



The Governor

DIRECTIVE N° 06/2016 OF 23/08/ 2016 ON CONDUCT OF INSURANCE BUSINESS

Pursuant to Law n° 55 /2007 of 30/11/2007 governing the Central Bank of Rwanda, especially in its Articles 6, 53, 56, 57 and 58;

Pursuant to the Law N°52/2008 of 10/09/2008 governing the Organization of Insurance Business, especially in its Articles 6, 17, 21 and 54;

Pursuant to the Regulation N°05/2009 of 29/07/2009 on licensing requirements and other requirements for carrying out insurance business, especially in its articles 18, 23, 25 and 26;

The National Bank of Rwanda, hereinafter referred to as «Central Bank», decrees:

CHAPTER ONE: GENERAL PROVISIONS

Article 1: Definitions

In this Directive the following terms and expressions shall mean:

- 1° **Premium:** the payment due by the policyholder to the insurer under an insurance contract;
- 2° **Technical provisions:** amount reserved by an insurer to fulfil its insurance obligations and to settle all commitments towards policyholders and other beneficiaries arising over the lifetime of the portfolio;
- 3° **Underwriting:** the process of reviewing applications submitted for insurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium;
- 4° **Risk assessment:** methodology used by insurer to gauge the risk based on key indicators in order to calculate premium rates for policyholders;
- 5° **Risk appetite:** the degree to which an organization's management is willing to accept the uncertainty of loss for a given risk;
- 6° **Renewal premiums:** Premiums that are payable after the initial premium and that are a condition for the continuation of the policy;
- 7° **Public insurer:** public institution authorized by law to carry out insurance business
- 8° **Licensed insurer :** insurers regulated under the Law n° 52/2008 of 10/09/2008 governing the organization of insurance business that are not public insurer;
- 9° **Government institutions:** public institutions, local government administrations entities, ministries and any other organisation governed and/or funded by Government of Rwanda.
- 10° **International agencies:** international non-governmental organisations, embassies, consulates and any other organization with global mandates, generally funded by contributions from national governments.



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Article 2: Purpose and scope

The purpose of this Directive is to maintain financial soundness and stability of insurance sector by setting guidance on:

- 1° declaration and distribution of dividends to shareholders of licensed insurers;
- 2° reporting requirements for public or private insurers ;
- 3° conditions of underwriting and pricing insurance products to promote effective competition in the best interests of consumers; and
- 4° handling premium receivables arising from insurance contracts.

CHAPTER II: DIVIDENDS DISTRIBUTION TO SHAREHOLDERS OF A LICENSED INSURER

Article 3: Pre-conditions for declaration and distribution of dividends to shareholders

No licensed insurer shall declare, pay or distribute dividends whether in cash or in kind or any other form of distribution if the Central Bank is not satisfied that:

- 1° there is a dividend policy approved by the Board of Directors and shareholders which complies with the following prudential requirements and a copy of the approved policy shall be submitted to the Central Bank within seven (7) days after its approval;
 - i) the solvency margin of the licensed insurer after the declaration and distribution of the dividends is at least 120% .
 - ii) the quick ratio and the current ratio of the company after dividend distribution decision shall be at least 120% and 150%, respectively.
- 2° the basis for declaration of dividends shall be the audited IFRS- based net income for that particular financial year ended;
- 3° there is no impairment in its share capital to the extent that the available paid up capital is below the required minimum paid up capital; and
- 4° adequate technical provisions have been made in accordance with regulatory and prudential requirements.

Article 4: Notification to the Central Bank

A licensed insurer shall notify to the Central Bank of the declaration of dividends at least 30 days prior to the day fixed for its payment.

The notification to the Central Bank shall be in writing and shall include the total amount of the dividends, the date on which dividends will be paid, and a confirmation from the licensed insurer that, following the payment of the dividends, the licensed insurer will continue to meet capital, solvency and liquidity prudential requirements.



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In a period not exceeding 15 days from the date of reception of the notification, the Central Bank shall notify the insurer, in writing, its decision on dividends distribution.

CHAPTER III: REPORTING PERIOD FOR INSURERS

Article 5: Annual audited financial statements

A licensed insurer shall within three (3) months from end of its financial year, submit to the Central Bank its audited financial statements that comply with applicable accounting and auditing standards together with the auditors' report and any other report on the affairs of the insurer accompanied by a board of directors' certificate as set out in **Appendix 4 of the Regulation No 05/2009**.

Article 6: Quarterly unaudited financial returns

Every licensed insurer shall within fifteen (15) days from the end of the calendar quarter, submit to the Central Bank a copy of its unaudited financial statements , quarterly solvency margin report signed by the Chief Executive Officer with supporting schedules in the form set out in **Appendix 5 of Regulation No 05/2009**.

Within forty five (45) days from the end of the calendar quarter, every licensed insurer shall submit to the Central Bank a Board of Directors' certificate approving the unaudited financial statements, quarterly solvency margin report required in paragraph one of this article.

Article 7: Monthly solvency margin report

Every licensed insurer shall within fifteen (15) days from the end of the calendar month, submit to the Central Bank the solvency margin report accompanied by supporting schedule in a form set out in **Appendix 5 of Regulation No 05/2009**.

Article 8: Other prudential reports

Every licensed insurer shall submit to the Central Bank the following prudential reports within fifteen (15) days of the end of reference quarter using the forms specified in **Appendix 6 of Regulation NO 05/2009**:

- 1° report on valuation of technical provisions;
- 2° statement of compliance with restrictions on Investments;
- 3° statement of compliance with Restrictions on Loans and Exposures.

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CHAPTER IV: COMPUTATION OF SOLVENCY MARGIN AND INSURANCE RECEIVABLES

Article 9: Admissibility of revaluation reserves

Any revaluation surplus arising out of revaluation of properties, unlisted equity shares and debt securities other than those of Government shall only be admitted by 25% in the solvency margin computation.

Article 10: Payment process of insurance premiums receivables

Premium receivables arising from government institutions and international agencies shall be fully admitted in the solvency margin computation for a period not exceeding sixty days (60). Beyond the set period, they shall no longer be considered in the solvency margin computation.

Any other premium receivables arising from persons other than those mentioned in paragraph one (1) of this Article shall not in any case be admitted in the solvency margin computation.

CHAPTER V: UNDERWRITING AND PRICING INSURANCE PRODUCTS

Article 11: Strategic underwriting policy

A licensed insurer shall put in place a strategic underwriting policy approved by the Board of Directors.

At a minimum the strategic underwriting policy shall:

- 1° cover all business lines;
- 2° set out the company risk appetite and risk tolerance;
- 3° set out the types of risks that can be underwritten;
- 4° set out the limitations on size of risk accepted;
- 5° set out the criteria for risk assessment;
- 6° set out the authority for approval of risks and referral limits;
- 7° set out process for accepting non-standard risks;
- 8° set out criteria for reinsurance for risks accepted;
- 9° define the basis and methodology for insurance premiums computation;
- 10° include insurer's pricing policy, the process and procedures to approve the exceptions to the pricing policy ;
- 11° set out the risk factors for each class of business used to determine adequate premium rates and mention the assumption on which the insurer's prices/rates are based on;
- 12° set out the renewal procedures for underwriting and determine the fixation of renewal premium;



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The strategic underwriting policy approved under paragraph one (1) of this article shall be:

- 1° available to all relevant staff, either in physical or electronic form;
- 2° complied with; and
- 3° regularly reviewed and updated.

The approved strategic underwriting policy or its review shall be submitted to the Central Bank within fifteen (15) days after its approval.

Article 12: Establishment of premium rates

Every licensed insurer shall ensure that its premium rates are consistent with its strategic underwriting policy.

Premium rates shall be based on actuarial statistical or financial methods and shall be adequate to cover all risks and costs.

CHAPTER VI: ENFORCEMENT, CORRECTIVE MEASURES AND FINAL PROVISIONS

Article 13: Corrective measure for failure to follow provisions on declaration and distribution of dividends

The Central Bank shall apply one or a combination of the following enforcement actions against any licensed insurer which fail to notify the Central Bank at least 30 days before dividends payment, distributed dividends without Central Bank approval or contravenes with the decision of the Central Bank given within 15 days after notification on dividends declaration as provided for in Article 4 of this Directive:

- 1° require shareholders to pay back the distributed dividends within the company with immediate effect;
- 2° suspension of subsequent dividends distribution for a period of two years;
- 3° pecuniary sanctions equivalent to 20% of the distributed dividends;

Article 14: Corrective measures for non-compliance with the provision on underwriting and pricing insurance products

A licensed insurer that fails to put in place its strategic underwriting policy and submit it to the Central Bank within the prescribed time shall be subjected to a pecuniary sanction equivalent to one million Rwandan francs (Frw 1,000,000).

A licensed insurer that issues an insurance policy in contradiction of its pricing policy shall be subjected to a pecuniary sanction equivalent to 5% of the minimum paid-up capital.

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Article 15: Corrective measures for non-compliance with the provision on premium receivables

Without prejudice to the provisions of Article 10 of this Directive, pecuniary sanctions of 0.5% per every quarter shall be charged on premium receivables arising from insurance policies written after the date of the signature of this Directive and reported in the insurer's books of accounts at the end of reference quarter.

Article 16: Transitional provisions

A transition period of twelve (12) months shall apply for premiums receivables as at the date of signature of this Directive. After the twelve (12) months' transition period, all premium receivables shall be written off.

Notwithstanding the premium receivables from the institutions specified in Article 10 of this Directive, no premium receivables shall be recognized in the books of licensed insurer as income or asset after the stated transition period.

A transition period of forty five (45) days is granted to insurer for drafting strategic underwriting policy required under article 11 of this Directive and the dividend policy required under article 3 of this Directive.

Article 17: Repealing provision

All prior provisions inconsistent with this Directive are hereby repealed.

Article 18: Entry in force

This Directive shall come into force on the date of its signature.

Done on 23/08/2016

RWANGOMBWA John
Governor

