

Directive No. SIB/25/2004

LICENSING AND SUPERVISION OF INSURANCE BUSINESS INVESTMENT OF INSURANCE FUNDS

Whereas insurance companies mobilize significant financial resources predominantly in the form of premiums on insurance policies;

Whereas a significant portion of these financial resources is usually invested by insurance companies in income-earning assets in order to maximize profits;

Whereas such investments can be a source of financial risk for insurance companies as a result of lack of diversification, illiquidity or adverse safety characteristics and thereby endanger the solvency of the companies;

Whereas such adverse developments can be reduced by following prudent practices that give due consideration to diversification, liquidity, safety of investment of insurance funds;

Now, therefore, the National Bank of Ethiopia has issued these directives pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and Article 14 (1) of the Licensing and supervision of Insurance Business Proclamation No. 86/1994.

Definitions

For the purpose of these directives,

"Admitted Assets" shall mean any property, security, item or interest of an insurance company recorded in the financial statements of the insurance company but excluding:

premiums that became due to the insurer but remaining unpaid for more than 90 days except in so far as provisions are held against the premiums in the manner as specified under article 4 of Directive No. SIB/26/2004 or in so far as the premiums are secured under automatic non-forfeiture conditions against the surrender value of a life assurance policy;

prepaid expenses;

an asset that is mortgaged or charged for the benefit of a person other than the insurer to the extent that it is so mortgaged;

intangible assets such as goodwill;

unsecured or, in the opinion of the Bank, inadequately secured loans, if any;

equity share in any other insurance company, if any;

life policy loans in excess of the surrender value of the policy;

assets in excess of limits prescribed by law or directives of the Bank.

"General Insurance" shall mean all kinds of insurance business other than long-term insurance business;

"Long -term Insurance" shall mean insurance business of all or any of the following classes, namely life insurance business, annuity business, pension business,

permanent health insurance business and, in relation to the insurer, personal accident and/or sickness insurance business carried on by that insurer as incidental to any of the businesses first named within this article.

"Real Estate" shall mean buildings constructed or acquired exclusively, or predominantly, for the purpose of generating income directly and land acquired exclusively, or predominantly, for construction or development of facilities for the purpose of directly generating income.

Limits on Investment of Insurance Funds

General Insurance Funds

The General Insurance Funds of an insurance company shall be invested in the manner prescribed hereunder:

In Treasury Bills and bank deposits not less than 65% of admitted assets; provided, however, that aggregate bank deposits (checking, savings and time deposits) held with any one bank shall not exceed 25% of total admitted assets; In investments in company shares not exceeding 15% of total admitted assets; In real estate not exceeding 10% of total admitted assets; 10% of admitted assets in investments of the insurance company's choice.

Long-term Insurance Funds

The long-term Insurance funds of an insurance company shall be invested in the following manner:

In Treasury Bills/Bonds and bank deposits not less than, in aggregate, 50% of total admitted assets; provided, however, that aggregated deposits (checking, savings and time deposits) held with any one bank shall not exceed 25% of total admitted assets;

Investments in company shares not exceeding 15% of total admitted assets;

Investments in real estate not exceeding 25% of total admitted assets; 10% of total admitted assets in investments of the insurance company's choice.

Compliance Period

Insurance companies shall be fully in compliance with the limits specified under 2.1 and 2.2 herein above by the end of June 2005;

Notwithstanding what is stated under 3.1 of this article, any loans (other than Treasury bills and Treasury Bonds) extended by insurance companies before the effective date of these directives that exceed the limits specified under 2.1 and 2.2 herein above shall be withdrawn upon maturity.

Reporting Requirement

In order to monitor compliance with the investment limits specified in these directives, insurance companies shall submit quarterly reports to the Supervision Department of the National Bank of Ethiopia prepared in the manner as specified in the tables attached to these directives.

Effective Date

These directives shall come into force as of the 1st day of March 2004.

Insurance Company Investments - General Insurance Business

Name of Insurer: _____

Date: _____

Admitted Assets and Types of Investment	Amount (million Birr)	Investments as Ratio of Admitted Assets (%)	Bank Deposits in a Single Bank as Ratio of Admitted Assets (%)
Admitted Assets		xxxxxxxxxx	xxxxxxxxxx
Investments: Government Securities and Bank Deposits Treasury Bills Bank Deposits (Total) Commercial Bank of Ethiopia Construction and Business Bank Awash International Bank Dashen Bank Bank of Abyssinia Wegagen Bank United Bank Nib International Bank Other (specify) Others Company Shares Real estate Others (specify)			

Insurance Company Investments - Long-Term Insurance

Name of Insurer: _____

Date: _____

Admitted Assets and Types of Investment	Amount (million Birr)	Investments as Ratio of Admitted Assets (%)	Bank Deposits in a Single Bank as Ratio of Admitted Assets (%)
1. Admitted Assets		xxxxxxxxxxxxx	xxxxxxxxxxxxx
Investments: Government Securities and Bank Deposits Treasury Bills government Bonds Bank Deposits (total) Commercial Bank of Ethiopia Construction and Business Bank Awash International Bank Dashen Bank Bank of Abyssinia Wegagen Bank United Bank NIB International Bank Others (specify) Others Shares 2.2.2 Real Estate 2.2.3 Others (specify)			