Unofficial Translation

The Republic of the Union of Myanmar

Ministry of Planning and Finance

Insurance Business Regulatory Board

Directive No. 2 /2024

12th Waning of Nattaw 1386 ME

27th December, 2024

Solvency Directive

In exercise of the powers conferred under Section 38 (b) of the Insurance Business Law 1996 (the "Law") and in accordance with Rule 10 (a) of the Insurance Business Rules 1997, the Insurance Business Regulatory Board (IBRB) hereby issues this directive in order to evaluate assets and liability of insurers.

Relevance

1. This directive shall apply to all insurers licensed by Insurance Business Regulatory Board in accordance with the Law.

Objective

2. The objective of this directive is to make the rule for calculating risks and risk margin of insurers and actions by the IBRB and Financial Regulatory Department (FRD) to insurers in order to ensure the financial soundness of insurers.

Definition

3. The following expressions contained in this directive shall have the meanings given hereunder;

   (a) The capital adequacy ratio (CAR) shall be defined as an indicator to assess the adequacy of an insurer's financial capacity to pay insurance claims and benefits, and the financial soundness of the insurer's insurance business.

(b) The Total Capital Available (TCA) shall be defined as the total amount equivalent to the margin amount of an insurer.

(c) The Minimum Required Capital (MRC) shall be defined as the total amount equivalent to the risk exposure of an insurer.

Solvency Margin Ratio Guidelines

4. The CAR shall be calculated by dividing the TCA by the MRC.

5. An insurer shall be required to have a CAR 150% or more in order to maintain the financial soundness of the insurer's insurance business.

6. The IBRB shall determine whether an insurer's CAR is 150% or more based on the data of its financial situation at the end of each financial year reported by the insurer.

7. If the CAR reported by an insurer falls below 150%, the insurer shall report it to the FRD within five working days from the date when the insurer recognizes that it falls below 150%. Then, the insurer shall submit a financial recovery plan to the FRD within one month in order to recover the CAR to reach at least 150% within a specified period not exceeding twelve months.

8. If the CAR reported by an insurer falls below 100%, the insurer shall report it to the FRD within two working days from the date when the insurer recognizes that it falls below 100%. Then, the insurer shall submit a financial recovery plan to the FRD within fifteen working days in order to recover the CAR to reach at least 100% within a specified period not exceeding six months. This plan shall contain the effective measures to recover the CAR in the short term such as restriction of dividend for shareholders or policyholders, reduction of the amount of operating expenses, and prohibition of investment in some assets.

9. An insurer shall report immediately the latest CAR to the FRD when the insurer recognizes its CAR may fall below 150% or 100% in the process of internal management or any other means.

10. An insurer shall submit the modified financial recovery plan if the FRD considers that the plan is not adequately effective to recover the CAR within a specified period stipulated in the Articles 7 and 8.

11. If the CAR does not recover at least 100% within a specified period not exceeding six months, the IBRB shall order insurers to suspend part or all of the insurer's operations.

12. The IBRB may allow insurers the longer period than specified period stipulated in the Articles 7 and 8 to recover the CAR with consideration of main cause of difficulty to meet with CAR requirement, urgency for recovery of financial soundness, quality of risk management of insurers, and other relevant factors.

13. An insurer shall calculate its CAR and submit it to the FRD in accordance with the form prescribed by the FRD. An Insurer shall notify the FRD in advance of any possible delay in submission of the CAR for unavoidable reasons.

Calculation of Margin Amount

14. TCA is the amount defined as capital minus the amount defined as deductions.

15. The amount defined as capital is equal to the sum of the value of the following items recorded in the net assets section of the balance sheet. If the IBRB allows the subordinated debt as capital, it can be defined as capital. The subordinated debt, other than capital, shall have more than five years from the date of issuance to the date of repayment. It shall be less than 50% of the sum of the value of the following items:

(a) issued and paid-up capital;
(b) life assurance fund;
(c) general insurance fund;
(d) general reserve fund;
(e) other funds;
(f) retained earnings; and
(g) revaluation reserves

16. The amount defined as deductions is equal to the sum of the value of the following items recorded in the assets of the balance sheet:

(a) receivables which are more than 90 days overdue;

(b) fixed assets other than lands and buildings;

(c) non-refundable prepaid expenses and advances;

(d) goodwill and other intangible assets;

(e) deferred tax assets;

(f) 50% of other assets (in total assets in the form prescribed by the FRD as stipulated in Article 13 of this directive); and

(g) Investment in shares and subordinated debt of other insurers or financial institutions.

17. MRC is the defined amount which is calculated based on risk-based capital minimum as specified in Article 18.

Calculation of Risk Amount

18. Risk-based capital minimum is defined as the amount calculated as follow;

$$\sqrt{(R1)^2 + (R2)^2 + (R3)^2} + R4$$

Clarification:

- Insurance risk capital charges (referred to as R1) mean the total amount equivalent to the insurance risk. Insurance risk is the potential loss arising when the actual accident rate, such as the mortality rate and morbidity rate, exceeds expectations.
- Market risk capital charges (referred to as R2) mean the total amount equivalent to the investment risk. Investment risk is the potential loss arising from investment activities, such as the risk that the price of securities or other investment assets held by the insurer may fluctuate in excess of expectations.
- Credit risk capital charges (referred to as R3) mean the total amount equivalent to the credit risk. Credit risk is the potential loss arising from

default by a counterparty or other reasons in respect of securities or other investment assets held by the insurer.

- Operational risk capital charges (referred to as R4) mean the total amount equivalent to the operational risk. Operational risk is the potential loss arising from business operations that is beyond reasonable expectations and is not classified as insurance risk, investment risk, or credit risk.

19. The amount of insurance risk capital charges (R1) for life insurers is defined as the sum of the amount calculated by multiplying the amount of each risk exposure for each type of product stipulated in the following table by the respective risk factor:

Type of product	**Risk exposure**	**Risk factor**
Endowment	Sum at risk	0.05%
Term	Sum at risk	0.05%
Whole life	Sum at risk	0.05%
Sickness, health and medical	Sum at risk	0.05%
Personal accident	Sum at risk	0.05%
Travel	Sum at risk	0.05%
Group life	Sum at risk	0.05%
Linked business with investment guarantees	Actuarial provisions	2.0%
Linked business without guarantees	Actuarial provisions	1.0%
Immediate annuities	Actuarial provisions	0.5%
Deferred annuities (without guarantees)	Actuarial provisions	1.0%
Deferred annuities (with guarantees)	Actuarial provisions	2.0%
Participating annuities	Actuarial provisions	2.0%

Other	Sum at risk + Actuarial provisions	0.05%

20. The amount of insurance risk capital charges (R1) for general insurers is defined as the total amount calculated on the claim reserves basis and the premium reserves basis.

21. The amount of insurance risk capital charges (R1) for general insurers on a claim reserves basis is defined as the sum of the amount calculated by multiplying the amount of each risk exposure for each type of product stipulated in the following table by the respective risk factor:

Type of product	**Risk exposure**	**Risk factor**
Property	Outstanding claims provision + Incurred but not reported (IBNR)	20%
Motor	Outstanding claims provision + IBNR	14%
Liability	Outstanding claims provision + IBNR	22%
Marine	Outstanding claims provision + IBNR	24%
Aviation	Outstanding claims provision + IBNR	24%
Health & medical	Outstanding claims provision + IBNR	18%
Personal accident	Outstanding claims provision + IBNR	18%
Travel	Outstanding claims provision + IBNR	18%
Engineering (CAR/EAR)	Outstanding claims provision + IBNR	26%

Worker's compensation	Outstanding claims provision + IBNR	54%
Agriculture, crop and livestock	Outstanding claims provision + IBNR	54%
Theft/cash	Outstanding claims provision + IBNR	54%
Bond	Outstanding claims provision + IBNR	54%
Other general insurance	Outstanding claims provision + IBNR	54%

22. The amount of insurance risk capital charges (R1) for general insurers on a premium reserves basis is defined as the sum of the amount calculated by multiplying the amount of each risk exposure for each type of product stipulated in the following table by the respective risk factor:

Type of product	**Risk exposure**	**Risk factor**
Property	Unearned premium reserve (UPR)	18%
Motor	UPR	13%
Liability	UPR	18%
Marine	UPR	22%
Aviation	UPR	22%
Health & medical	UPR	17%
Personal accident	UPR	17%
Travel	UPR	17%
Engineering (CAR/EAR)	UPR	22%
Worker's compensation	UPR	49%
Agriculture, crop and livestock	UPR	49%
Theft/cash	UPR	49%
Bond	UPR	49%
Other general insurance	UPR	49%

23. The amount of insurance risk capital charges (R1) for composite insurers is defined as the sum of the amount of insurance risk capital charges for life insurers and the amount of insurance risk capital charges for general insurers calculated by Article 19, 21 and 22.

24. The amount of market risk capital charges (R2) is defined as the value calculated as $\sqrt{(M1)^2 + (M2)^2 + (M3)^2 + (M4)^2}$. These market risk factors being referred as M1 to M4 are specified as following;

(a) The amount of equity risk (M1) is defined as the value of shares recorded i in the assets section of the balance sheet multiplied by a risk factor of 25%.

(b) The amount of property risk (M2) is defined as the value of investment properties recorded in the assets section of the balance sheet multiplied by a risk factor of 10%.

(c) The amount of currency risk (M3) is defined as the value of bank deposits and any other investment assets in foreign currencies multiplied by a risk factor of 10%.

(d) The amount of interest rate risk (M4) is defined as the sum of the amount calculated by multiplying the amount of each risk exposure recorded in the assets section of the balance sheet stipulated in the following table by the respective risk factor:

Risk exposure	**Risk factor**
Cash deposits in banks	2.5%
Government and state enterprise securities	2.5%
Debt securities and fixed income	2.5%
Loans other than life assurance loans	2.5%

25. The amount of credit risk capital charges (R3) for insurers is defined as the sum of the amount calculated by multiplying the amount of each risk exposure recorded in

the assets section of the balance sheet stipulated in the following table by the respective risk factor:

Risk exposure	Risk factor
Government and state enterprise securities	0%
Debt securities and fixed income	5%
Investment in subsidiaries, associates and joint ventures	20%
Secured loans	5%
Unsecured loans	5%
Life assurance loans	0%
Cash deposits in banks (government and state enterprises)	0%
Cash deposits in banks (others)	5%
Receivables (not overdue or overdue less than 90 days)	-
Agents and brokers	20%
Policyholders	5%
Reinsurers	2.5%
Other insurers	10%
Subsidiaries and affiliates	35%
Other receivables	15%

26. The amount of operational risk capital charges (R4) of insurers is defined as the value calculated as 30% × $\sqrt{(R1)^2 + (R2)^2 + (R3)^2}$.

Transitional Measures

27. This directive is effective from financial year 2025-2026. The IBRB's assessment of CAR as stipulated in this directive is to be conducted based on an insurer's financial situation at the end of the financial year 2025-2026.

28. Where the financial reporting period is less than one year due to a change of the financial year or other reasons, an insurer may exclude submitting any figures relating to the financial year that are difficult to calculate when preparing its insurance accounting financial statements.

29. This directive shall apply to Myanma Insurance established under the Myanma Insurance Law when it becomes ready to follow IFRS.

Min Htut

Chairman

Insurance Business Regulatory Board

Letter No: FRD/IBRB(782/2024)

Date: 27th December, 2024

Disseminated to:

Ministry of Planning and Finance

Members of the Insurance Business Regulatory Board

Myanma Insurance

Myanmar Insurance Association

All Insurance Companies

Myanmar Banks Association

By Order

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(Zaw Naing)

Secretary

Insurance Business Regulatory Board