



---

**ARMENIA  
INSURANCE FINANCIAL REPORTING, DRAFTING  
AND CAPACITY BUILDING (C226)**

**REGULATION ON CAPITAL AND SOLVENCY  
MARGINS FOR INSURANCE COMPANIES**

---

**Submitted to:**

Ministry of Finance and Economy  
Head of Insurance Department  
Republic of Armenia

**Submitted by:**

BearingPoint  
1676 International Drive  
McLean, VA 22102  
USA

**June 2005**

## **Section 1**

Capital shall consist only of:

Paid-in Share Capital, which is contributed capital in the form of Common Stock, plus Unallocated retained earnings and other equity funds, but shall not include goodwill arising from the acquisition of another entity.

## **Section 2.**

An insurance company shall at all times maintain Capital and undistributed retained earnings at least equal to the sum of:

- A. The required minimum capital required by Section 3 of this regulation; *plus*
- B. The minimum calculated solvency margin required by Sections 4 and 5 of this regulation.

## **Section 3.**

An insurance company shall have and maintain minimum Share Capital as established by a Government Decree on the Minimum Capital Required for Insurance Companies. The minimum share capital of an insurance company shall be paid in cash or other permitted invested assets and must be free and clear of any claim upon it.

## **Section 4.**

- A. The following definitions apply only for this section.
  - i. Premium Amount is the gross direct premiums written plus reinsurance assumed gross written premiums – averaged over the prior three years.
  - ii. Claim Amount is gross claims incurred on direct business plus the reinsurance assumed gross incurred claims – averaged over the prior three years. Retention Ratio is the claims recoverable from reinsurance ceded – averaged over the prior three years Divided by the Claim Amount . The result of this calculation is subtracted from one (1) in order to yield the retention ration. For the purposes of this regulation, this ratio shall have a minimum value of .50.
- B. The solvency margin under this section is equal to the greater of ten percent (10%) of the Premium Amount multiplied by the Retention Ratio or fifteen percent (15%) of the Claim Amount multiplied by the Retention Ratio.
- C. Annually each insurance company shall complete a “Calculation of Solvency Margin Form.

## **Section 5.**

A. The following definition applies only to this section:

Net Actuarial Reserves are the reserves for direct and reinsurance assumed life insurance or annuity business less 50% of any actuarial reserve for reinsurance ceded under proportional reinsurance plans.

B. The solvency margin is four percent (4%) of the Net Actuarial Reserves for the year immediately preceding.

## **Section 6.**

The minimum solvency level of a company writing both life insurance and non-life insurance shall be the sum of the solvency margin for Life Insurance and Non-Life Insurance calculated under Sections 4 and 5.

## **Section 7.**

An insurance company, which does not meet the minimum capital and solvency margin requirement under Section 3 of this regulation, shall immediately notify the Insurance department. Within 30 days of becoming aware that it may not meet the minimum capital requirement set out in Section 3 of this regulation, an insurance company shall submit to the Department of Insurance a rehabilitation program as specified in Article 20.3 of the Law on Insurance.