

**DETERMINATIONS PROMULGATED UNDER THE REGULATION OF
INSURANCE INDUSTRY ACT NO.43 OF 2000**

1. Determination 1 – 30/10/2002 (amended in2006)

Section 25(1)

(A) Every insurer shall invest, in addition to the requirement in section 25(1) of the Act, the assets of the Technical Reserve, referred to in section 24 of the Act, in the following types of investments and in the percentages described below:

(B) Every insurer shall invest, in addition to the requirement in section 25(1) of the Act, the assets of the Long Term Insurance Fund, referred to in section 38(1) of the Act, in the following types of investments and in the percentages described below:

Type of investment	(A)The maximum percentage as a percentage of the Assets of the Technical Reserve	(B)The maximum percentage as a percentage of the Assets of the Long Term Insurance Fund
(a) (i) debt securities issued or fully guaranteed by the Government of Sri Lanka with a time to maturity not exceeding five (5) years;	100%	100%
(ii) debt securities issued or fully guaranteed by the Government of Sri Lanka with a time to maturity exceeding five (5) years;	40%	75%
(iii) debt securities issued or fully guaranteed by a Central Government or Central Bank of a country and carrying an investment grade rating;	20%	20%
(b) Ordinary Shares of a company listed on a licensed stock exchange; [subject to the condition that the maximum investment in shares in a single company being 5% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be, and 10% of the issued share capital of the investee company]	30%	40%

<p>(c) (i) Corporate debts, including bonds, debentures, Commercial Papers, and other similar financial instruments, issued by a licensed commercial bank or a licensed specialised bank and carrying an investment grade rating; or backed by a guarantee issued by a licensed commercial bank, which has an investment grade rating or a licensed specialised bank, which has an investment grade rating or a Multilateral Agency;</p>	60%	50%
<p>[subject to the condition that the maximum single exposure being 5% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be, or 10% of the equity of the company or the bank, as the case may be, whichever is lower]</p>		
<p>However if debt is issued and guaranteed by the same bank, the cumulative exposure to the same bank shall not exceed 10% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be, or 15% of the equity of the Bank, whichever is, lower</p>		
<p>(ii) Corporate debts, including bonds, debentures, Commercial Papers, and other similar financial instruments which are listed on a licensed stock exchange;</p>	10%	10%
<p>(iii) Corporate debts, including bonds, debentures, Commercial Papers, and other similar financial instruments, issued by a company and carrying an investment grade rating;</p>	10%	10%
<p>(iv) Corporate debts, including bonds, debentures, Commercial Papers, and other similar financial instruments, issued by a company, which has an investment grade rating;</p>	10%	10%

(v) asset backed securities carrying an investment grade rating;	10%	10%
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Note : The overall of investment in (c) (i) to (c) (v) should not exceed 60% and the maximum single exposure should not exceed 5% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be, or 10% of the equity of the company, whichever is lower. In the case of (v) above, the maximum exposure in a single issue should not exceed 5% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be.

(d) (i) Deposits with licensed commercial banks or licensed specialised banks carrying an investment grade rating ;	40%	40%
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(ii) Deposits with licensed finance companies carrying an investment grade rating;	10%	10%
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Note:

The overall investment in (d) (i) to (d) (ii) should not exceed 40% and the maximum single exposure should not exceed 10% of the Assets of the Technical Reserve or Long Term Insurance Fund, as the case may be or 15% of the equity of the bank or finance company, whichever is lower.

(iii) Cash in hand (Physical cash & cheques received);	10% (in all banks)	10% (in all banks)
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(e) freehold land and building (including the land value) occupied by the insurer;	10%	15% [subject to the maximum investment in one land or land and building, as the case may be, being 10%]
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(f) freehold land and building (including the land value) held for investment purposes;	10%	15% [subject to the maximum investment in one land or land and building, as the case may be, being 10%]
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(g) unit trusts/mutual funds; [subject to the condition that maximum investment in a Single Unit Trust/Mutual Fund, being 5%]	25%	25%
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(h) gold; [subject to the condition that the insurer takes all measures to keep the gold in safe custody in a bank recognized by the Board]	20% or a higher percentage with the approval of the Board for which approval may be considered by the Board on a case by case basis based on the investment restrictions imposed on the insurer	20% or a higher percentage with the approval of the Board for which approval may be considered by the Board on a case by case basis based on the investment restrictions imposed on the insurer
(i) Investments made in all related companies; (The investments are required to be made in accordance to the limitations specified above)	7.5% subject to the maximum exposure, other than in licensed commercial banks or licensed specialized banks carrying an investment grade rating, being 5%	7.5% subject to the maximum exposure, other than in licensed commercial banks or licensed specialized banks carrying an investment grade rating, being 5%
(j) policy loans	Not applicable	20%
(k) mortgage loans on immovable properties of policyholders	Not applicable	10%

(C) The Board may permit investment in other types of assets, on a case-by-case basis, subject to any conditions that the Board may lay down. Any investment approved by the Board under this clause will be made known to all insurers.

(D) In the event an asset specified in Rule 1(A)(a)(iii), (c)(i), (c)(iii), (c)(iv), (c)(v), (d)(i), (d)(ii) and 1(B)(a)(iii), (c)(i), (c)(iii), (c)(iv), (c)(v), (d)(i), (d)(ii) above, is issued outside Sri Lanka or issued by an entity incorporated outside Sri Lanka, such asset is considered as admissible only if such asset is rated by a Credit Rating Agency listed in Part (I) of Table "A" below. If an asset specified in the above rules is issued in Sri Lanka or issued by an entity incorporated in Sri Lanka, such asset is considered as admissible only if such asset is rated by a Credit Rating Agency listed in Part (II) of Table "A" or by any other Credit Rating Agency registered by the Securities and Exchange Commission of Sri Lanka under the Securities and Exchange Commission Act, No. 36 of 1987.

In these Determinations unless the context otherwise requires -

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

"Asset backed securities means a security that is primarily serviced by cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert in to cash within a finite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders;

"Board" means the Insurance Board of Sri Lanka, established under the provisions of the Regulation of Insurance Industry Act No. 43 of 2000;

"Equity" includes the issued share capital and reserves;

"investment grade rating" means a credit rating assigned by the corresponding credit rating agency set out in Part (I) and Part (II) of Table "A" below or any better credit rating assigned by such credit rating agency; or a credit rating which indicates similar credit quality as set out in Part (II) of table "A" below, assigned by an entity registered by the Securities and Exchange Commission of Sri Lanka under the Securities and Exchange Commission Act, No. 36 of 1987; To be applicable, the ratings should have been assigned or reviewed within the preceding eighteen months;

"issued shares" means the subscribed and the paid up share capital;

"licensed commercial bank", "licensed specialised bank" and "licensed finance company" shall be institutions licensed by a Government Authority to carry on such business;

"licensed stock exchange" means a stock exchange licensed by a Government Authority;

"long term insurance fund" for the purpose of this determination includes the policy holder's monies which is represented by an amount equal to the amount of liabilities in respect of all policies for which there exists a liability plus the amount of outstanding claims plus reinsurances accepted less reinsurances ceded, and also any amount of solvency margin that is required to be maintained from the shareholders' funds. It also includes any undistributed surplus.

"Multilateral Agency" means and includes the International Finance Corporation and any other similar institution that may be considered and approved by the Board as a Multilateral Agency from time to time;

"Related company" shall have the same meaning given to it under the Sri Lanka Accounting Standards;

"technical reserve" means the technical reserve maintained under section 24 of the Act and 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 statements.

(ii) Un-expired 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.

"Unit trusts" or "mutual funds" mean and include unit trusts or mutual funds regulated by a Government Authority.

Table A
INVESTMENT GRADE CREDIT RATINGS
(Part I)

CREDIT RATING AGENCY	RATING OF ENTITY OR SECURITY	SHORT TERM (LESS THAN ONE YEAR) RATING OF SECURITY
(1) Moody's Investor Services	Baa3	P3
(2) Standard and Poor's Corporation	BBB-	A3
(3) Fitch Ratings	BBB-	F3
(4) A. M. Best Company, Inc.	bbb-	AMB-3

(Part II)

CREDIT RATING AGENCY	RATING OF ENTITY OR SECURITY	SHORT TERM (LESS THAN ONE YEAR) RATING OF SECURITY
(1) Fitch Ratings (Lanka) Ltd.	BBB-(sri)	F3 (sri)
(2) Lanka Ratings	BBB3	L-3