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## PART I : SECTION (I) — GENERAL

### Government Notification

L.D.B. — 6/2001

#### REGULATION OF INSURANCE INDUSTRY ACT, No. 43 OF 2000

RULES made by the Insurance Board of Sri Lanka under section 105 read with Section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000 .

Chairperson,  
Insurance Board of Sri Lanka.

17th March, 2011,  
Colombo.

#### RULES

1. The Solvency Margin (General Insurance) Rules, 2004 published in *Gazette* Extraordinary No. 1341/8 of May 17, 2004, are hereby amended as follows :—

- (1) by the substitution for Rule 4 thereof of the following Rules :—

“4. (1) For the purpose of determining the solvency margin, the following types of assets of the general insurance business and in such amounts or percentage (of the total admissible assets) as specified below, shall be regarded as admissible (in these Rules referred to as “admissible assets”) :—

|     |      |   |   |      |
|-----|------|---|---|------|
| (a) | (i)  | debt securities issued or fully guaranteed by the Government of Sri Lanka   | - | 100% |
|     | (ii) | debt securities issued or fully guaranteed by any Foreign Government or a Central Bank of any foreign country and carrying an investment grade rating to the instrument | - | 20%  |
| (b) |      | ordinary shares of a company listed on a stock exchange   | - | 30%  |

|     |       |  |   |     |
|-----|-------|--|---|-----|
| (c) | (i)   | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments, issued by a licensed commercial bank or a licensed specialized bank and carrying an investment grade rating to the instrument or backed by a guarantee issued by a licensed commercial bank or a licensed specialized bank which has an investment grade rating or backed by a guarantee issued by any multilateral agency | - | 60% |
|     | (ii)  | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments which are listed on a stock exchange  | - | 10% |
|     | (iii) | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments issued by a company and carrying an investment grade rating to the instrument   | - | 10% |
|     | (iv)  | asset backed securities where the capital and interest or the maturity value, as the case may be, is guaranteed by a licensed commercial bank or a licensed specialized bank which has an investment grade rating  | - | 10% |
|     | (v)   | leasehold land and building :  | - | 15% |

Provided that, the total of the percentages made admissible in regard to the investments referred to in sub-paragraphs (i), (ii), (iii), (iv) and (v) above shall not exceed sixty per centum of the aggregate total admissible assets :

Provided that the investments referred to in sub-paragraph (v) above shall be admissible only for a period of two years from the date of the coming into operation of these Rules and only if an insurer had invested in leasehold land and building as at 31.12.2010 ; and

Provided further, debt cannot be issued and guaranteed by one and the same bank (in case the issuer is a bank)

|     |      |   |   |     |
|-----|------|---|---|-----|
| (d) | (i)  | deposits with any licensed commercial bank or any licensed specialized bank carrying an investment grade rating | - | 40% |
|     | (ii) | deposits with any licensed finance company carrying an investment grade rating                                  | - | 10% |

Provided however -

(a) the total of the percentages of admissible assets for purpose of determining solvency margin under this sub-paragraph, shall not exceed forty per centum of such admissible assets ;

(b) the deposits shall be deposits bearing interest ; and

(c) deposits with any licensed finance company carrying an investment grade rating, shall be admissible, only if such licensed finance company is listed on a stock exchange as on the date in which licensed finance companies are required to be listed by the Central Bank of Sri Lanka.

|     |  |  |     |
|-----|--|--|-----|
| (e) | freehold lands and buildings occupied by the insurer   | -  | 10% |
| (f) | freehold lands and buildings held for investment purposes  | -  | 10% |
| (g) | unit trusts/mutual funds   | -  | 25% |
| (h) | gold kept in safe custody in any licensed commercial bank or any licensed specialized bank   | -20% or a higher percentage with the approval of the Board, which approval may be based on any investment restrictions imposed on the insurer.                           |     |
| (i) | investments made in all related companies (the investments are required to be made in accordance with the limitations specified above)   | -7.5%, subject to the maximum single exposure being 5%, other than in any licensed commercial bank or any licensed specialized bank carrying an investment grade rating. |     |
| (j) | net amounts receivable for not more than six months from a re-insurer to a ceding company, as set-off against the payments due from such ceding company to the re-insurer  | the actual amount  |     |
| (k) | premium outstanding from policy holders for not more than sixty days from the inception of the policy  | the actual amount  |     |
| (l) | outstanding mortgage loans on immovable property where the prior written approval of the Board has been granted for the granting of such loan as at 31.12.2010   | -  | 20% |
| (2) | On and after March, 01, 2001, where any of the assets referred to in paragraph (1) were being kept outside Sri Lanka, such assets and in such amounts or percentages as referred to in that paragraph, shall be regarded as admissible assets for determining solvency margin, only where the permission of the Board had been obtained under subsection (3) of section 25 of the Act, permitting those assets to be kept outside Sri Lanka. |  |     |
| (3) | Assets referred to in paragraph (1) in such amounts or percentages as referred to in that paragraph, shall be regarded as admissible assets for determining solvency margin, only if such assets are free from any encumbrance. Corresponding liabilities arising from such encumbered assets shall not be considered for determining solvency margin.”;   |  |     |

(2) by the substitution for Rule 5 thereof, of the following Rule :-

“5. (1) The value of admissible assets specified in Rule 4, shall be determined for purpose of the solvency margin, in the following manner :-

- (a) (i) shall be the most nearest date average selling price of government securities indicated in the weekly Economic Indicators published by the Central Bank of Sri Lanka.

- (a) (ii) shall be most nearest published buying price certified and issued by the guarantor and issuing foreign government or the Central Bank of the respective government.
- (b) shall be valued at cost or at market value, whichever is lower.
- (c) (i), Quoted Corporate Debt—  
(ii), (iii) shall be the prevailing market price as per the last traded stock determined at the Colombo  
and (iv) Stock Exchange.
- Unquoted Corporate Debt  
shall be taken at cost, adjusted for amortization of premiums or accretion of discounts allocated on systematic basis to maturity date, using either the straight line method or the constant yield method (cost+accrued income)
- (c)(v) shall be at cost value or at a re-valued amount determined by a valuer approved by the Board.  
- the value  
of leasehold  
land
- (c)(v) - the shall be at cost value less accumulated depreciation or at a re-valued amount determined by a valuer  
value of approved by the Board less accumulated amount of depreciation after such revaluation.  
leasehold  
building
- (d)(i) and (ii) shall be the principal value of the deposit and the accrued interest.
- the value of shall be cost value or at a re-valued amount determined by a valuer approved by the Board.  
freehold land
- the value of shall be at cost value less accumulated depreciation or at a re-valued amount determined by a valuer  
freehold approved by the Board less accumulated amount of depreciation after such revaluation.  
building
- (g) shall be valued at cost or managers buying price whichever is lower.
- (h) shall be valued at cost or at market value, whichever is lower.

(2) An insurer shall treat an investment income, which is overdue for more than six months, as a doubtful debt and the asset on which such income is derived shall be excluded, in determining the solvency margin.” ;

(3) by the insertion immediately after Rule 5 thereof, of the following new Rule :-

“5A. In the event an asset specified in Rule 4(1)(a)(ii), (c)(i), (iii), (iv), (d)(i) and (ii), is issued :-

- (a) outside Sri Lanka or issued by an entity incorporated outside Sri Lanka, such asset shall be considered as admissible only if such asset or the entity, as the case may be, is rated by a Credit Rating Agency and meets the minimum international requirements as specified in Part I of the Schedule or other investment grade rating classification given by the respective credit rating agency from time to time as the minimum international requirements; and

- (b) in Sri Lanka or issued by an entity incorporated in Sri Lanka, such asset shall be considered as admissible only if such asset or the entity, as the case may be, is rated by a Credit Rating Agency and meets the minimum requirements as specified in Part II of the Schedule or other investment grade rating classification given the respective credit rating agency from time to time as the minimum requirement.”,

(4) by the repeal of Rule 6 thereof ; and

(5) by the repeal of Rule 8 and the substitution therefor, of the following :—

“8. In these Rules unless the context otherwise requires—

“Act” means the Regulation of Insurance Industry Act, No. 43 of 2000 ;

“asset backed securities” means a security that is primarily serviced by cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a definite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders ;

“Board” means the Insurance Board of Sri Lanka, established by the Regulation of Insurance Industry Act, No. 43 of 2000 ;

“Company” means a company incorporated under the Companies Act, No. 07 of 2007 ;

“Investment grade rating” means a credit rating assigned by any Credit Rating Agency set out in Part (I) and Part (II) as the case may be, of the Schedule to these Rules and a rating that has been assigned or reviewed within the preceding eighteen months ;

“licensed commercial bank” means a company or any institution issued with a licence as a commercial bank under the Banking Act, No. 30 of 1988 ;

“licensed finance company” means a company registered as a finance company under the Finance Companies Act, No. 78 of 1988 ;

“licensed specialised bank” means a company or any institution issued with a licence as a specialised bank under the Banking Act, No. 30 of 1988 ;

“multilateral agency” means the International Finance Corporation and any other similar institution that may be considered and approved by the Board as a multilateral agency from time to time, for the purpose of these Rules ;

“related company” shall have the same meaning given to “related party” in the Sri Lanka Accounting Standards established under the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 ;

“stock exchange” means a body corporate issued with a license as a stock exchange under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 ; and

“unit trust” means a unit trust within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 and for which the management company has been granted a licence under that Act, and includes any unit trust or any mutual fund outside Sri Lanka, an investment in which has been permitted by the Board.”,

(6) by the addition immediately after Rule 8 of the following :—

[Rule 5A]

**SCHEDULE**

**PART I**

| <i>Credit Rating Agency</i>         | <i>Minimum International rating of entity or security</i> | <i>Minimum International short term (less than one year) rating of security</i> |
|-------------------------------------|---|---|
| (1) Moody's Investor Services       | Baa3  | P3  |
| (2) Standard and Poor's Corporation | BBB -   | A3  |
| (3) Fitch Ratings                   | BBB -   | F3  |
| (4) A. M. Best Company, Inc.        | bbb -   | AMB-3   |

**PART II**

| <i>Credit Rating Agency</i>    | <i>Minimum rating of entity or security</i> | <i>Minimum Short term (less than one year) rating of security</i> |
|--------------------------------|---|---|
| (1) Fitch Ratings (Lanka) Ltd. | BBB - (lka)                                 | F3 (lka)  |
| (2) RAM Ratings (Lanka) Ltd.   | BBB -                                       | P-3   |

(7) these Rules shall come into effect from 01st April, 2011.

04-180/1

L.D.B. — 6/2001

**REGULATION OF INSURANCE INDUSTRY ACT, No. 43 OF 2000**

RULES made by the Insurance Board of Sri Lanka under section 105 read with Section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000 :—

Chairperson,  
Insurance Board of Sri Lanka.

17th March, 2011,  
Colombo.

## RULES

The Solvency Margin (Long term Insurance) Rules, 2002 published in *Gazette* Extraordinary No. 1255/12 of September 24, 2002, are hereby amended as follows :—

- (1) by the insertion immediately after sub-rule (2) of Rule 2 thereof, of the following new Rule :

“(3) Every insurer carrying on long term insurance business and issuing linked long term insurance products shall comply with these rules in respect of —

- (i) liabilities arising in the non-unit account ; and
- (ii) liabilities arising in the unit account where the savings benefits are guaranteed by the insurer.”,

- (2) by the substitution for Rule 13 thereof of the following Rules :—

“13. (1) For the purpose of determining the solvency margin, the following types of assets of the Long Term Insurance business and in such amounts or percentages (of the total admissible assets) as specified below, shall be regarded as admissible (in these Rules referred to as “admissible assets”) :—

|     |       |  |   |      |
|-----|-------|--|---|------|
| (a) | (i)   | debt securities issued or fully guaranteed by the Government of Sri Lanka  | - | 100% |
|     | (ii)  | debt securities issued or fully guaranteed by any Foreign Government or a Central Bank of any foreign country and carrying an investment grade rating to the instrument  | - | 20%  |
| (b) |       | ordinary shares of a company listed on a stock exchange  | - | 40%  |
| (c) | (i)   | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments, issued by a licensed commercial bank or a licensed specialized bank and carrying an investment grade rating to the instrument or backed by a guarantee issued by a licensed commercial bank or a licensed specialized bank which has an investment grade rating or backed by a guarantee issued by any multilateral agency | - | 50%  |
|     | (ii)  | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments which are listed on a stock exchange  | - | 10%  |
|     | (iii) | corporate debts including bonds, debentures, commercial papers and any other similar financial instruments issued by a company and carrying an investment grade rating to the instrument   | - | 10%  |
|     | (iv)  | asset backed securities where the capital and interest or the maturity value, as the case may be, is guaranteed by a licensed commercial bank or a licensed specialized bank which has an investment grade rating  | - | 10%  |
|     | (v)   | leasehold land and building :  | - | 15%  |

Provided that, the total of the percentages made admissible in regard to the investments referred to in sub-paragraphs (i), (ii), (iii), (iv) and (v) above shall not exceed fifty per centum of the aggregate total admissible assets ;

Provided that, the investments referred to in sub-paragraph (v) above shall be considered as admissible only for a period of two years from the date of the coming into operation of these Rules and only if an insurer had invested in leasehold land and building as at 31.12.2010 ; and

Provided further, debt cannot be issued and guaranteed by one and the same bank (in case the issuer is a bank)

- |     |   |   |     |
|-----|---|---|-----|
| (d) | (i) deposits with any licensed commercial bank or any licensed specialized bank carrying an investment grade rating | - | 40% |
|     | (ii) deposits with any licensed finance company carrying an investment grade rating :                               | - | 10% |

Provided however :—

- |     |   |   |   |
|-----|---|---|---|
| (a) | the total of the percentages of admissible assets for purpose of determining solvency margin under this sub-paragraph, shall not exceed forty per centum of such admissible assets ;  |   |   |
| (b) | the deposits shall be deposits bearing interest ; and   |   |   |
| (c) | deposits with any licensed finance company carrying an investment grade rating, shall be admissible, only if such licensed finance company is listed on a stock exchange as on the date in which licensed finance companies are required to be listed by the Central Bank of Sri Lanka. |   |   |
| (e) | freehold lands and buildings occupied by the insurer  | - | 15%   |
| (f) | freehold lands and buildings held for investment purposes   | - | 15%   |
| (g) | unit trusts/mutual funds  | - | 25%   |
| (h) | gold kept in safe custody in any licensed commercial bank or any licensed specialized bank  | - | 20% or a higher percentage with the approval of the Board, which approval may be based on any investment restrictions imposed on the insurer.                           |
| (i) | investment made in all related companies (the investments are required to be made in accordance with the limitations specified above)   | - | 7.5%, subject to the maximum single exposure being 5%, other than in any licensed commercial bank or any licensed specialized bank carrying an investment grade rating. |



- (j) net amounts receivable for not more than six months from a re-insure to a ceding company as set-off against the payments due from such ceding company to the re-insure - the actual amount
- (k) outstanding policy loans, where the loan has been granted within the surrender value of the policy - the actual amount

(2) On and after March 01, 2001, where any of the assets referred to in paragraphs (1) were being kept outside Sri Lanka, such assets and in such amounts or percentages as referred to in that paragraph, shall be regarded as admissible assets for determining solvency margin, only where the permission of the Board had been obtained under subsection (3) of section 25 of the Act, permitting those assets to be kept outside Sri Lanka.

(3) Assets referred to in paragraph (1) in such amounts or percentages as referred to in that paragraph, shall be regarded as admissible assets for determining solvency margin, only if such assets are free from any encumbrance. Corresponding liabilities arising from such encumbered assets shall not be considered for determining solvency margin.”,

(3) by the substitution for Rule 14 thereof, of the following Rule :—

“14. (1) The value of admissible assets specified in Rule 13, shall be determined for purpose of the solvency margin, in the following manner :—

| Asset specified in Rule 13(1)             | Valuation Methodology  |
|---|--|
| (a) (i)                                   | shall be the most nearest date average selling price of government securities indicated in the weekly Economic Indicators published by the Central Bank of Sri Lanka.  |
| (a) (ii)                                  | shall be most nearest published buying price certified and issued by the guarantor and issuing foreign government or the Central Bank of the respective government.  |
| (b)                                       | shall be valued at cost or at market value, whichever is lower.  |
| (c) (i) (ii), (iii), and (iv)             | Quoted Corporate Debt -<br>shall be the prevailing market price as per the last traded stock determined at the Colombo Stock Exchange.<br><br>Unquoted Corporate Debt—<br>shall be taken at cost, adjusted for amortization or premiums or accretion of discounts allocated on systematic basis to maturity date, using either the straight line method or the constant yield method (cost+accrued income) |
| (c) (v)<br>- the value of leasehold land  | shall be at cost value or at a re-valued amount determined by a valuer approved by the Board.  |
| (c) (v) - the value of leasehold building | shall be at cost value less accumulated depreciation or at a re-valued amount determined by a valuer approved by the Board less accumulated amount of depreciation after such revaluation.   |

(d)(i) and (ii) shall be the principal value of the deposit and the accrued interest.

the value of freehold land shall be at cost value or at a re-valued amount determined by a valuer approved by the Board

the value of freehold building shall be at cost value less accumulated depreciation or at a re-valued amount determined by a valuer approved by the Board less accumulated amount of depreciation after such revaluation.

(g) shall be valued of cost or managers buying price whichever is lower.

(h) shall be valued at cost or at market value, whichever is lower

(k) shall not exceed the outstanding capital or the net realisable value of the loan, whichever is lower.

(2) An insurer shall treat an investment income, which is overdue for more than six months, as a doubtful debt and the asset on which such income is derived shall be excluded, in determining the solvency margin.”,

(4) by the insertion immediately after Rule 14 thereof, of the following new Rule :—

“14A. In the event an asset specified in Rule 13(1)(a)(ii), (c)(i), (iii), (iv), (d)(i) and (ii) is issued :—

- (a) outside Sri Lanka or issued by an entity incorporated outside Sri Lanka, such asset shall be considered as admissible only if such asset or the entity, as the case may be, is rated by a Credit Rating Agency and meets the minimum international requirements as specified in Part I of the Schedule or other investment grade rating classification given by the respective credit rating agency from time to time as the minimum international requirement ; and
- (b) in Sri Lanka or issued by an entity incorporated in Sri Lanka, such asset shall be considered as admissible only if such asset or the entity, as the case may be, is rated by a Credit Rating Agency and meets the minimum requirements as specified in Part II of the Schedule or other investment grade rating classification given by the respective credit rating agency from time to time as the minimum requirement.” ;

(5) by the repeal of Rule 17 and the substitution therefor, of the following :—

17. In these Rules unless the context otherwise requires—

“Act” means the Regulation of Insurance Industry Act, No. 43 of 2000 ;

“actuary” means an actuary recognized under the Act ;

“asset backed securities” means a security that is primarily serviced by cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a definite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders ;

“Board” means the Insurance Board of Sri Lanka, established under the provisions of the Regulation of Insurance Industry Act, No. 43 of 2000 ;

“Company” means a company incorporated under the Companies Act, No. 07 of 2007 ;

“Investment grade rating” means a credit rating assigned by any Credit Rating Agency set out in Part (I) and Part (II) as the case may be, of the Schedule to these Rules and a rating that has been assigned or reviewed within the preceding eighteen months ;

“licensed commercial bank” means a company or any institution issued with a licence as a commercial bank under the Banking Act, No. 30 of 1988 ;

“licensed finance company” means a company registered as a finance company under the Finance Companies Act, No. 78 of 1988 ;

“licensed specialized bank” means a company or any institution issued with a licence as a specialized bank under the Banking Act, No. 30 of 1988 ;

“multilateral agency” means the International Finance Corporation and any other similar institution that may be considered and approved by the Board as a multilateral agency, from time to time, for the purpose of these Rules ;

“related company” shall have the same meaning as given to “related party” in the Sri Lanka Accounting Standards established under the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 ;

“stock exchange” means a body corporate issued with a license as a stock exchange under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 ; and

“unit trust” means a unit trust within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 and which the management company has been granted a licence under that Act, and includes any unit trust or any mutual fund outside Sri Lanka, an investment for which has been permitted by the Board.”;

(6) immediately after Rule 17, by the addition of the following :—

[Rule 14A]

## SCHEDULE

### PART I

| <i>Credit Rating Agency</i>         | <i>Minimum International rating of entity or security</i> | <i>Minimum International short term (less than one year) rating of security</i> |
|-------------------------------------|---|---|
| (1) Moody's Investor Services       | Baa3  | P3  |
| (2) Standard and Poor's Corporation | BBB -   | A3  |
| (3) Fitch Ratings                   | BBB -   | F3  |
| (4) A. M. Best Company, Inc.        | bbb -   | AMB-3   |

PART II

| <i>Credit Rating Agency</i>    | <i>Minimum rating of entity or security</i> | <i>Minimum Short term (less than one year) rating of security</i> |
|--------------------------------|---|---|
| (1) Fitch Ratings (Lanka) Ltd. | BBB - (lka)                                 | F3 (lka)  |
| (2) RAM Ratings (Lanka) Ltd.   | BBB -                                       | P-3   |

(7) These Rules shall come into effect from 01st April, 2011.

04-180/2