

# **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.

Colombo,  
19 September, 2002.

Dr. Dayanath C. Jayasuriya,  
Director General,  
Insurance Board of Sri Lanka.

## **RULES**

1. These rules may be cited as Solvency Margin (Long Term Insurance) Rules, 2002.

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 long term insurance business (in these Rules referred to as "insurer") shall be not less than five *per centum* of the value of the liabilities of such insurer as determined in the manner provided for in these Rules.

(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 appointed actuary.

3. The value of the liabilities of an insurer for the purpose of determining the solvency margin shall be made in accordance with the currently applicable Guide Lines of an entity designated by the Board and be subject further to the following:

- (a) the liabilities in respect of a long term insurance policy shall be equal to the amount, if any, by which the present value as at the date of valuation, of the benefits payable, exceeds the present value as at the date of valuation of the adjusted premium, if any, payable after such date;
- (b) where a part or the whole of the premium payable under a long term insurance policy is accumulated in a participating or non-participating fund to be paid as a benefit either on maturity of the policy or on the death of the life insured, the present value of the

fund as at the date of the valuation determined on the actuarial basis specified in Rules 7 and 8 of these Rules, shall be deemed to be the liability under the policy corresponding to the accumulated portion of the premium and the liability in respect of any portion of the premium which is utilised to cover the contingency of death or survival as an extension to the policy, shall be determined in accordance with the manner specified in paragraph (a);

- (c) where the benefit payable under a long term insurance policy is the accumulated amount of the premiums paid at a guaranteed rate of interest, the accumulated amount as at the date of valuation shall be deemed to be the liability under the policy and any other liability in addition to the accumulated amount, shall be determined in accordance with the manner specified in paragraph (a).

4. For purpose of paragraph (a) of Rule 3, the adjusted premium payable after the date of valuation will be the actual value of the premium, adjusted by assuming that the policy provides only for such premiums as are sufficient to provide for the risk incurred by the insurer in issuing the policy, without provision for bonuses, office expenses or any other charges, and by making further adjustments as provided for in paragraph (a) or (b) of Rule 5, whichever will produce the lower adjusted value.

5. The further adjustments referred to in Rule 4 shall consist of -

- (a) assuming that the policy is issued one year after the date of its issue, but without postponing the time when the premium ceases or policy money becomes payable if that time is fixed by reference to the date of issue, and to calculate the premium referred to in Rule 4 accordingly; or
- (b) adding to the premium referred to in Rule 4, such amount as would have at the date of issue of the policy, a capitalised value equal to four *per centum* of the basic sum assured, taking any annuity at the capitalised value it would have on becoming payable.

6. Notwithstanding the provisions of Rule 4 and Rule 5, the adjusted value of the premium shall not be more than ninety *per centum* of office premium payable under the policy.

7. An actuary shall determine the value of the liabilities of an insurer by using -

- (a) such mortality tables issued by an entity designated by the Board under Rule 3 above; or
- (b) any other mortality table producing a solvency margin less

than the solvency margin produced by the tables referred to in paragraph (a), which is approved by the Board for such purpose.

8. In determining the value of the liabilities of an insurer, an actuary shall use a rate of interest as specified below:-

- (a) for valuing participating non-single premium long term insurance policies, a rate of interest not exceeding the highest of the following, subject to an upper limit of eight *per centum* per annum:-
  - (i) five *per centum* per annum;
  - (ii) sixty-five *per centum* of the average of the annual net of tax return on the Long Term Insurance Fund during the preceding three years from the date of valuation, if tax has been actually paid; or
  - (iii) fifty-five *per centum* of the average gross return, before paying tax on the Long Term Insurance Fund during the preceding three years from the date of valuation;

Provided that, where an insurer has commenced operations within the last three years preceding the date of valuation, the rate of interest to be used shall be the rate specified in subparagraph (i) of this paragraph;

- (b) for valuing participating single premium long term insurance policies, one and half *per centum* per annum more than the rate determined in accordance with the manner specified in paragraph (a);
- (c) for valuing non-participating non-single premium long term insurance policies, including paid up policies which do not participate in future bonus, one and half *per centum* per annum more than the rate determined in accordance with the manner specified in paragraph (a);
- (d) for valuing non-participating single premium long term insurance policies, three *per centum* per annum more than the rate determined in accordance with the manner specified in paragraph (a);
- (e) for valuing simple reversionary bonus of participating long term insurance policies, one and a half *per centum* per annum more than the rate determined in accordance with the manner specified in paragraph (a).

9. An extension to a long term insurance policy covering contingency of

death or survival shall be valued by an appointed actuary in accordance with the requirements specified in Rule 3 to 8 of these Rules.

10. It shall be the duty of an actuary to provide an appropriate reserve and state the basis of such reserving, in respect of -

- (a) the immediate payment of claims;
- (b) in the case of limited payment policies and paid up policies, the future expenses and bonuses;
- (c) liabilities existing or which may arise in the future, in respect of policies which have lapsed and which were not included in the valuation;
- (d) disability benefits in payment as a result of the disability of the life insured;
- (e) policies kept in force, where the premiums have been waived;
- (f) provision of benefits upon occurrence of the life insured's disability or the waiver of premiums in the future;
- (g) policy insuring a substandard risk or a high risk occupation; and
- (h) any other liability or contingent liability under long term insurance policies or extension of such policies.

11. Where the surrender value in the aggregate of the policies in force exceeds the value of the liabilities, an actuary shall determine the value of the liability at an amount not less than such aggregate surrender value.

12. Where a policy or an extension of a policy is treated as an asset, an actuary shall make the necessary adjustment to eliminate such asset value from the value of the liabilities.

13. (1) investment of monies lying to the credit of the Long Term Insurance Fund in the following types of assets in such amounts or percentages as specified bellow, are regarded as admissible:-

- (a) government securities -100%;
- (b) shares of a company listed on a licensed stock exchange - 20%;
- (c) corporate debts, including bonds, debentures, commercial papers and other similar financial instruments which are

listed or backed by a guarantee issued by a licenced commercial bank or licenced specialised bank - 30%;

- (d) bank deposits with any licensed commercial bank or any licensed specialised bank - 50%;
- (e) free hold or lease hold land - 15%;
- (f) freehold or leasehold building - 15%;
- (g) outstanding policy loans - actual amount;
- (h) unit trusts - 25%;
- (i) outstanding mortgage loans on immovable properties of the policy holders –actual amount;
- (j) amounts due from re-insurers or ceding companies.

14. (1) The value of admissible assets under Rule 13, 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) shares quoted on a licensed stock exchange shall be valued at the lower of cost or at market value;
- (c) 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 licenced commercial bank or licenced 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 which ever is lower;
- (d) 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;
- (e) 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;

- (f) the value of a freehold or leasehold building shall be at cost value less accumulated amount 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;
- (g) value of outstanding policy loans should not exceed the outstanding capital or the net realisable value of the loan, whichever is lower;
- (h) units of a unit trust shall be valued at cost or Management Company's buying price, which ever is lower;
- (i) value of outstanding mortgage loans should not exceed the outstanding capital 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 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; and

(2) Notwithstanding the provisions of paragraph (1) (j) 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.

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

16. An insurer who carries on long term insurance business shall be entitled, notwithstanding anything to the contrary in these Rules, to maintain, from the date of the coming into operation of these Rules a Solvency Margin of three percentum in the first year, four percentum in the second Year, five percentum in the third year, determined in accordance with these Rules, and shall thereafter be required to comply with the provisions of these Rules.

Provided that where, on the date of the coming into operation of these Rules, an insurer who carries on long term 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 may with the approval of the Board 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.

17. 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 under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;

"Long Term Insurance Fund" means the Long Term Insurance Fund maintained under section 38 of the Act;

"office premium" means the premium payable under the policy for the benefits being valued excluding extra premiums if any;

"actuary" means an Actuary recognized under this Act; and

"unit trust" means a Unit Trust, the Management company of which is licensed by the Securities and Exchange Commission in terms of the Securities and Exchange Commission Act, No.36 of 1987 as amended.

## **Designations by the Board under the Solvency Margin Rules (Long Term Insurance)**

### **Rule 3**

For the Purpose of Rule 3 the Guide Lines for the purpose of determining the value of the liabilities of an insurer for purpose of solvency margin shall be the currently applicable guidelines issued by the Institute of Actuaries in England.

### **Rule 7**

For the purpose of Rule 7 the value of the liabilities of an insurer shall be determined by using the following tables which are issued by the Institute of Actuaries in England:

- (a) the English Assured Lives Mortality Table A67/70 (ultimate) for valuing life insurance policies;
- (b) the (90)(m) ultimate table for valuing annuities on male lives; and
- (c) the (90)(f) ultimate table for valuing annuities on female lives.