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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

Licensing and Supervision of Insurance Business
Margin of Solvency Directives No. SIB/45/2016

Whereas, insurers' solvency depends mainly on the strength of capital and adequacy of technical reserves, maintained for the obligations entered in to, that may fluctuate under unforeseen situation;

Whereas, adequate margin of solvency enables an insurer to better withstand the risks that it faces, cope up with adverse developments it may experience and meet obligations to policyholders;

Whereas, insurance undertakings are exposed to risks such as under-pricing, inherent deviations in technical provisions, depreciation of certain investments and default by certain partners;

Whereas, an insurer's business risks in general and that of asset liability management in particular can be tackled, among other things, by the proper measurement of margin of solvency;

Whereas, determination of an insurer's solvency margin necessitates the valuation of assets and liabilities on a continuous basis;

Now, therefore, the National Bank of Ethiopia has issued these directives pursuant to the authority vested in it by Articles 23 and 58(2) of the Insurance Business Proclamation No. 746/2012.

1. Short Title
These directives may be cited as "**Margin of Solvency Directives No. SIB/45/2016**"

2. Definitions
For the purpose of these directives unless the context provides otherwise:

2.1. **"admitted assets"** mean any property, security, item or interest of an insurer recorded in its financial statements but excluding:

- 2.1.1. an asset that is mortgaged or charged for the benefit of person other than the insurer to the extent that it is so mortgaged,
- 2.1.2. deferred expense and prepayments,
- 2.1.3. furniture, fixture, dead stock, stationeries, etc,
- 2.1.4. receivables, including due from reinsurers, past due one year,
- 2.1.5. preliminary expenses in the formation of the Company,
- 2.1.6. unsecured or inadequately secured loans and sundry receivables, if any,
- 2.1.7. life policy loans in excess of the surrender value of the policy,
- 2.1.8. computer software, goodwill and other intangible assets,
- 2.1.9. any assets, with an unrealizable character,
- 2.1.10. assets in excess of limits prescribed by law or directives of the National Bank, and

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2.1.11. any other assets the National Bank may consider unrealizable, inadequately secured or come up with adequate justification for non-admittance;

2.2. **“admitted liabilities”** mean all liabilities, as reported in the balance sheet including adjustment on it on legitimate grounds of accounting and insurance principles, laws and regulatory requirements;

2.3. **“admitted capital”** means the difference between admitted liabilities and admitted assets;

2.4. **“National Bank”** means the National Bank of Ethiopia;

2.5. **“technical provisions”** means provisions for policy liabilities and includes: actuarial reserves in case of long term insurance, reserve for unpaid claims and adjusting expenses, incurred but not reported claims, reserve for unearned premiums in the cases of general insurance, and other provisions as may be determined by the NBE.

3. Scope

These directives apply to all insurers.

4. Margin of Solvency

4.1. An insurer carrying on general insurance business shall keep admitted capital amounting to the ***highest of 25% of its technical provisions, or 20% of the net written premiums in the last preceding financial year, or the minimum paid up capital.***

4.2. An insurer carrying on long term insurance business shall keep admitted capital amounting to ***the higher of 10% of technical provisions or the minimum paid up capital***.

5. Repeal

Manner of Computing Margin of Solvency for Insurance Companies Directives No.SIB/26/2004 is hereby repealed and replaced by these Directives.

6. Effective Date

These directives shall enter into force as of the 1st day of January 2017.

TEKLEWOLD ATNAFU
GOVERNOR

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NATIONAL BANK OF ETHIOPIA
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