

Impact of Tsunami on the Insurance Industry in Sri Lanka

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The Tsunami wave that rigorously attacked the Southern and Eastern coastal belt was the biggest catastrophe faced by the Insurance Industry in Sri Lanka after the Civil Riot in 1983. The cost to the industry on liable claims by Tsunami victims was approximately Sri Lankan Rupees 12.7 Billion, the biggest sum ever paid. A considerable part of this included the claims from the Maldives as well. Many were suspicious of receiving claims and some had reasonable doubts of the survival of the industry. Yet the industry is performing so far well and meeting commitment beyond the expectations of the clients.

This paper examines the impact of Tsunami on the insurance industry in Sri Lanka taking into account the claims on both life and property damages caused by Tsunami. The hypothesis made in this study is that the insurance companies were worse off after Tsunami. The study accommodates the secondary data collected from the top three leading insurance companies: viz Ceylinco Insurance, Sri Lanka Insurance and Janashakthi Insurance altogether enjoying 77% of the insurance market in Sri Lanka.

The objective of the study was to identify the best insurance portfolio to hold for insurance companies to minimize losses for them while maximizing benefits to their clients in presence of a natural disaster.

The most interesting finding of this study is that despite the huge payments made on claims for lost property and lives, the insurance industry after all has been better off than before Tsunami. This is mainly due to loss minimization by way of reinsurance and profit maximization through sale of new insurance policies of higher premium encouraged by the high risk factor following the Tsunami natural peril. However, the net economic cost to the country as a whole was found to be still high when considered foreign exchange outflow by means of reinsurance premium paid for many years against the lump sum of compensation received at the occurrence of Tsunami.

Key Words: Tsunami, Insurance Industry, Reinsurance, and Insurance portfolio

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