Central Bank of Liberia
Regulation & Supervision Department

March 30, 2018

TO ALL LICENSED INSURERS

RE: SEPARATION OF INSURANCE BUSINESS

In keeping with Section 12.1 of the Insurance Act of 2013 and Section 8 of the Regulation No. CBL/RSD/INS/009/2016 Concerning New Capital Requirement for Insurance Companies, all composite (life and non-life) companies were required to separate their insurance businesses (life or non-life) by end of December 2017. The Regulation Concerning New Capital requirement also states that the CBL should develop a guidance note that would provide the standards and procedures needed for the separation of these businesses.

On February 20, 2018, the CBL circulated a draft guideline to the insurance industry for comments. The draft guideline provides that companies engaged in composite business would have to set up a Holding Company and have two distinct subsidiaries; that is, a life company, and a General (non-life) company. This would require different institutional setups, management teams, distribution channels, accounting and reporting. There are however exceptions for shared services such as technological infrastructure, external auditors, etc.

In its response, the insurance industry stated that whilst they are in support of the idea of separation of business, they were concerned that the timeline given for the implementation of the Guideline was too short and unattainable. Additionally, with the current economic condition in the country, coupled with the low penetration rate of insurance in the market which has led to poor revenue generation, the separation of insurance businesses as presented in the draft guideline would be cost intensive and will ultimately affect profitability adversely. The industry specifically said that getting separate management, technical staff, locations, directors, auditors etc.... would be too costly a venture for implementation at this time. The industry recommended that the CBL should take an approach of ensuring that the composite entity does separate reporting, technical reviews and the same external auditors should review the books of the entities but report on the funds for life and the General businesses separately in the audited statements.

Having reviewed the response from the industry and having held further internal deliberations on the subject of separation of insurance businesses, the CBL has taken the following decisions:

1) That the underlying objective for separation of insurance businesses which is to ensure that funds from one type of business is not used for the other at the disadvantage of policyholders shall be respected. Said separation, while keeping the key rationale in mind, shall be done in a manner that reflects the current market developments and in a more cost effective way;

2) That after the March 31, 2018 capital compliance deadline, companies that would be found to be in compliance with the capital requirement for composite business (i.e. have AVAILABLE CAPITAL RESOURCES[1] OF US$1,550,625) and opting to engage/continue in composite business would be allowed to do so. Said companies shall be required to have separate reporting for Life and General Businesses and set up separate technical units to manage the Life and General Businesses. The external auditors would have to reflect in the audited financials of these companies the adequacy or lack thereof of the funds for each business.

3) ALL companies currently engaged in composite insurance business that will not meet the capital requirement for composite business as at March 31, 2018; but will be assessed to have met the capital requirement for either Life business (Available capital resources of US$525,000) or General Business (Available capital resources of US$1,025,625) shall be restricted to only either business;

4) The CBL reserves the right to revisit the model on separation of insurance business taking into account future developments in the insurance industry.

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[1] In the determination of the solvency of insurers, the available capital resource is the reported capital less inadmissible assets, discounted assets and weighted provisions. Refer to the template for solvency calculation from the Insurance Section.