

**NIC, BNR, FIRST AND THE WORLD BANK**

**REPORT ON**

**STRENGTHENING THE SUPERVISORY  
CAPACITY OF THE NATIONAL INSURANCE  
COMMISSION IN RWANDA**

Prepared by

**QED Actuaries and Consultants**

**April 2007**

(December 2006 Draft Report updated with comments received to date from  
NIC & World Bank)

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## SECTION 1: INTRODUCTION

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- 1.1 QED Actuaries and Consultants (QED) have been asked by FIRST Initiative (FIRST), and subsequently the World Bank (when FIRST became a subsidiary of The World Bank) to assist the National Insurance Commission of Rwanda (NIC) in terms of strengthening their supervisory capacity.
- 1.2 This report is an updated version of the draft report sent to the NIC and World Bank on 7 December 2006, and incorporates the comments received to date from the NIC and World Bank. We are awaiting comments from the National Bank of Rwanda (BNR) and will include these in the next update.
- 1.3 The report contains our updated findings after a number of on-site visits to Rwanda and our recommendations in terms of the Insurance Act and Regulations and Regulatory Forms for long-term and short-term insurance business.
- 1.4 This report should be read in conjunction with the original Terms of Reference (TOR) entitled Financial sector reform and strengthening initiative (Rwanda: Strengthening supervisory capacity of the Insurance Commission), our letter to FIRST of 27 October 2006 which outlines some changes to the TOR and monthly progress reports from August 2006 to March 2007. Special note should be taken of the monthly report for January 2007 which included our revised work plan and budget allocation for completing the project following on from changes to the project scope and parties involved in the project.
- 1.5 Following on from a teleconference with Mr Craig Thorburn and Mr Roman Didenko from the World Bank on 13 March 2007 when we discussed the project, we await the World Bank's further comments on our proposals, which we expect to receive once Mr Craig Thorburn has met with the NIC, BNR and possibly other stakeholders in Rwanda.
- 1.6 We had originally intended to discuss the draft legislation and forms in more detail with the Rwandan market prior to making our initial submission to FIRST and our revised submission to the World Bank. However, changes to the TOR precluded this and it will probably be more fruitful to have such discussions once all of the role players have seen the second draft enclosed with this report.
- 1.7 In compiling this report, we have relied on the experience we have gained around Africa and in other parts of the world. We have also taken into account the insights and the draft insurance law provided to us by the NIC and some discussions with industry players in Rwanda.

## SECTION 1: INTRODUCTION

1.8 After analyzing the original draft insurance law provided to us and considering the alternative supervisory and regulatory frameworks in Africa, we have used (with permission from the Financial Services Board in South Africa) the South African Insurance Acts, Regulations and Forms for long and short-term insurance as a base on which to build our recommendations. This approach is motivated by the fact that the South African insurance legislation is amongst the best available in Africa and was updated and completely re-written as recently as 1998 with the express intention of meeting world wide best practice. We have, however, tailored the South African documentation and our recommendations significantly to be appropriate and relevant to the Rwandan insurance market and also incorporated the ideas already present in the draft insurance legislation that the NIC provided to us (essentially a copy of an early draft of the Ghanaian Law). Furthermore, we have made refinements based on the correct legislation in, amongst others, the following countries:

- Tanzania;
- Ghana;
- Kenya; and,
- Mauritius.

1.9 We also incorporated, in their entirety, some sections of the draft law provided to us by the NIC (e.g. the need to provide a business plan to the NIC, Capital Adequacy Requirements, minimum solvency requirements, approval of minimum premium rates, inspections and an anti-money laundering provision).

1.10 There will be a need for some wording changes within the Act once the NIC is amalgamated into the BNR.

1.11 The main changes made to the draft legislation when compared to that included with the first draft report are:

- We have made the Insurance Acts more flexible (following comments from the World Bank) by moving prescribed dates, times, amounts and conditions which may vary in the future to the Regulations rather than keeping them embedded in the Insurance Acts (which can be more difficult to change).
- The minimum solvency requirement for short-term insurance was updated and improved.
- The minimum solvency requirement for long-term insurance was slightly refined.

## SECTION 1: INTRODUCTION

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- The offences and penalties in the Long-Term and Short-Term Insurance Acts were explained in detail in the Regulations together with specifying the monetary amounts in the Regulations rather than the Acts.

1.12 While all our recommendations are included in the draft Act, Regulations and Statutory Returns, we have highlighted some of the more important recommendations in this report for completeness. These recommendations are contained in the following sections:

- Section 3: A draft Code of Ethics;
- Section 5: Minimum capital requirements;
- Section 6: Minimum solvency requirements;
- Section 8:
  - Separating long and short-term insurance business legally by 1 January 2010;
  - An Advisory Committee for both long and short-term insurance; and,
  - A functioning and approachable appeals board at the NIC;
- Section 10:
  - Classes of policies for long and short-term insurance;
  - Regulatory forms which covers insurers writing business solely in Rwanda and insurers writing business within and outside Rwanda; and,
  - The regulatory forms in Excel (electronic) format;
- Section 11:
  - Major recommendations for long-term insurers and intermediaries; and,
  - Major recommendations for short-term insurers and intermediaries.

1.13 This report also looks briefly at the following items:

- Process followed to interact with the NIC and produce this report and the accompanying draft legislation (Section 4);
- The insurance industry in Rwanda (Section 5); and,
- The operation of the NIC (Section 7).

1.14 There are a number of items where further consideration may still be required, including:

- Exclusion clause for suicide; and,
- Possible need for actuarial reserves in short-term insurance.

## SECTION 2: RELIANCE AND LIMITATIONS

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- 2.1 This report and the opinions contained herein are subject to (but not exclusively to) the following reliance and limitations.
- 2.2 In compiling this report we have relied on the information provided to us by the National Insurance Commission of Rwanda. We have relied, inter-alia, on the following sources of information:
- Audited financial statements of the insurance companies in Rwanda;
  - Copies of the existing law supplied by the NIC;
  - Copies of the original proposed insurance law and regulations supplied by the NIC (essentially a copy of an early draft of the Ghanaian law); and,
  - Various other items of information and correspondence with the NIC contained in a file pertaining to the Rwandan insurance market and insurance companies (on file with QED).
- 2.3 Since we are not legal experts, nor are we based in Rwanda, we have drawn up our recommendations on the Insurance Act, Regulations and Regulatory Forms from an actuarial and sound financial perspective. We recommend that local (Rwandan) legal advice is taken on the legislation prior to enactment. To date, the NIC has communicated that they will approach a legal expert to look at our draft recommendations and give comments. We have not yet seen these comments.
- 2.4 The scope of this report is contained in Section 3.

## SECTION 3: SCOPE OF REPORT

- 3.1 This is the second draft report (the first draft report was dated 7 December 2006), besides the monthly reports referred to in Section 1, that we have compiled for the NIC, BNR, FIRST and World Bank. The specific requirements of this report contained in the project terms of reference, and in the work plan, are:
- i) Submit a report to the NIC, FIRST Initiative and the World Bank with advice and recommendations for the drafted insurance law with regulations (Phase 1.4 of the work plan);
  - ii) Developing regulatory forms and returns for short-term insurance business (Phase 1.5 of the work plan); and,
  - iii) Developing regulatory forms and returns for long-term insurance business (Phase 1.6 of the work plan).
- 3.2 The requirement to submit regulatory forms as specified by the NIC within 6 months from the end of the financial year is found in section 39 of the draft Long-Term Insurance Act for long-term insurers; in section 38 of the draft Short-Term Insurance Act for short-term insurers; in section 84 of the draft Long-Term Insurance Act for long-term insurance intermediaries and in section 77 of the draft Short-Term Insurance Act for short-term insurance intermediaries. We have also made provision that the period of 6 months (initial recommendation) can be varied through Regulation as well as the frequency of submission (initially annual).
- 3.3 We have included sample registration forms and certificates for long and short-term insurance business (Appendix I to L) since our recommendations on the insurance law for Rwanda requires this (e.g. section 9 of the draft Long and Short-Term Insurance Acts refer to the requirement to apply for registration as an insurer and to the registration certificate issued by the NIC, if successful with the application).
- 3.4 We have included sample registration forms and certificates for long and short-term insurance intermediary business (Appendix M to P) since our recommendations on the insurance law for Rwanda requires this (e.g. section 74 of the draft Long-Term Insurance Act and section 66 of the draft Short-Term Insurance Act refer to the requirement to apply for registration as an intermediary and to the registration certificate issued by the NIC, if successful with the application).

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## SECTION 3: SCOPE OF REPORT

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- 3.5 Although not in our original TOR, we have also included our draft recommendations for a Code of Ethics and Practice for insurers, intermediaries and other insurance practitioners in Rwanda. This is found in Appendix S. We have used the Tanzanian Code of Ethics as a base on which to build our recommendations (with the kind permission of the Tanzanian insurance regulator) and believe that our recommendations for a Code of Ethics are reasonable given the stage of development of the Rwandan insurance market. This Code of Ethics can, following comments from the industry and other related players, be changed and refined and included in the final insurance legislation – if need be.
- 3.6 Developing insurance legislation and regulatory forms will always be a very fluid (and inter-active) process. Given changes to our TOR, there has been less interaction (with industry) leading up to us producing this report than we would, ideally, have liked. The impact of this, and other changes in the environment, is that we expect further comments on the Act (from BNR, industry and other related players) which will result in some additional revisions prior to finalisation of the process. Once we have received further comments on the draft legislation and forms, we will be more than happy to make the relevant changes and refinements.

## SECTION 4: PROCESS

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- 4.1 Our first step in terms of this project of strengthening the supervisory capacity of the NIC was to ensure that our understanding of the terms of reference and the NIC's understanding was the same. After holding discussions with the relevant staff at the NIC, we were able to get clarity on their needs and expectations, which we factored into the work plan for this project.
- 4.2 The NIC also provided us with the original draft insurance law and regulations to use in our recommendations, as well as their views thereon.
- 4.3 In order to obtain a good understanding of the Rwandan insurance market as a whole, we have also, through discussions and written requests, obtained financial accounts and market knowledge from the NIC of the current insurers (i.e. Sonarwa, Soras, Corar and Cogear) and certain information on Broker Houses in the Rwandan market.
- 4.4 At the same time that this project is running, the World Bank is also running a project in Rwanda called the Financial Sector Development Plan project, which is looking at how the entire financial sector (including insurance and non-banking financial institutions) in Rwanda should be supervised and regulated. The lead consultants on the FSDP project are Mr. Paul Murgatroyd and Mr. Tom Power. To effectively co-ordinate our project with theirs, we undertook, during a trip to Rwanda in September, to meet up with them and to exchange ideas that were important in creating a supervisory framework for the financial sector in Rwanda. We also attended an important seminar that these consultants held with the financial sector industry, where they presented their main recommendations and approach for supervision of the industry.
- 4.5 We studied a number of supervisory and regulatory frameworks, insurance law and regulations that are used in other countries in Africa and incorporated principles of insurance from the International Association of Insurance Supervisors (IAIS) in our recommendations on the Insurance Act, Regulations and Statutory Returns for Rwanda.
- 4.6 We also looked at the type of business insurers write in Rwanda, as well as the type of investment vehicles that insurers use. This knowledge was factored and tailored into our recommendations on the insurance law, regulations and regulatory forms for Rwanda insurance market and NIC.

## SECTION 4: PROCESS

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- 4.7 To date, we have undertaken 3 official trips and 2 unofficial trips to Kigali (Rwanda) to meet up with the NIC, BNR and some industry players. The dates and purpose of these trips are listed below:

### OFFICIAL TRIPS

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20 Aug 2006 – 6 Sept 2006	Inception Phase
24 Sept 2006 – 1 Oct 2006	Training requested by the NIC and meeting with lead consultants on FSDP project
21 Jan 2007 – 26 Jan 2007	Training requested by NIC & Meeting with the BNR

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### UNOFFICIAL TRIPS

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During November 2006	Basile Worou met with the NIC to briefly discuss our draft recommendations whilst on business in the region
During March 2007	Basil Reekie met with the NIC whilst on business in Kigali to supervise the African Insurance Organisation Life Conference in November 2007

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## SECTION 5: INSURANCE INDUSTRY IN RWANDA

- 5.1 The insurance industry in Rwanda is currently regulated by the NIC. However, we understand a law will soon be promulgated that will move the regulation from the NIC to the BNR, and that the NIC will be amalgamated into the BNR. This has a direct bearing on the project and we await further direction from the World Bank regarding the implication of this change on the project TOR. The industry is regulated by the existing Insurance Acts (Law No. 01/2002 of 17/01/2002 modifying Law-Decree No. 20/75 of 20/06/1975 relating to insurances in general and Law No. 18/1982 of 25/05/1982 relating to conditions of operating insurance companies).
- 5.2 The NIC is, through this project, in the process of putting together up to date and relevant Insurance Acts and Regulations for Rwanda. The recommendations that we are making will, we understand, be distributed to the insurance industry players for comment.
- 5.3 There are currently 4 insurance companies operating in Rwanda, namely Sonarwa, Soras, Corar and Cogear. These insurers are currently composites writing both long-term and short-term insurance business. Their current market share is approximately:
- Sonarwa (50%);
  - Soras (30%);
  - Corar (10%); and,
  - Cogear (10%).
- 5.4 The NIC has advised that there are currently 6 Broker Houses in Rwanda.
- 5.5 On the long-term insurance side, it is our understanding that the majority of the insurance business written is savings products (approximately 70% of the long-term market by premium volume).
- 5.6 On the short-term insurance side, it is our understanding that the majority of insurance written is motor insurance (approximately 75% of the short-term market by premium volume). This is mainly due to the fact that motor insurance is compulsory in Rwanda.
- 5.7 There is no stock exchange in Rwanda and most insurers invest in treasury bills, bank deposits and property.
- 5.8 There is no firm of actuarial consultants based in Rwanda.
- 5.9 The 4 insurers' representatives meet up with the NIC on a monthly basis and the Broker Houses meet up with the NIC once every quarter.

## SECTION 5: INSURANCE INDUSTRY IN RWANDA

- 5.10 The insurance industry currently presents its results using generally accepted accounting principles (Rwanda). We have structured and designed the regulatory forms that we are recommending in such a way that, when implemented, they will start moving the insurance industry in the direction of complying with International Accounting Standards for insurers and International Reporting Standards for insurers (IFRS 4) as well as internationally accepted solvency standards. Our approach is only the first step in the process of full compliance to International Accounting and Reporting standards, but we believe it to be appropriate for the stage of development of the insurance market in Rwanda. It will take many years to move to "best practice" environment equivalent to that in, say, America or Europe.
- 5.11 The current minimum capital required for insurance companies is RWF 500 million and we are recommending that this be increased to RWF 1,000 million for a long-term insurer and short-term insurer respectively and RWF 2,000 million for a composite insurer (i.e. an insurer writing both long-term and short-term insurance before 1 January 2010). We are also recommending that a composite insurer be required to legally separate its long-term business from its short term business by 1 January 2010. Our reasoning for this is motivated from actual consulting experience in Africa (we have a large client base on the long-term insurance side and the short-term consultancy is growing) and we give further motivation in Sub-section 8.2.
- 5.12 A summary of the share capital of the 4 insurers currently registered in Rwanda for the 2005 financial year is as follows:

RwF (000'000)	Premiums	Claims	Asset	Liability	Asset less Liabilities*
<b>Sonarwa</b>	4,519	1,266	10,187	9,687	500
<b>Soras</b>	2,834	1,718	7,934	7,433	501
<b>Cogear</b>	604	1,564	2,343	1,926	417
<b>Corar</b>	913	264	1,385	973	412

\* It is our understanding that the minimum capital required for insurance companies is Rwf 500 million.

- 5.13 The insurers currently write much insurance business on credit and we are recommending that these debtors not be included in the assets admitted to determine the solvency of an insurer in as much as all outstanding debtors (more than 12 months old) will be disregarded in determining the solvency of an insurer. This will be an important change.

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## SECTION 5: INSURANCE INDUSTRY IN RWANDA

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5.14 Our understanding is that the insurers do not currently make provision for incurred but not reported (IBNR) claims for short-term insurance business and we are recommending that allowance is made for this in future, in line with sound actuarial principles. We recommend that the actual technical calculation of IBNR be left to the company or its consultants to determine and do not propose setting a specific method in law.

5.15 Most of the investments made by the insurers in Rwanda are currently in treasury bills, deposits or property. This is the result of the limited investment opportunities and has been factored and tailored into our recommendations on the Insurance Law, Regulations and Regulatory Forms for the Rwandan insurance market and NIC. We are recommending that investments be split into the following type of assets (please note that property as an asset has been split between residential, commercial and industrial to give more clarity of an insurer's property portfolio):

- Equities;
- Long-term securities (i.e. bonds);
- Other securities and loans;
- Property: Residential;
- Property: Commercial;
- Property: Industrial;
- Deposits and Treasury bills; and,
- Cash and balances.

We have also allowed for the fact that long-term and short-term insurers can write insurance business and/or hold assets in foreign countries and our recommendations on the regulatory forms explicitly include additional forms for insurance business written outside Rwanda. This provides flexibility for companies and the insurance regulator.

## SECTION 6: SOLVENCY REQUIREMENTS

- 6.1 One of the key responsibilities of any regulatory body is to ensure that the insurance companies which they regulate are in a financially sound condition and to take the relevant actions when this is not the case. In addition to regulating the various operational procedures of a company, the three key areas that are normally monitored with regard to solvency are:
- The value placed on the technical and insurance liabilities of the insurer;
  - The value placed on the investments (assets) backing the liabilities; and,
  - The margin or requirement (a minimum is normally set) by which the assets exceed the liabilities.
- 6.2 For any set of solvency regulations to be sensible, the above three components should be looked at in conjunction with each other. In other words, the value placed on the liabilities should be consistent with the value placed on the investments (assets). Furthermore, the required minimum solvency margin or minimum solvency requirement should take into account the extent (if any) of margins (conservatism) contained in both the value of the liabilities and the value of the assets.
- 6.3 In setting an appropriate minimum solvency requirement, the regulator would usually consider various issues. The most important of these include:
- Setting very onerous minimum solvency requirements will almost certainly ensure that any company which meets the requirement (e.g. via initial capital injections) will be able to meet its insurance liabilities. However, it will, in many cases, cause a perfectly healthy insurer to be forced to terminate its operations due to a lack of capital.
  - Introducing a vastly complicated system of calculating solvency requirements will be costly for the companies to perform. Often the more complicated methods do not add enough value to justify the additional cost involved. This is especially so in relatively young markets. On the other hand, if the calculations are too simplistic, they may not highlight important risks that should require additional solvency capital and could lead to the downfall of a company.
  - The available expertise in the market is often a constraint. It is not always practical to impose solvency calculations requiring a high level of technical skills if the market does not have access to the necessary skills.

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## SECTION 6: SOLVENCY REQUIREMENTS

- 6.4 We have considered each of the three elements mentioned above (assets, liabilities and solvency requirement) for the Rwandan insurance market. Our recommendations, which are incorporated in the Acts (Appendices A and B) and the Regulations (Appendices C and D), have been handled separately for long and short-term insurance business.
- 6.5 We are recommending that the liabilities (long-term insurance) are calculated annually by an actuary using generally accepted actuarial techniques and principles and that the assets are valued at fair value (i.e. the audited value from the accounts) but that there are limits on how much of an asset is admissible for solvency purposes (this is set out in the Regulations).
- 6.6 A summary of the general limitation of assets (i.e. admissibility criteria for long and short-term insurers) is as follows:

<b>Asset Type</b>	<b>Maximum admissible percentage*</b>
Equities	60%
Properties	40%
Long-term securities	80%
Treasury Bills and deposits	60%
Cash and balances	40%
Fixed Assets	20%
Other Assets	20%

\* as a percentage of the actuarial liabilities plus the minimum solvency requirement (additional amount of assets) calculated in terms of the Regulations.

- Furthermore no single investment (except for government securities) can be admitted as an asset for solvency purposes in excess of 5% of the value of the actuarial liabilities plus the minimum solvency requirement (additional amount of assets) calculated in terms of the Regulations.
  - There shall be disregarded an amount which remains unpaid after the expiry of a period of 12 months from the date on which it became due and payable.
- 6.7 We are recommending that the solvency requirement for long-term insurance business is calculated on an additive and relatively simple (but not simplistic) basis, with an absolute minimum of RWF 140 million, which takes into account fluctuations in the main area of risk for a long-term insurer, namely fluctuations in investments, mortality, morbidity, annuities and expenses (see Sub-section 6.10 and 6.11).

N.S.



## SECTION 6: SOLVENCY REQUIREMENTS

6.8 We are recommending that the solvency requirement for short-term insurance business is calculated on the basis described below:

a) The minimum solvency requirement of a short-term insurer is to be calculated on the calculation date as the sum of the liability risk amount (sub-section 6.8(b)) and the investment risk amount (sub-section 6.8(c)) but with a minimum of RwF 140,000,000 or such smaller amount as the Commissioner may, in a particular case for a determined period, approve in writing.

b) Liability risk amount =  $\sqrt{A^2 + B^2 + C^2}$ , where:

A = 20% of the net premium income over the past 12 months;

B = 25% of the previous year's expenses; and,

C = 30% of the average net outstanding claims for the last 3 years.

c) The investment risk amount is the sum, on the calculation date, of the equity risk amount (sub-section 6.8(c)(i)), the property risk amount (sub-section 6.8(c)(ii)), the securities risk amount (sub-section 6.8(c)(iii) and (iv)) and the cash risk amount (sub-section 6.8(c)(v)).

i) The equity risk amount is calculated as 20 per cent of the value of the equity portfolio backing policy liabilities of the short-term insurer at the date of calculation;

ii) The property risk amount is calculated as 10 per cent of the value of the property portfolio backing policy liabilities of the short-term insurer at the date of calculation;

iii) For bonds (or treasury bills and loans) with one year or less to maturity, the securities risk amount is calculated as 5 per cent of the value of the securities portfolio backing policy liabilities of the short-term insurer at the date of calculation;

iv) For bonds (or treasury bills and loans) with more than one year to maturity, the securities risk amount is calculated as 15 per cent of the value of the securities portfolio backing policy liabilities of the short-term insurer at the date of calculation; and,

v) The cash risk amount is calculated as zero per cent of the value of the cash portfolio backing policy liabilities of the short-term insurer at the date of calculation.

## SECTION 6: SOLVENCY REQUIREMENTS

6.9 The rationale for the above components is as follows:

a) Minimum

Ensures that there are some funds available so that the insurer can continue to operate for a short period should things go wrong;

b) Premium income

The premium income is directly related to the volume of business and current risk exposure of the insurer's portfolio;

c) Expenses

This component is to ensure that, irrespective of the volume of business or outstanding claims, the company will have sufficient funds to continue operating for at least three months;

d) Outstanding claims

The level of outstanding claims may be large relative to current premium income (for e.g. where a portfolio is in run-off). The solvency requirement is then better related to the outstanding liability than the value of the current business. This is captured by this portion of the formula; and,

e) International practice

Although international regulators are moving towards a Risk Based Capital (RBC) (or Risk Sensitive Capital) approach for measuring minimum capital requirements for general insurance, the full RBC approach for solvency is inappropriate for a developing market like Rwanda and we have used a broad based approximate in this report.

6.10 We are recommending that the solvency requirement for long-term insurance business is calculated on the basis described below (an additive approach):

- The minimum solvency requirement of a long-term insurer is to be calculated on the calculation date as the sum of the fluctuation risk amount (sub-section 6.11) and the investment risk amount (sub-section 6.12) but with a minimum of RwF 140,000,000 or such smaller amount as the Commissioner may, in a particular case for a determined period, approve in writing.

## SECTION 6: SOLVENCY REQUIREMENTS

6.11 The fluctuation risk amount is the sum, on the calculation date, of the mortality risk amount (sub-section 6.11(a)), the morbidity risk amount (sub-section 6.11(b)), the expense risk amount (sub-section 6.11(c)) and the annuitant risk amount (sub-section 6.11(d)).

a) The mortality risk amount is calculated as  $\frac{45 \times p}{\sqrt{n}}$ , where:

p = Estimated annual mortality risk premium net of investment, expense and profit margins on the valuation basis or expected strain (net of reinsurance);

b) The morbidity risk amount is calculated as  $\frac{65 \times p}{\sqrt{n}}$ , where:

p = Estimated annual morbidity risk premium net of investment, expense and profit margins on the valuation basis or expected strain (net of reinsurance);

c) The expense risk amount is calculated as 25% of the previous financial year's expenses; and,

d) The annuitant risk amount is calculated as  $\frac{r}{\sqrt{3n}}$ , where:

r = reserve for the relevant annuity portfolio on the valuation date;

and,

n = number of annuitants in the relevant annuity portfolio.

6.12 The investment risk amount is the sum on the calculation date of the equity risk amount (sub-section 6.12(a)), the property risk amount (sub-section 6.12(b)), the securities risk amount (sub-section 6.12(c) and (d)) and the cash risk amount (sub-section 6.12(e)).

a) The equity risk amount is calculated as 20 per cent of the value of the equity portfolio backing policy liabilities of the long-term insurer at the date of calculation;

b) The property risk amount is calculated as 10 per cent of the value of the property portfolio backing policy liabilities of the long-term insurer at the date of calculation;

c) For bonds (or treasury bills and loans) with one year or less to maturity, the securities risk amount is calculated as 5 per cent of the value of the securities portfolio backing policy liabilities of the short term insurer at the date of calculation;

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## SECTION 6: SOLVENCY REQUIREMENTS

- d) For bonds (or treasury bills or loans) with more than one year to maturity, the securities risk amount is calculated as 15 per cent of the value of the securities portfolio backing policy liabilities of the short term insurer at the date of calculation; and,
- e) The cash risk amount is calculated as zero per cent of the value of the cash portfolio backing policy liabilities of the long-term insurer at the date of calculation.

6.13 We are recommending that for long-term insurance business, a contingency margin is calculated by an actuary in line with actuarial practice and that in short-term insurance business, a contingency margin be set of at least 10% of net premium income over the past 12 months.

6.14 Please note that we have allowed for the division of insurance risk in the long-term insurance recommendations by grouping the risk into the following categories/classes:

- Mortality Risk;
- Disability Risk;
- Expenses;
- Annuitant Risk; and,
- Investment Risk.

6.15 These solvency recommendations may be too drastic to implement immediately. Therefore, we recommend a transition period to phase in compliance with the minimum statutory solvency framework and requirement for the long-term and short-term insurers. We propose the following transition period structure:

Year	Minimum Solvency Requirement	% of Formula Based Requirement*
1	RwF 140,000,000	15%
2	RwF 140,000,000	35%
3	RwF 140,000,000	75%
4	RwF 140,000,000	100%

\*This is a percentage of the minimum statutory solvency requirement as defined in Part 2 of the Long-Term and Short-Term Insurance Regulations, but with at least a minimum as listed above.

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## SECTION 6: SOLVENCY REQUIREMENTS

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6.16 The purpose of a solvency regime is to protect the interests of the policyholder. This is aided by implementing the following when necessary (as per our proposed draft Long and Short-Term Insurance Acts):

- The Commissioner must, at all times, ensure that remedial action is taken and a plan put into place to rectify the situation should the insurer cease to be in a financially sound condition, as set out in section 38 of the Long-Term Insurance Act and section 37 of the Short-Term Insurance Act.
- The insurer must have approval from the Commissioner for any premium rates and commissions; and obtain an actuarial certificate to certify that the premium rates and commission are actuarially sound, as set out in section 40 of the Long-Term Insurance Act and section 39 of the Short-Term Insurance Act.
- The insurer must have an up to date and relevant business plan that is submitted to and approved by the Commissioner, as set out in section 18 of the Long-Term and the Short-Term Insurance Acts.
- The insurer must follow the legislative procedure in the event of a compromise, arrangement, amalgamation, and transfer of long-term or short-term insurer (for example, obtain a court approval, submit an application to the court, and comply to the conditions of an approval, to be in the best interests of the policyholders), as set out in Part V of the Long-Term and Short-Term Insurance Acts.

## SECTION 6: SOLVENCY REQUIREMENTS

6.17 It is useful to see how the proposed capital requirement compares with other African countries. The comparison follows:

Country	Capital Requirements		Requirement specifications
	Local Currency	US\$ (approximate)	
Botswana	BWP2m	US\$321,838	Minimum capital requirement for either short-term or long-term insurance business.
Ghana	GHC9,335m	US\$1,000,000	Capital requirement for either long-term or short-term insurance business. Capital requirement for a composite company is an amount equal to the value of its liabilities plus 15% of its assets.
Kenya	KES50m	US\$726,744	Capital requirement for long-term insurance business. In addition, a deposit of KES1m (US\$14,535) or 5% of admitted assets, whichever is the higher, must be lodged with the Central Bank.
	KES100m	US\$1,453,488	Capital requirement for short-term insurance business. In addition, a deposit of KES4m (US\$58,140) or 5% of admitted assets, whichever is the higher, must be lodged with the Central Bank.
	KES150m	US\$2,180,233	Capital requirement for composite insurance business. In addition, a deposit of KES5m (US\$72,674) or 5% of admitted assets, whichever is the higher, must be lodged with the Central Bank.
Mauritius	MUR25m	US\$787,402	Minimum capital requirement for long-term, short-term and composite insurers. In addition a deposit of MUR8m (US\$251,969) is required in either cash or government bonds for both long-term and short-term companies, and double that amount for composites.
Namibia	NAD1m	US\$139,997	Capital requirement for long-term and short-term insurance business if only one class of business is written. In addition short-term insurers are required to deposit with the treasury an amount or securities having an aggregate value of not less than NAD 50,000 (US\$7,000). Composite insurance business is not permitted in Namibia.
	NAD4m	US\$559,989	Capital requirement for long-term and short-term insurance business if two or more classes of business are written. In addition short-term insurers are required to deposit with the treasury an amount or securities having an aggregate value of not less than NAD 100,000 (US\$14,000). Composite insurance business is not permitted in Namibia.
Nigeria	NGN2b	US\$15,612,802	Capital requirement for long-term insurance business.
	NGN3b	US\$23,419,204	Capital requirement for short-term insurance business.
	NGN5b	US\$39,032,006	Capital requirement for composite insurance business. For new companies, 50% of the minimum prescribed paid-up share capital must be deposited with the Central Bank on application. On registration, 80% is returned with interest. Existing companies had to deposit 10% of the minimum prescribed paid-up share capital with the Central Bank.
Rwanda	RwF1b*	US\$1,830,731	Capital requirement if only one class of business is written (i.e. either long-term or short-term insurance business, not both).
	RwF2b*	US\$3,661,461	Capital requirement if a composite insurance business is written (i.e. both long-term and short-term).

N.S.

## SECTION 6: SOLVENCY REQUIREMENTS

Country	Local Currency	Capital Requirements	
		US\$ (approximate)	Requirement specifications
South Africa	ZAR10m	US\$1,388,407	Minimum capital requirement for long-term insurance business is set at a level of 13 weeks operating expenses or ZAR10m (US\$1,388,407), whichever is greater.
	ZAR5m	US\$694,203	Minimum level of paid-up capital for short-term insurance business. The actual amount required would depend on the volume and type of business to be written, as shown in the business plan.
Tanzania	TZS500m	US\$397,298	Capital requirement for long-term insurance business.
	TZS250m	US\$198,649	Capital requirement for short-term insurance business.
	TZS1b	US\$794,597	Capital requirement for composite insurance business. In addition, insurers are required to transfer not less than 20% of pre-dividend profits to either paid-up share capital or to a capital reserve account for the future purpose of increasing the paid-up share capital. Insurers are required to establish and maintain at the Bank of Tanzania a security deposit of at least 50% of the prescribed minimum paid-up capital. The deposit is considered to be part of the capital assets of the insurer.
Zambia	ZMK500m	US\$120,773	Minimum capital requirement for both long-term and short-term insurance business, and double that amount for composite business. The Registrar now requires a minimum of ZMK1b (US\$241,546) for both long-term and short-term insurance business. The new limit will be included in the insurance regulations once they are issued (as at December 2005).

\* Recommended.

The exchange rates used to approximate the Capital Requirement amount in US\$ are the rates as published in the London Financial Times of 13 April 2007.

The recommended minimum capital requirements for Rwanda for either long-term or short-term insurance business is stronger than those currently required by Botswana, Ghana, Kenya, Mauritius, Namibia, South Africa, Tanzania, and Zambia; and for composite business the recommendations for Rwanda are stronger than those for Kenya, Mauritius, Tanzania and Zambia. However, they are lower than the requirements in Nigeria.

- 6.18 The monetary amounts specified in the Act and Regulations under the Act are initial recommendations and require input from the Stakeholders, Regulators and the World Bank.

The minimum solvency requirement was set at RwF 140 million. We have doubled the current requirement capital from RwF 500 million to RwF 1 billion. This is motivated from our discussions with the NIC to date, as well as allowing for inflation on the RwF 500 million.

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## SECTION 7: OPERATION OF THE NIC (TO BE INCORPORATED UNDER BNR)

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7.1 Although each insurance company is responsible for its policyholders (and their benefits), the ultimate responsibility for the long-term health and well being of the insurance industry lies, to some degree, with the regulator. Therefore, it is important that the regulator has the necessary structures and procedures in place to effectively regulate the Rwandan insurance industry.

7.2 As the regulator, the NIC's (to be incorporated under the BNR) responsibilities currently include, inter alia:

- Setting the licensing requirements for new insurance companies;
- Establishing appropriate capital requirements;
- Establishing and monitoring appropriate solvency requirements for insurance companies;
- Taking appropriate remedial action when solvency requirements are not met;
- Ensuring compliance with the Insurance Act and its Regulations;
- Ensuring timely submission of statutory returns;
- Making recommendations in terms of financial accounting for insurance companies;
- Ensuring procedures are in place (and followed) specifying the course of action to be taken if problems arise within the industry;
- Ensuring that procedures are in place that can be (and are) followed when companies close down, merge or start-up;
- Monitoring the minimum standards of actuarial advice given to insurers; and,
- Looking after the interests of the policyholders, in particular ensuring equity between policyholders and shareholders.

7.3 Establishing the relevant structures and regulatory requirements in an insurance industry is only one step towards properly regulating the industry. Once the structures are in place it is imperative for a regulatory body to ensure that it recruits and maintains good quality staff. This will help ensure the continued and effective regulation of the industry.

7.4 The qualifications of the staff of the NIC should cover at least the following fields:

- Accountancy;
- Actuarial; and,
- Legal (including taxation).



**SECTION 7: OPERATION OF THE NIC (TO BE INCORPORATED UNDER BNR)**

- 7.5 Clearly it would be preferable that an actuary and a chartered accountant be employed by the NIC. However, the lack (and cost) of actuarial expertise in Rwanda may well mean that an actuary may not be available for employment (or if an actuary is employed, he/she may be enticed away from the NIC to join one of the insurance companies). However, it is imperative that staff members with some actuarial training and knowledge are employed. These staff members can then be guided by appropriate external actuarial consultants.
- 7.6 In order to ensure that there is not a high turnover of staff within the NIC (or BNR), we recommend that the NIC (or BNR) should take the approach of paying higher (market related) salaries to fewer employees as opposed to employing a large number of staff at lower (below market) salaries. This would mean that the salaries are more in line with the private sector, hopefully deterring employees from moving to insurance companies simply for higher salaries.
- 7.7 There are currently (as at 16 April 2007) 9 staff members and 1 cleaner (Ms. Chantal) working at the NIC. The summary of the staff profile provided to us by the NIC is as follows (Please note that the BNR will have its own staffing profile; however, we understand that many of the staff of the NIC will move over to the BNR):

Post	Name	Qualification
CEO	Mr. Ngarambe	B. Management
Director of Technical Services	Mr. Kagaba	B. Com, MBA
Inspector	Mr. Ntawurishintege	B. Economics
Statistics and research officer	Mr. Kamali	B. Sc (Mathematics)
Director of Administration and Finance	Ms. Ingabire	B. Admin and Finance
ICT Specialist	Mr. Karamuzi	B. Sc (Physics)
Public relationship and communication officer	Mr. Munyarugerero	B. Journalism and communication
Director of Legal Services	Mr. Gafasha	LLB
Administrative assistant	Ms Tumuheirwe	Certificate in Business Education

## SECTION 7: OPERATION OF THE NIC (TO BE INCORPORATED UNDER BNR)

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- 7.8 Adequate funding of the NIC (or BNR) by external sources or by the insurance industry (both insurers and intermediaries) is critical for effective insurance supervision. At present an investigation into the funding of the NIC (soon BNR) is not part of our TOR, but we would gladly perform an investigation were the TOR to be amended.
- 7.9 We understand that legislation will soon be passed that will move the responsibility of insurance regulation within Rwanda from the NIC to the Central Bank of Rwanda (BNR) and the NIC will cease to exist in its current form. The key contact people at the BNR are the Governor (Mr François Kanimba) and the Vice Governor (Ms Consolate Rusagara). We met with them in person in January 2007, in Kigali, and gave them an overview of the project to date, and they are waiting for the legislative changes to take effect before moving further on this project. Following the teleconference with Mr Craig Thorburn and Mr Roman Didenko from the World Bank on March, 12<sup>th</sup> 2007, Mr Craig Thorburn is undertaking a trip to Kigali to discuss the project with the BNR and NIC, and will revert back to us in terms of the way forward with the project (that is, what is reasonably required by the various stakeholders in Rwanda and how to complete the project).

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## SECTION 8: INSURANCE ACTS

8.1 After analyzing the original draft insurance law provided to us and considering the alternative supervisory and regulatory frameworks in Africa, we have used (with permission from the Financial Services Board in South Africa) the South African Insurance Acts, Regulations and Forms for long and short-term insurance as a base on which to build our recommendations. This approach is motivated by the fact that the South African insurance legislation is amongst the best available in Africa and was updated and completely re-written as recently as 1998 with the express intention of meeting world wide best practice. We have, however, tailored the South African documentation and our recommendations significantly to be appropriate and relevant to the Rwandan insurance market and also incorporated the ideas already present in the draft insurance legislation that the NIC provided to us (essentially a copy of an early draft of the Ghanaian Law). Furthermore, we have made refinements based on the correct legislation in, amongst others, the following countries:

- Tanzania;
- Ghana;
- Kenya; and
- Mauritius.

8.2 In order to protect policyholders and as a consequence of the significant difference between long-term and short-term insurance, we recommend that there be separate Insurance Acts for short-term and long-term insurance. We are also recommending that composite insurers separate their short and long-term insurance businesses into separate legal entities by 1 January 2010. This is consistent with world trends and has the following advantages:

- It provides more clarity (transparency);
- It gives better protection to policyholders;
- It removes some of the risk of unknown cross-subsidisation;
- It separates what are fundamentally very different businesses; and,
- It tends to level the playing fields.

QED consults extensively on long-term insurance business in Africa and our short-term insurance consulting practice is expanding. Based on our experience over many years we have found that it is vital to separate the long-term and the short-term insurance business. We have found that regulating the returns of a composite business can leave room for companies to hide things and can result in confusion for the Regulator, as proper interpretation and ensuring that both the long-term and short-term books are in a financially sound condition is not necessarily easy.

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## SECTION 8: INSURANCE ACTS

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We have seen instances where insolvency of either the long-term or short-term insurance business has been hidden as a result of the business being amalgamated for reporting and operational purposes. This has even extended, to some instances, where both portions of the business have been insolvent; however, creative accounting in terms of filling in the regulatory forms, has made it appear that this is not the case.

A distinct problem of the composite route (and indeed of one set of regulations), is that should one of the short-term or long-term insurance companies become insolvent, the policyholders in the other company lose their protection and will be impacted by this.

The following African countries have two Acts:

- South Africa (1998 Long-Term and Short-Term Insurance Acts);
- Namibia (1998 Long-Term and Short-Term Insurance Acts); and,
- Mauritius (2007 Draft Long-Term and Short-Term Insurance Acts).

The following African countries have one Act (however, at least 3 of these are considering changing to two distinct acts):

- Uganda (2002 Insurance Act);
- Kenya (1988 Insurance Act, Amended);
- Lesotho (1985 Insurance Act);
- Ghana (2006 Insurance Act);
- Tanzania (1997 Insurance Act); and,
- Zambia (1997 Insurance Act).

We therefore believe that separate Acts for long-term and short-term insurance is appropriate for Rwanda. We have noted that the NIC requested one Act, and we are able to combine the drafts into one Act if required; however, we recommend against this.

- 8.3 We have factored in many of the core principles of the International Association of Insurance Supervisors. Although these principles do not prescribe that long-term and short-term insurance must be legally separate, we believe it is appropriate for Rwanda (see our motivation above).
- 8.4 We have tailored our recommendations to be relevant for Rwanda. We realise that there will, inevitably, be resistance to some of our recommendations and consequently, the final outcome will be somewhat different to the draft and some recommendations may only come into place in 2, 5 or even 10 years time.

N.S.

## SECTION 8: INSURANCE ACTS

- 8.5 We recommend that there be an Advisory Committee for both long-term and short-term insurance which may, on its own initiative, or at the request of the Minister or Commissioner, investigate and report or advise concerning any matter relating to long or short-term insurance. We believe that an Advisory Committee is legislative and will enhance the supervisory capacity of the Regulator.
- 8.6 We recommend that the NIC (or BNR) has a functioning and approachable appeals board to hear and decide on appeals brought to it in terms of the long and short-term Acts.
- 8.7 We believe that the proposed monetary or imprisonment penalties are sufficient and have broadly categorised the offences and penalties by the severity of the offence. We are not recommending automatic suspension of activities since the Act already empowers the Commissioner to, under certain circumstances, prohibit an insurer from carrying on insurance business as specified in Part II Section 12 of the Long-Term and Short-Term Insurance Acts.
- 8.8 Our recommended draft of the Long-Term Insurance Act can be found in Appendix A. The structure of the Long-Term Insurance Act is as follows:
- Introductory provisions
  - Part I Administration of the Act
  - Part II Registration of long-term insurers
  - Part III Business and administration of long-term insurers
  - Part IV Financial arrangements of long-term insurers
  - Part V Compromise, arrangement, amalgamation and transfer of long-term insurers
  - Part VI Judicial management and winding-up of long-term insurers
  - Part VII Business practice, policies and policyholder protection
  - Part VIII Registration on long-term insurance intermediaries
  - Part IX Business and administration of long-term insurance intermediaries
  - Part X Financial arrangements of long-term insurance intermediaries
  - Part XI Offences and penalties
  - Part XII Transitional and general provisions
  - Schedule 1 Assets
- 8.9 The draft of the Long-Term Insurance Act includes many recommendations in addition to those outlined above and should be read in its entirety for the reader to fully understand the recommendations we are making.

N.S.

## **SECTION 8: INSURANCE ACTS**

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8.10 Our recommendations for the Short-Term Insurance Act are found in Appendix B. The structure of the Short-Term Insurance Act is as follows:

- Introductory provisions
- Part I Administration of the Act
- Part II Registration of short-term insurers
- Part III Business and administration of short-term insurers
- Part IV Financial arrangements of short-term insurers
- Part V Compromise, arrangement, amalgamation and transfer of short-term insurers
- Part VI Judicial management and winding-up of short-term insurers
- Part VII Business practice, policies and policyholder protection
- Part VIII Registration of short-term insurance intermediaries
- Part IX Business and administration of short-term insurance intermediaries
- Part X Financial arrangements of short-term insurance intermediaries
- Part XI Offences and penalties
- Part XII Transitional and general provisions
- Schedule 1 Assets
- Schedule 2 Method of calculation of value of assets and liabilities

8.11 The draft of the Short-Term Insurance Act includes many recommendations in addition to those outlined above and should be read in its entirety for the reader to fully understand the recommendations we are making.

8.12 We have made the Insurance Acts more flexible (following comments from the World Bank) by moving prescribed dates, times, amounts and conditions which may vary in the future to the Regulations rather than keeping them embedded in the Insurance Acts (which can be more difficult to change).

## SECTION 9: INSURANCE REGULATIONS

- 9.1 We have had some discussions with the NIC and BNR during our trips to Kigali concerning their thoughts in terms of Regulations for an Insurance Act and have studied the draft Insurance Regulation provided to us by the NIC. We have taken this into account in making our recommendations in terms of the regulations that will fit in well with our recommendations on the insurance laws.
- 9.2 We have used some of the ideas present in the South African, Kenyan, Tanzanian, Ghanaian and Mauritian regulation to add to our recommendations.
- 9.3 After analyzing the original draft insurance law provided to us and considering the alternative supervisory and regulatory frameworks in Africa, we have used (with permission from the Financial Services Board in South Africa) the South African Insurance Acts, regulations and forms for long and short-term insurance as a base on which to build our recommendations.
- 9.4 We have tailored our recommendations to be relevant for Rwanda.
- 9.5 We have made the Insurance Acts more flexible (following comments from the World Bank) by moving prescribed dates, times, amounts and conditions which may vary in the future to the Regulations rather than keeping them embedded in the Insurance Acts (which can be more difficult to change).
- 9.6 Our recommended draft of the Long-Term Insurance Regulations can be found in Appendix C. The structure of the long-term insurance regulations is as follows:
- Part 1 Limitation on Assets
    - Definitions
    - General limitation on Assets
  - Part 2 Minimum Solvency Requirements (Additional Amounts of Assets ) of Long-Term Insurers
  - Part 3 Minimum Capital Requirements of Long-Term Insurers
  - Part 4 Valuation of Liabilities
  - Part 5 Limitation on Remuneration to Intermediaries (Section 55)
    - Definitions
    - General Limitations
    - Time of Payment of Commission
    - Maximum Brokerage, Commission or other Intermediary procurement fees payable with Table

## SECTION 9: INSURANCE REGULATIONS

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- Reversal of commission
  - Commission when Policy has Different Benefit Components
  - Part 6 Offences and Penalties
  - Part 7 Class of Policies
  - Part 8 Limitation on Credit Period granted by Long-term Insurer
  - Part 9 Long-term Insurer – Returns to Commissioner
  - Part 10 Business Practice – Time Limit for Payment of Claims
  - Part 11 Policies – Limitation on Policy Benefits
  - Part 12 Long-term Policies entered into by Certain Minors
  - Part 13 Long-term Insurance Intermediary – Returns to Commissioner
- 9.7 The draft of the Long-Term Insurance Regulations includes many recommendations in addition to those outlined above and should be read in its entirety for the reader to fully understand the recommendations we are making.
- 9.8 Our recommended draft of the Short-Term Insurance Regulations can be found in Appendix D. The structure of the short-term insurance regulations is as follows:
- Part 1 Interpretation
    - Definitions
  - Part 2 Calculation of Minimum Solvency Requirements (Additional Amounts of Assets)
  - Part 3 Minimum Capital Requirements
  - Part 4 Limitation on Assets
    - Definitions
    - General limitation on assets
  - Part 5 Authorisation of and requirements for collection of premium by intermediaries (Section 53)
    - Authorization
    - Requirements in respect of security
    - Requirements in respect of payment to short-term insurers
    - Returns by authorized persons



## SECTION 9: INSURANCE REGULATIONS

- Part 6 Limitation on remuneration to intermediaries (Section 56)
  - General limitation
  - Time and payment of commission
  - Maximum commission payable with Table
  - Reversal of commission
  - Commission when short-term policy comprises combination of policies
- Part 7 Offences and Penalties
- Part 8 Class of Policies
- Part 9 Limitation of Credit Period granted by Short-term Insurer
- Part 10 Short-term Insurer – Returns to Commissioner
- Part 11 Business Practice – Time Limit for Payment of Claims
- Part 12 Policies – Limitation on Policy Benefits
- Part 13 Short-term Policies entered into by Certain Minors
- Part 14 Short-term Insurance Intermediary – Returns to Commissioner
- Part 15 Method of Calculating Unearned Premium Provision
- Part 16 Method of Calculating Contingency Reserve

9.9 The draft of the Short-Term Insurance Regulations includes many recommendations in addition to those outlined above and should be read in its entirety for the reader to fully understand the recommendations we are making.

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## SECTION 10: REGULATORY FORMS

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- 10.1 At present there are no regulatory forms in use in the insurance market in Rwanda.
- 10.2 We have studied the regulatory forms that are used in the UK, Mauritius, Kenya, Uganda and South Africa and used these as a starting point from which to make recommendations on the regulatory forms relevant for Rwanda. The forms that we are recommending appear quite complex at first glance, but are in fact relatively simple. By way of example, they contain about 50% as much information as the equivalent South African forms and 60% as much as the UK forms. Nonetheless, it is possible for the forms to be further simplified (if so required) with the intention of only using the full set of forms after, say, 5 years. Senior staff of the NIC has indicated that the forms give a reasonable set of information to assist them. Nonetheless, one would, naturally, expect some resistance from the industry due to the additional work required in completing these forms.
- 10.3 We have tailored our recommendations to be relevant to Rwanda. For example, we have used the investment classes currently available to insurers in Rwanda to split the investment assets. We have also studied the Rwandan insurance market so as to categorize the data by the types of insurance policies actually written in Rwanda. Notwithstanding this, we have made allowance in the forms for unit linked products as these have slowly been creeping into many African markets.
- 10.4 We have aimed not to make the forms too onerous to fill in. Thus, the forms are relatively easy to fill in and they capture as much essential and useful information as possible. We have also included a summary of the data, a set of graphs and some useful ratios which are automatically populated and should assist the regulator and the companies in understanding the inputs. A glossary of terms used in the regulatory forms is also included.
- 10.5 For long-term insurance we have categorized the policies written into four categories (see Part 7 of the Long-Term Regulations), namely:
- With profit policy:
    - Means a long-term policy which participates in the profit of the long-term insurer;
  - Without profit policy:
    - Means a long-term policy which does not participate in the profits of the long-term insurer;

## **SECTION 10: REGULATORY FORMS**

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- **Linked policy:**
  - Means a long-term policy where the amount of the policy benefits is not guaranteed by the long-term insurer and is to be determined solely by reference to the value of particular assets or categories of assets which are specified in the policy and are actually held by, or on behalf of, the insurer specifically for the purposes of the policy (group of policies);
- **Other:**
  - Means a long-term policy which is not categorized as a with-profit policy, without profit policy or linked policy.

10.6 For short-term insurance we have categorized the policies written into six categories (see Part 8 of the Short-Term Regulations), namely:

- **Property policy:**
  - Means a contract in terms of which an insurer, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk other than a risk more specifically contemplated in another definition in this section relating to the use, ownership, loss of or damage to movable or immovable property occurs; and includes a reinsurance policy in respect of such a policy;
- **Marine (Transportation) policy:**
  - Means a contract in terms of which an insurer, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs; and includes a reinsurance policy in respect of such a policy;
- **Motor policy (Individual):**
  - Means a contract in terms of which an insurer, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle (for individual possession, use or ownership), occurs; and includes a reinsurance policy in respect of such a policy;

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## SECTION 10: REGULATORY FORMS

- Motor policy (Commercial):
    - Means a contract in terms of which an insurer, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle (for commercial possession, use or ownership), occurs; and includes a reinsurance policy in respect of such a policy;
  - Liability policy:
    - Means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically contemplated in another definition in this section, occurs; and includes a reinsurance policy in respect of such a policy;
  - Other policy:
    - Means a short-term insurance contract which is not a property (includes Fire), marine (transportation), motor (individual), motor (commercial) or liability policy.
- 10.7 We have provided our proposed draft Regulatory Forms for long and short-term insurance as appendices E to H and for long and short-term intermediaries as appendices Q and R. We have provided a set of Regulatory Forms for long and short-term insurers assuming that there are liabilities and assets only within Rwanda and a set of regulatory forms assuming that there are liabilities and assets both within and outside Rwanda. This provides flexibility to the NIC (BNR).
- 10.8 The proposed draft of the long-term insurers' regulatory form for assets and liabilities within and without Rwanda is found in Appendix E.
- 10.9 The proposed draft of the long-term insurers' regulatory form for assets and liabilities only within Rwanda is found in Appendix F.
- 10.10 The proposed draft of the short-term insurers' regulatory form for assets and liabilities within and without Rwanda is found in Appendix G.
- 10.11 The proposed draft of the short-term insurers' regulatory form for assets and liabilities only within Rwanda is found in Appendix H.
- 10.12 The proposed draft of the long-term insurance intermediary form is found in Appendix Q.

## SECTION 10: REGULATORY FORMS

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10.13 The proposed draft of the short-term insurance intermediary form is found in Appendix R.

10.14 The draft forms have also been provided in Excel (electronic) format. Insurers would be expected to submit both electronic and signed hard copy returns. The electronic forms are password protected so that formulae can not be changed. Furthermore, only cells which are unshaded and in white (seen clearly on the forms) need to be completed by the insurer. The other cells update automatically.

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## SECTION 11: CONCLUSION AND RECOMMENDATIONS

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11.1 The draft Long-Term Insurance Act contained in Appendix A and the Regulations contained in Appendix C do include the following main recommendations and provisions (more detail is given elsewhere in this report and in the Acts and Regulations):

- The general and special powers of the Commissioner;
- The need for an advisory committee for long-term insurance;
- The registration requirements for long-term insurers;
- The limitation that long-term insurers cannot write short-term business after 1 January 2010;
- The need to carry on long-term business in line with a business plan;
- The need for auditing and actuarial expertise;
- Fit and proper requirements of key insurance people;
- Limitation of control by shareholders in a long-term insurer;
- Limitation on the credit period that a long-term insurer can grant;
- Financially prudent and sound practice in terms of management of assets and liabilities, minimum capital requirements and minimum solvency requirements;
- Admissibility provisions for assets in determining solvency;
- Returns to the Commissioner by long-term insurers;
- Approval of minimum premium rates by the Commissioner;
- Provisions for amalgamation and transfer of long-term insurers;
- Provisions for judicial management and winding-up of long-term insurers;
- Recommending business practices, handling of policies, policyholder protection and also the limiting of unlimited liability cover;
- The registration requirements for long-term intermediaries;
- The limitation that long-term insurance intermediaries cannot be short-term insurance intermediaries after 1 January 2010;
- Fit and proper requirements of key insurance intermediary people;
- Returns to the Commissioner by long-term intermediaries;
- Penalties for offences;
- Transitional provisions;
- Details of how to handle and value assets specifically in relation to calculating solvency for insurers; and,
- Commission levels to intermediaries.

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## **SECTION 11: CONCLUSION AND RECOMMENDATIONS**

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11.2 The draft Short-Term Insurance Act contained in Appendix B and the Regulations contained in Appendix D include the following main recommendations and provisions (more detail is given elsewhere in this report and in the Acts and Regulations):

- The general and special powers of the Commissioner;
- The need for an advisory committee for short-term insurance;
- The registration requirements for short-term insurers;
- The limitation that short-term insurers cannot write long-term business after 1 January 2010;
- The need to carry on short-term business in line with a business plan;
- The need for auditing expertise;
- Fit and proper requirements of key insurance people;
- Limitation of control by shareholders in a short-term insurer;
- Limitation on the credit period that a short-term insurer can grant;
- Financially prudent and sound practice in terms of management of assets and liabilities, minimum capital requirements and minimum solvency requirements;
- Admissibility provisions for assets in determining solvency;
- Returns to the Commissioner by short-term insurers;
- Approval of minimum premium rates by the Commissioner;
- Provisions for amalgamation and transfer of short-term insurers;
- Provisions for judicial management and winding-up of short-term insurers;
- Recommending business practices, handling of policies, policyholder protection and also the limiting of unlimited liability cover;
- The registration requirements for short-term intermediaries;
- The limitation that short-term insurance intermediaries cannot be long-term insurance intermediaries after 1 January 2010;
- Fit and proper requirements of key insurance intermediary people;
- Returns to the Commissioner by short-term intermediaries;
- Penalties for offences;
- Transitional provisions;
- Details of how to handle and value assets specifically in relation to calculating solvency for insurers; and,
- Commission levels to intermediaries.

## **SECTION 11: CONCLUSION AND RECOMMENDATIONS**

- 11.3 We recommend that the NIC (or BNR) uses the regulatory forms for long and short-term insurance as found in Appendix E to H.
- 11.4 Where companies only have assets and liabilities within Rwanda, we recommend that the NIC (or BNR) uses the regulatory forms contained in Appendix F for long-term insurance and the regulatory forms contained in Appendix H for short-term insurance.
- 11.5 Where companies have assets and/or liabilities both within and outside Rwanda, we recommend that the NIC (or BNR) uses the regulatory forms contained in Appendix E for long-term insurance and the regulatory forms contained in Appendix G for short-term insurance.
- 11.6 Since we are not legal experts, nor are we based in Rwanda, we have drawn up our recommendations on the Insurance Act, Regulations and Regulatory Forms from an actuarial and sound financial perspective. We recommend that local (Rwandan) legal advice is taken on the legislation prior to enactment. To date, the NIC has communicated that they will approach a legal expert to look at our draft recommendations and give comments. We have not yet seen these comments.
- 11.7 We wish to thank the Commissioner of the NIC, Mr. Ngarambe and Mr. Kagaba (Technical Director) and the rest of the staff of the NIC for their assistance and insights which have contributed significantly to this draft report. We, likewise, wish to thank the Governor (Mr François Kanimba) and the Vice-Governor (Ms Consolate Rusagara) for their contributions to date.
- 11.8 We look forward to receiving further comments from the World Bank and other relevant parties, as well as guidance on how to proceed and how exactly the TOR will ultimately change. We have taken into account the initial comments received from the NIC and World Bank, and incorporated these into this report and appendices and await further comments from the BNR and other relevant parties. We recommend that a stakeholders' workshop be held sooner rather than later in order to move this process forward.
- 11.9 Once further comments are received from the above parties, the following process should, ideally, be followed (not necessarily chronologically):
- Act, regulations and statutory forms can be further updated;
  - Act, regulations and statutory forms can be explained to industry via a workshop;
  - Further comments can be included;

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## SECTION 11: CONCLUSION AND RECOMMENDATIONS

- Act, regulations and statutory forms should be perused by a Rwandan legal expert;
- Act, regulations and statutory forms would need to be promulgated; and
- Training of industry and regulator could then commence.

11.10 Following on from the teleconference of 13 March 2007, the World Bank will meet up with the key stakeholders in Rwanda (BNR, NIC, Insurance Companies and Brokers) and will revert back to us with the way forward with the project (that is, what is needed by the various stakeholders in Rwanda and how to complete the project). We await further comments from the NIC, World Bank and the BNR.

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