri Lanka
- History and the Development of the Govt: SRCC & Terrorism Fund
- Method of operation
- Protection provided by the Fund
- Financial stability of the Fund
- Future .....

# FACTS ABOUT SRI LANKA

- Population : 20 M
- Literacy rate : 94%
- Per capita Income : US\$ 2,100
- GDP Growth rate : 3.5 % (2009)
- Inflation :3.5 % (2009)
- Unemployment : 7 % (2009)
- Labour force :7.637 M (2009)
- Size of the Insurance Market : US\$ 500 M(2009)
- Per capita Insurance premium : US\$ 25 (2009)
- Insurance penetration as a % of GDP : 1.19 %



# Background of Terrorism in Sri Lanka

- Terrorist activities prevailed in Sri Lanka for over three decades
- Originated as a small outfit in the 70's namely Liberation Tigers of Tamil Eelam better known as the LTTE demanded to separate Northern & Eastern provinces of the country to be the homeland of the Tamils.
- The area demanded comprised  $\frac{1}{3}$  of the Sri Lanka's land mass and  $\frac{2}{3}$  of its coastal line

# Background of Terrorism in Sri Lanka

- After the commencement of terrorist activities only the Tamils were allowed to live in the Northern province as the terrorists evicted all non Tamils using violence.
- However, in the Eastern province, the majority Muslims lived with Sinhalese & Tamils, in spite of the brutal activities of the LTTE.
- In all other parts of the country, people of all ethnicities live in harmony respecting each others views.

# Background of Terrorism in Sri Lanka

- Since mid 70's up to 1983, all terrorist activities were targeted towards Tamil Politicians who were not supportive of terror groups, innocent civilians in the North of Sri Lanka, police officers and government properties in the Northern province.
- However, on 23<sup>rd</sup> July 1983, after ambushing an army patrol vehicle killing 13 Soldiers including a Second Lieutenant, the separatist group became a real terror outfit.
- The only mass scale communal riots in the history of Sri Lanka broke out the following day and continued for a couple of days.

# Background of Terrorism in Sri Lanka

- This incident in our history paved the way for the LTTE to gain the sympathy from the international community which ultimately helped them to become the strongest/ruthless terrorist outfit in the world.
- Since their first suicide attack in 1987, the LTTE successfully used the art of suicide bombing to eliminate political leaders including moderate Tamil leaders who were part of the democratic political mainstream.
- Defense analyst has confirmed that the LTTE has carried out 1/3 of all suicide attacks in the world during the last two decades.



# Background of Terrorism in Sri Lanka

- It is estimated that the LTTE has killed around 60,000 civilians during the last three decades.
- The LTTE forcibly recruited a large number of youth including females and child soldiers to their cadre.
- They raised money from the Tamil Diaspora globally to finance their operations .
- Over the years, civil administration in Northern province collapsed and the LTTE had their own police force, army, navy, air wing, courts, bank etc.

# Background of Terrorism in Sri Lanka

- The LTTE became the strongest terrorist group in the world which was fully equipped with sophisticated modern weaponry.
- They had their own Navy called “Sea Tigers”.
- An air wing with few light aircrafts

# Background of Terrorism in Sri Lanka

- Terrorists have inflicted enormous damages to the economy of Sri Lanka and disrupted civil life throughout the country.

# Background of Terrorism in Sri Lanka

- H.E. the President of Sri Lanka Hon. Mahinda Rajapaksha came to power for his first term in 2004 with a promise to eradicate terrorism completely from the island.
- A humanitarian operation commenced in 2008 to rescue the civilians in the Northern/Eastern Provinces of Sri Lanka and restore civil administration in those areas.
- The Sri Lankan Government under the leadership of H.E. the President managed to eradicate terrorists completely and restore peace in the entire island when the forces announced the demise of the terrorist leader on 19<sup>th</sup> May 2009.

# History and the Development of the Govt: SRCC & Terrorism Fund

- The cost of communal riots to the insurance industry in 1983, was US\$ 63 Mn which was a huge amount compared to the size of the then market.
- The impact was realized in 1984 and all Reinsurers who were participating in the treaties of the two State Corporations withdrew from the market from the SRCC risks with effect from 1985 renewals.
- As the insurance industry was a state monopoly with two State Corporations at that time, the Government set up a fund to underwrite SRCC risks accepted by the two state insurers.
- When privatization was announced in 1987, the entry of the private companies looked very unlikely as they could not get the Reinsurance support from the international markets for SRCC.

# History and the Development of the Govt: SRCC & Terrorism Fund

- After much deliberations, the Government decided to setup the “Government Strikes, Riots & Civil Commotion Fund” which acted as the risk carrier for SRCC risks accepted by the two State Corporations and the licensed private companies.
- In late 80’s a rebellion by the leftist unleashed violence throughout the country, damaged/destroyed private properties.
- On a request of insurance companies, Government fund extended a limited coverage against terrorism & sabotage.
- Over the years when terrorist activities increased in the island, the Government enhanced the limits of the terrorism cover provided.

# Method of operation

- The Government fund was set up by a decision of the Cabinet.
- Originally a Board of Directors representing the Ministry of Finance and the member insurance companies managed the fund.
- National Insurance Corporation (NIC) was the Secretariat of the fund until such time NIC was privatized in 2000 after which year the Fund commenced operations from their own secretariat.
- There were 3 working committees with representatives from member companies , appointed by the Board of Directors namely Technical Committee, Financial & Investment Committee & Reinsurance Review Committee.

# Method of operation

- By Law, if any insurer is granting cover for terrorism & SRCC, should grant such covers for and on behalf of the Government fund, up to the limits specified by the Government .
- The insurer should charge tariff rates decided by the fund and the premium should be remitted to the fund on proportional basis, other than in Motor insurance.
- In Motor insurance, protection is provided by the fund on non-proportional basis.
- Member insurance companies are entitled for commissions and profit commissions.



# Method of operation

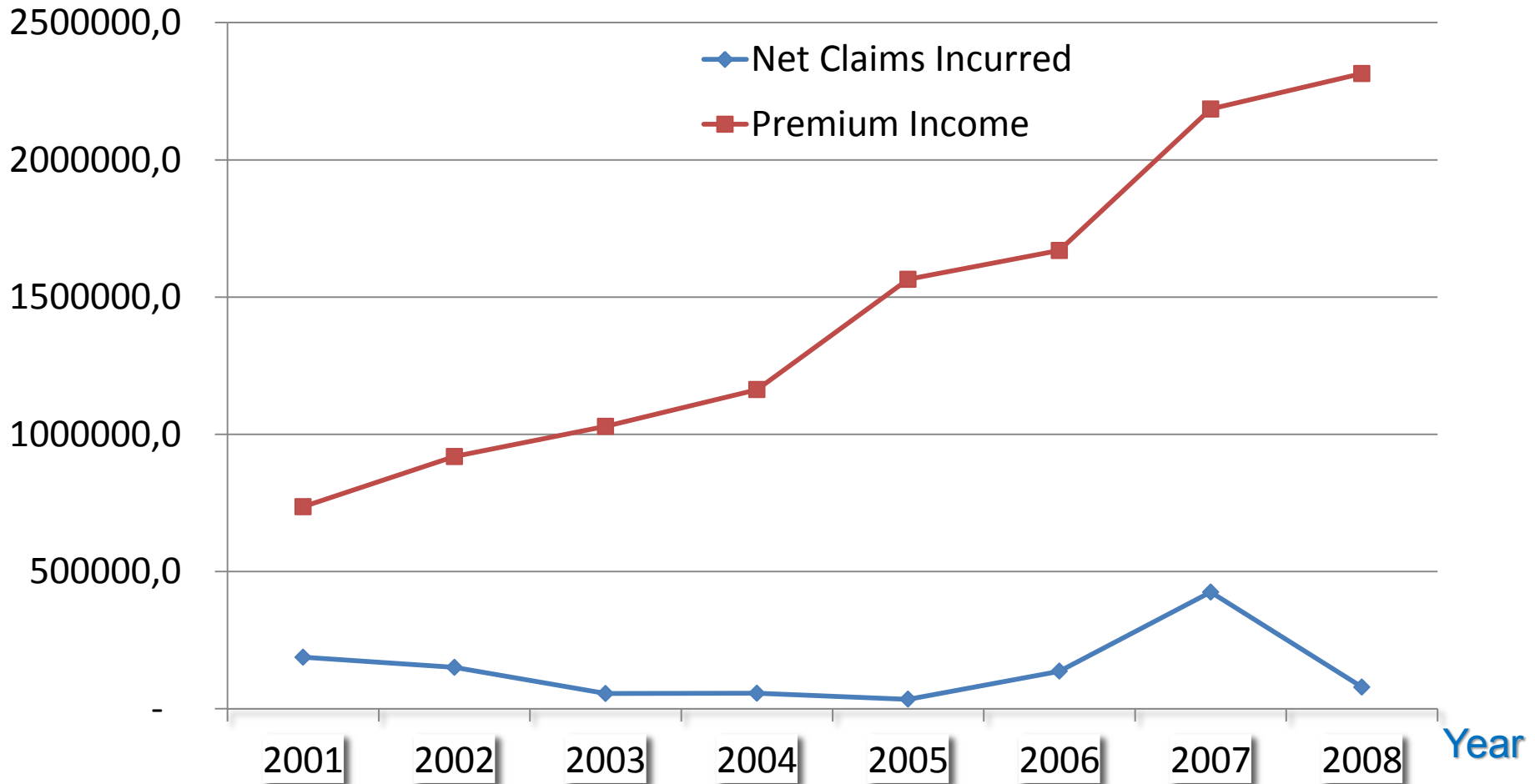
- Companies follow the wording approved by the fund which clearly states that ***“the cover is granted for and on behalf of the fund and the liability is solely on the said fund”***.
- Fund pays claims on First Loss Basis up to the limit of the cover granted.
- If the original insured requires cover on and above the limits specified by the Fund, the insurer could grant cover using the limits granted by the Fund as a deductible .
- Fund has its own Excess of Loss protection placed overseas.
- Further, the Government has given a guarantee if the Fund exhausts its reserves.
- In 2007, the fund was taken over by the National Insurance Trust Fund and now operates as a special unit of the NITF.

# Maximum Protection provided by the Fund

Sub-class	SRCC Limit (LKR)	Terrorism Limit (LKR)
Property	1,000,000,000	500,000,000
CAR/EAR	1,000,000,000	500,000,000
Machinery Breakdown	250,000,000	250,000,000
CPM	250,000,000	250,000,000
Motor	Sum Insured	Sum Insured
Personal Accident	25,000,000 per Life	25,000,000 per Life
Cash In Transit	50,000,000 per transit	50,000,000 per transit
Goods In Transit	20,000,000 per vehicle	20,000,000 per vehicle
All Risks (for Valuables)	10,000,000	10,000,000

# Comparison of premium income of Funds and Claims Paid

Premium / Claims  
SL Rs.



# Financial stability of the Fund

- Over the years the fund has ballooned its reserves.
- Fund has built up assets more than US\$ 90 Mn.
- The total accumulated funds (free reserves) has exceeded US\$ 75 Mn.
- Over the years the fund has contributed more than Rs. 10 Bn (US\$ 100 Mn) to the consolidated fund of the Government and to the National budget.
- Further, the fund has granted soft loans to various private organizations who were affected by terrorism.

# Future

- Since mid last year the demand for insurance against terrorism is declining drastically, due to the eradication of terrorism .
- The Fund has reduced the terrorism premium by 75% with effect from 1<sup>st</sup> April 2010.
- Government has also granted permission for the NITF under which the SRCC & Terrorism fund is operating to underwrite other classes of business thereby to compete with the commercial insurers.
- The Sri Lankan Government Strike, Riots, Civil Commotion & Terrorism Fund is a successful model to follow for Public-Private Partnership (PPP) in a developing country.

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