Directive No. SIB/26/2004

LICENSING AND SUPERVISION OF INSURANCE BUSINESS

MANNER OF COMPUTING MARGIN OF SOLVENCY FOR INSURANCE COMPANIES

Issuing Authority

These Directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No.83/1994 and by Article 20 (4) and 42 (g) of the Licensing and Supervision of Insurance Business proclamation No.86/1994.

Definitions

For the purpose of these directives,

"Admitted Assets" shall mean any property, security, item or interest of an insurance company recorded in the financial statements of the insurance company but excluding:

Premiums that became due to the insurer but remaining unpaid for more than 90 days except in so far as provisions are held against the premiums in the manner as specified under article 4 herein below or in so far as premiums are secured under automatic non-forfeiture conditions against the surrender value of a life assurance policy;

Prepaid expenses;
An asset that is mortgaged or charged for the benefit of a person other than the insurer to the extent that it is so mortgaged;

Intangible assets such as goodwill;

Unsecured or, in the opinion of the Bank, inadequately secured loans, if any;

Equity share in any other insurance company, if any;

Life policy loans in excess of the surrender value of the policy;

Assets in excess of limits prescribed by law or directives of the Bank.

"Admitted Liabilities" shall mean all liabilities of an insurance company, including but not limited to, provisions for (a) outstanding claims (b) incurred but not reported claims (c) unearned premiums and (d) claims in dispute equivalent to at least 15% of the aggregate claims in dispute; tax obligations, due to reinsurers, due to ceding companies, due to other creditors, dividends declared;

"Bank" shall mean the National Bank of Ethiopia;

“Margin of Solvency” shall mean the excess of assets over liabilities to be maintained for General Insurance Business and Long-term Insurance Business.

Requirements

An insurance company carrying on General Insurance Business, Long-term Insurance Business or both shall maintain margin of solvency as specified in article 20 (1-3) of the Insurance Business Proclamation No. 86/1994 computed in accordance with the definition of admitted assets and admitted liabilities set out under article 2.1 and 2.2 here in above.

Minimum Provision Requirements for Outstanding Trade Debtors' Balances

An insurance company shall maintain the following minimum provisions for outstanding trade debtors' balances in respect of General Insurance Business:

25% of the trade debtors' balances outstanding for 91-180 days from the effective date of the policy;

50% of the trade debtors' balances outstanding for 181-360 days from the effective date of the policy;

75% of the trade debtors' balances outstanding for over 360 days from the effective date of the policy.

Insurance companies shall set aside the minimum required provisions specified under

here in above in a phased manner as follows:

at least 50% of the required provisions by the end of June 2004;
100% of the required provisions by the end of June 2005 and thereafter.

Reporting Requirement
Insurance companies shall quarterly submit as attachments to their balance sheets reports showing:
Outstanding trade debtors' balances segregated into aging categories of 91- 180 days, 181-360 days and over 360 days and the amount of provisions held against the trade debtors' balances;
the asset items listed from (b) to (h) under article 2.1 herein above.

Effective Date

These directives shall come into force as of the 1st day of March 2004.