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E X T R A O R D I N A R Y

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under the New Insurance Act of 2013, specifically Section 12.1 of the Act has issued on March 23, 2016,Regulation No. CBL/RSD/INS/005/2016 herein under:

REGULATION NO.CBL/RSD/INS/005/2016
CONCERNING PRUDENTIAL REQUIREMENTS OF INSURANCE COMPANIES

BY ORDER OF THE PRESIDENT

MARJON KAMARA
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
MARCH 23, 2016

1.0 Introduction

Pursuant to its authority under Section 12.1 of the new Insurance Act of 2013, the Central Bank of Liberia (CBL) hereby prescribes and issues these regulations concerning prudential requirements of insurance companies, as follows:

2.0 Minimum contributed capital requirement.

2.1 For the purposes of section 6.3 of the Act, the minimum contributed capital applicable to a licensed insurer is:

(a) in the case of a general insurer, USD1,500,000(One Million Five Hundred Thousand United States Dollars);

(b) in the case of a life insurer, USD750,000(Seven Hundred and Fifty Thousand United States Dollars); and

(c) in the case of a licensed reinsurer, USD5,000,000(Five Million United States Dollars).

3.0 Responsibility of board, capital resources and capital adequacy.

3.1 Notwithstanding section 2.0 above, the board and senior management of a licensed insurer shall make their own determination of the capital resources that are reasonably required to support the insurer's insurance business, taking into account the nature, scale and complexity of that business and the insurer's risk profile and shall ensure that the insurer's capital resources are increased beyond the minimum required by the Regulations where appropriate.

3.2 On at least an annual basis:

(a) the senior management of a licensed insurer shall report to the board on the scope and performance of the systems and controls established to monitor and assess the insurer's capital resources and the adequacy of those resources; and

(b) the board shall review those systems and controls taking into consideration the report by senior management.

4.0 Capital resources.

4.1 The capital resources of a licensed insurer shall comprise the sum of:

(a) paid up ordinary shares;

(b) paid up perpetual non–cumulative preference shares;

(c) retained earnings;

(d) revaluation reserves, calculated in accordance with subsection 7.1; and

(e) such other capital components as may be approved by the Authority in relation to the insurer.

5.0 Valuation of shares.

5.1 For the purposes of determining the capital resources of a licensed insurer,

(a) the value of any ordinary or perpetual non–cumulative preference shares in a licensed insurer is the total of :

(i) monies paid and received by the insurer; and

(ii) the value of other consideration provided to the insurer for the particular category of shares that are paid up.

(b) a share that is partly paid qualifies for inclusion in the capital resources of the insurer, only to the extent that the share is paid.

6.0 Provisions in relation to ordinary and preference shares.

6.1 A share shall not be regarded as an ordinary share for the purposes of calculating the capital of a licensed insurer if the share:

(a) is redeemable;

(b) gives the holder any preferential or pre–determined rights to a distribution; or

(c) does not carry full voting rights.

6.2 A share does not qualify for inclusion in the capital of a licensed insurer as a perpetual non–cumulative preference share unless:

(a) the share does not have a stated maturity date;

(b) the share does not provide for any form of payment to the holder other than by way of a distribution of profits in the form of a dividend or interest;

(c) the insurer has the right not to pay a dividend or interest on the share in any year;

(d) where a dividend or interest is not paid on the share in any year, the dividend or interest cannot be deferred and cannot be accumulated;

(e) the non–payment of a dividend or interest does not result in any restrictions on the insurer, other than in relation to paying dividends on ordinary shares or acquiring treasury shares;

(f) the share is not redeemable or is redeemable only

(i) at the option of the insurer; and

(ii) after no less than four weeks written notice of the intention to redeem has been given by the insurer to the Authority, or such shorter period of notice as the Authority agrees in writing to accept;

(g) rights to the repayment of principal and the payment of dividends and interest are subordinated to the claims of all policyholders and creditors of the insurer and the holder of the share is not entitled to any contractual right of set–off; and

(h) there is no right to early repayment of the principal, dividend or interest on the occurrence of any event, including a default.

7.0 Revaluation reserve.

7.1 For the purposes of subsection 4.1 paragraph (d) of these Regulations, the revaluation reserve of each of the following may be included in the capital of a licensed insurer:

(a) land and buildings owned by the insurer; and

(b) investments.

7.2 A revaluation shall not be included in the revaluation reserve unless it is prudent and undertaken in accordance with the specified accounting standards.

7.3 A revaluation surplus may not be capitalized without the prior written consent of the Authority.

8.0 Capital resources to exceed solvency capital requirement.

8.1 A licensed insurer shall ensure that, at all times, its capital resources exceed the greater of:

(a) the minimum solvency capital requirement specified in section 9.0 of these Regulations; or

(b) such solvency capital requirement as may be directed by the Authority in a directive issued under section 6.5 of the Act.

9.0 Minimum solvency capital requirement.

9.1 The minimum solvency capital requirement applicable to a general insurer is the greater of:

(a) the minimum contributed capital requirement specified in subsection 2.1(a) of these Regulations; and

(b) 20% of net earned premiums, calculated as gross earned premiums adjusted by the change in the unearned premium reserve, less outward reinsurance.

9.2 The minimum solvency capital requirement applicable to a life insurer is the greater of:

(a) the minimum contributed capital requirement specified in section 2.1(b) of these Regulations; and

(b) the calculated solvency as determined by the Appointed Actuary.

9.3 The minimum solvency capital requirement applicable to a licensed reinsurer is the minimum contributed capital requirement specified in section 2.1(c) of these Regulations.

10.0 Discounted net assets to equal or exceed minimum solvency capital requirement.

10.1 The net assets of a licensed insurer less the deductions specified in subsection 10.2 must equal or exceed the minimum solvency capital requirement applicable to the insurer.

10.2 The following must be deducted from the net assets of a licensed insurer for the purposes of determining the assets available to satisfy the minimum solvency capital requirement:

(a) inadmissible assets, as specified in subsection 11.1 of this Regulation;

(b) an adjustment for discounted assets calculated in accordance with subsection 12.1 of these Regulations; and

(c) the applicable liability weighting, as follows:

(i) in the case of a general insurer, the total weighting required to be applied to technical provisions, as specified in section 13.1 of these Regulations; or

(ii) in the case of a life insurer, the total liability weighting to be applied to technical provisions, as specified in section 14.0 of these Regulations.

11.0 Inadmissible assets.

11.1 The following are considered as inadmissible assets for the purposes of these Regulations:

(a) intangible assets comprising:

(i) goodwill, to the extent that it has not otherwise been deducted; and

(ii) any other assets are shown on the balance sheet as intangible assets;

(b) loans to related companies;

(c) loans to insurance brokers and insurance agents;

(d) loans overdue more than 180 days; including:

(i) insurance premiums due; and

(ii) inwards reinsurance due;

(e) merchandise inventory;

(f) any other assets specified by the Authority as inadmissible assets.

12.0 Discounted assets.

12.1 For the purposes of subsection 10.2 paragraph(b) of this Regulation, the following discounts shall be applied to the value of the assets as shown on the balance sheet of a licensed insurer:

	Asset	**Discount to be Applied**
1.	Government of Liberia securities	0%
2.	Central Bank of Liberia securities	0%
3.	Cash and term deposits held at a licensed bank	0%

4.	Corporate debt	30%
5.	Other securities	30%
6.	Equity backed mutual funds	10%
7.	Money market mutual funds	5%
8.	Real property backed mutual funds	30%
9.	Land and buildings held as an investment	
	(i) in the case of a general insurer	30%
	(ii) in the case of a life insurer	20%
10.	Land and buildings occupied by the insurer for its own use	50%
11.	Plant, equipment and furniture	50%
12.	Motor vehicles	50%
13.	ICT	5%
14.	Prepaid expenses	25%
15.	In the case of a general insurer, outstanding premium debtors less than 3 months old	25%
16.	In the case of a life insurer, outstanding premium debtors less than 6 months old	25%
17.	In the case of a general insurer, amounts due from reinsurers less than 3 months old	10%
18.	In the case of a life insurer, amounts due from reinsurers less than 6 months old	10%

19.	Other assets (except inadmissible assets)	50%

13.0 Weighting to be applied to technical provisions, general insurer.

13.1 For the purposes of subsection 10.2, paragraph(c), the value of the insurer’s technical provisions as shown on the balance sheet shall be increased by applying the following weightings:

	Provision	**Weighting to be Applied**
1.	Total unearned premium provision	5%
2.	Provision for outstanding claims (by class):	
	Motor	10%
	Property	10%
	Liability	15%
	Marine and Aviation	5%
	Goods in Transit	10%
	Financial Loss	25%
	Accident and Health	12%
	Other General	5%
3.	Total IBNR (incurred but not reported) provision	25%
4.	Other provisions	5%

14.0 Weighting to be applied to technical provisions, life insurer.

14.1 Subject to subsection 14.3, the value of technical provisions of a life insurer as shown on the balance sheet shall be increased by applying a percentage of policyholder benefits and reserves, calculated by type of business as follows:

(a) Annuity business: 7% Universal Life and investment products (with and without capital guarantees): 5%;

(b) Group Life: 8%;

(c) Term insurance: 6%;

(e) Whole of Life and Endowment Insurance: 3%;

(f) Life (Investment Linked): 10%

(g) Permanent Health: 7%

(h) Life microinsurance: 2%; and

(i) Other life insurance products, including income protection: 7%.

14.2 For investment products, where the actuary includes a value for future fees in an embedded value calculation, the discounted value of future fees shall be reduced by 25%.

14.3 If the actuary of a life insurer is of the opinion that higher prudential margins than any of those specified in subsection 1 are appropriate for the insurer, the higher prudential margins specified by the actuary shall be used in place of those specified in subsection 14.1.

15.0 Capital adequacy control levels.

15.1 For the purposes of this section, the capital adequacy ratio of a licensed insurer is calculated in accordance with the following formula:

$$CAR = \frac{CR}{MSCR} \times 100$$

where:

(a) CAR represents the insurer's capital adequacy ratio expressed as a percentage;

(b) CR represents the insurer's capital resources calculated in accordance with section 4.0; and

(c) MSCR represents the insurer's minimum solvency capital requirement specified in section 9.0.

15.2 The capital adequacy control levels are as follows:

(a) Level 0, where the capital adequacy ratio is greater than 150%;

(b) Level 1, where the capital adequacy ratio is greater than 115%, but less than 150%;

(c) Level 2, where the capital adequacy ratio is greater than 100%, but less than 115%; and

(d) Level 3, where the capital adequacy ratio is less than 100%.

15.3 Without limiting the solvency and reporting requirements specified in the Act and this Regulation, a licensed insurer shall monitor its capital adequacy ratio against the Authority's capital adequacy control levels as specified in subsection 15.2 and shall immediately notify the Authority in writing if its capital adequacy ratio changes:

(a) from Level 0 to Level 1, Level 2 or Level 3;

(b) from Level 1 to Level 2 or Level 3; or

(c) from Level 2 to Level 3.

16.0 Investment strategy, policy, procedures and controls.

16.1 A licensed insurer shall establish and maintain:

(a) an investment strategy and such investment policies as the board considers appropriate for the nature, size and complexity of its business; and

(b) procedures and controls that are sufficient to ensure that the investment strategy and policies are effectively implemented.

16.2 Without limiting subsection 16.1, the investment strategy and policies of a licensed insurer shall address:

(a) the risk profile of the insurer;

(b) mixture and diversification of investment by type, including the long-term asset mix;

(c) the establishment of limits for the allocation of assets by geographical area, markets, sectors, counterparties and currency;

(d) the extent to which the holding of some types of assets is restricted or disallowed, for example illiquid or volatile assets; and

(e) clear accountability for all asset transactions and associated risks.

17.0 Responsibilities of board.

17.1 The board of a licensed insurer shall:

(a) approve the investment strategy and the significant investment policies, and any subsequent changes to the strategy or significant policies, and review them on at least an annual basis; and

(b) ensure that a management structure, including appropriate procedures and controls, is put in place to effectively execute and monitor the investment strategy and policies.

18.0 Risk management and internal controls.

18.1 The risk management strategy, policies, procedures and controls of a licensed insurer shall cover the risks associated with investment activities that may affect the insurer's liabilities or its ability to meet its solvency capital requirement.

18.2 The internal controls established and maintained by a licensed insurer shall cover the insurer's investment strategy and policies and shall ensure that the investment strategy, policies, systems and controls are properly documented and subject to adequate oversight.

19.0 Further provisions concerning investments.

19.1 The board of a licensed insurer shall ensure that:

(a) effective policies, systems and controls are established and maintained to enable the monitoring and managing of the insurer's asset/liability position to ensure that the insurer's investment activities and asset positions are appropriate for its risk profile; and

(b) contingency plans are put in place to mitigate the effect of a deterioration in investments.

20.0 Investments outside Liberia.

20.1 A licensed insurer may invest in any of its surplus assets outside Liberia.

20.2 For the purposes of subsection 20.1, “surplus assets” are those assets that are not required to satisfy the Level 0 capital adequacy control level.

21.0 Valuation of assets.

21.1 Subject to subsection 21.2, a licensed insurer shall ensure that the value of its assets is determined in accordance with the applicable accounting standards.

21.2 Notwithstanding subsection 21.1, the assets of a licensed insurer shall not be taken to be more than the market value of those assets.

22.0 Calculation and valuation of liabilities.

22.1 A licensed insurer shall ensure that its liabilities

(a) are calculated and valued on the basis required by the specified accounting standards;

(b) are monitored and calculated on a continuous basis; and

(c) include all liabilities arising out of its insurance contracts.

23.0 Technical provisions, general insurer.

23.1 The technical provisions to be maintained by a general insurer shall include the following:

(a) a provision for unearned premiums;

(b) a provision for outstanding claims

(c) a provision for claims that have been incurred but not reported; and

(d) such other provisions as it considers appropriate.

23.2 Subject to subsections 23.3 and 23.4, a general insurer shall calculate its unearned premiums provision using the 8ths method, the 24ths method or the 365ths method.

23.3 If a licensed insurer considers that there is an actuarial basis for using a different methodology than the 8ths, 24ths or 365ths method to calculate its unearned premium provision, or any part of that provision, it may provide the Authority with written notice of its intention to use the different methodology, specifying the actuarial basis for using the alternative methodology.

23.4 A licensed insurer may use the alternative methodology if, having received a notice under subsection 23.3, the Authority issues a written no objection notice to the insurer.

23.5 The provision for claims outstanding shall be calculated using the open claims file methodology.

23.6 For the purposes of subsection 23.5, the open claims file methodology is a methodology which provides for the value of each outstanding claim to be calculated separately, the total provision for outstanding claims for a period being calculated by totaling the estimated value of all individual claims outstanding at the end of the period.

24.0 Technical provisions, life insurer.

24.1 A life insurer shall maintain technical provisions that include:

(a) the actuarially estimated value of the insurer's liabilities based on the gross premium valuation methodology, including guarantees and bonuses already declared, after deducting the actuarial value of future premiums;

(b) a provision for bonuses and rebates, where appropriate; and

(c) a provision for life policies where the investment risk is borne by the policyholders.

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