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REGULATION OF INSURANCE INDUSTRY ACT, NO. 43 OF 2000

Rules made by the Insurance Board of Sri Lanka under section 105 read with section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

Lt. Gen. Dennis D Perera
Chairman
Insurance Board of Sri Lanka

Colombo, 31st March 2004

RULES

1. These rules may be cited as Solvency Margin (General Insurance) Rules, 2004.
2. (1) The amount of solvency margin, which is the difference between the value of the assets and the value of the liabilities, required to be maintained by any insurer who carries on general insurance business (in these Rules referred to as "insurer") shall be not less than the highest of the following:
 - (a) Rs. 50 million; or
 - (b) A sum equivalent to 20% of net premium; or
 - (c) A sum equivalent to 40% of the average net outstanding claims for the three years immediately preceding the current year.
- (2) The solvency margin referred to in paragraph (1) shall be maintained at all times during the year and, if required by the Board, be certified by the auditor.
3. The value of the liabilities of an insurer for the purpose of determining the solvency margin shall be:
 - (a) the technical reserve which includes :
 - (i) Net unearned premium reserve, which shall be computed on the basis of 1/365 method or 1/24 method. In the case of marine cargo insurance the 40% basis may also be used:

However for non-annual policies an insurer may, with the prior approval of the Board, adopt any other appropriate basis for calculation of unearned premium reserve. The unearned premium reserve so calculated with reference to any of the above methods shall be adjusted for deferred acquisition expenses calculated on the same basis.

The insurer shall ensure that whatever the basis adopted, is fully disclosed in the financial statement.

- (ii) Unexpired Risk Reserve, calculated on a net basis;
 - (iii) Reserve for net outstanding claims;
 - (iv) Reserve for incurred but not reported claims, calculated on a net basis; and
 - (v) Any other contingency reserves.
- (b) liabilities as shown in the Balance Sheet; and
- (c) any other liabilities of a special nature as notified by the Board.

4 For the purpose of determining the solvency margin the following types of assets of the general insurance business in such amounts or percentages as specified below and any surplus of the shareholders funds of long term insurance business remaining after satisfying the minimum statutory share capital and the solvency requirements of the long term insurance business are regarded as admissible:

- (a) government securities -100%;
- (b) gold - actual amount;
- (c) listed instruments of a company listed on a licensed stock exchange - 35%;
- (d) corporate debts, including bonds, debentures, commercial papers and other similar financial instruments which are listed or backed by a guarantee issued by a licensed commercial bank or licensed specialised bank - 30%;
- (e) bank deposits with any licensed commercial bank or any licensed specialised bank - 50%;
- (f) freehold or lease hold land - 15%;
- (g) freehold or leasehold building - 15%;
- (h) unit trusts - 35%;
- (i) outstanding mortgage loans on immovable properties - 20%;
- (j) amounts due from re-insurers or ceding companies - actual amount
- (k) premium outstanding – actual amount.

5. (1) The value of admissible assets under Rule 4 shall be determined in the following manner: -

- (a) value of Government securities shall be taken at cost as adjusted for amortisation of premiums or accretion of discounts, allocated on a systematic basis to maturity date using either the straight line method or constant yield method;
- (b) gold shall be valued at cost or at market value, which ever is lower;

- (c) shares quoted on a licensed stock exchange shall be valued at cost or at market value, whichever is lower;
- (d) the value of corporate debts, including bonds, debentures, commercial papers and other similar financial instruments which are listed or backed by a guarantee issued by a licensed commercial bank or licensed specialized bank shall be taken at cost as adjusted for amortisation of premiums or accretion of discounts, allocated on a systematic basis to maturity date using either the straight line method or constant yield method or market value whichever is lower;
- (e) value of deposits with any licensed commercial bank or any licensed specialised bank shall be at the face value of the deposit, plus the accrued interest;
- (f) the value of a freehold or a leasehold land shall be at cost value or at a revalued amount in accordance with the guidelines issued by the Board, determined by a valuer approved by the Board;
- (g) the value of a freehold or leasehold building shall be at cost value less accumulated depreciation or at a revalued amount in accordance with the guidelines issued by the Board, determined by a valuer approved by the Board less accumulated amount of depreciation after such revaluation;
- (h) units of a unit trust shall be valued at, cost or managers buying price, whichever is lower;
- (i) value of outstanding mortgage loans should not exceed the outstanding principal amount or the net realisable value of the loan, whichever is lower;
- (j) value of amounts due from a reinsurer or a ceding company including deposits retained shall be at the amount due after deducting the provision for bad and doubtful debts; and
- (k) value of claims recoverable from a reinsurer shall be at an amount not exceeding the amount outstanding after deducting the provision for bad and doubtful debts.

(2) Notwithstanding the provisions of paragraph 1 (k) of this Rule, an insurer shall provide for all balances, which are outstanding for more than six months from the due date of such balances, as a doubtful debt.

(3) An insurer shall not treat any amount outstanding for more than six months, as an investment income due to it.

(4) The revaluation of freehold or leasehold land and building and the valuation of any admissible assets the manner of determination of which is not provided for in paragraph (1) of this Rule shall be carried out in accordance with the Sri Lanka Accounting Standards.

6. In any dispute arising due to the non-conformity with the requirements of Rule 3 a copy of the guidelines certified by the Insurance Board of Sri Lanka as the current applicable guidelines referred in that Rule, shall be admissible as evidence in any court of law and shall be regarded as a prima facie proof of the matters contained therein.

7. Where, on the date of the coming into operation of these Rules, an insurer who carries on general insurance business is maintaining a solvency margin of such amount determined in accordance with a method other than the method provided for in these Rules, such insurer shall be entitled, notwithstanding anything to the contrary in these Rules, to continue to use such method for a period not exceeding three years from the date of coming into operation of these Rules, and shall thereafter be required to comply with the provisions of these Rules.

8. In these Rules unless the context otherwise requires -

"Act" means the Regulation of Insurance Industry Act, No. 43 of 2000;

"licensed commercial bank" and "licensed specialised bank" shall have the same meaning as in Banking Act, No. 30 of 1988 as amended by Act, No. 33 of 1995;

"licensed stock exchange" means a stock exchange licensed by the Securities Exchange Commission of Sri Lanka under the Securities and Exchange Commission of Sri Lanka Act No.36 of 1987;

"technical reserve" means the technical reserve maintained under section 24 of the Act;

"unit trust" means and includes a unit trust, the management company of which has been granted a license by the Securities and Exchange Commission of Sri Lanka under the Securities Commission of Sri Lanka Act No.36 of 1987.