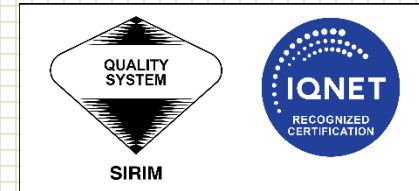


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# Summary of Myanmar Solvency Directive

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## A. Relevance and Objective

### **Relevance**

This directive shall apply to all insurers licensed by the Insurance Business Regulatory Board (IBRB) in accordance with the Insurance Business Law 1996 (the “Law”).

### **Objective**

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.

### Capital Adequacy Ratio (CAR)

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.

### Total Capital Available (TCA)

Total amount equivalent to the margin amount of an insurer.

### Minimum Required Capital (MRC)

Total amount equivalent to the risk exposure of an insurer.

## C. Solvency Margin Ratio Guidelines

1. CAR is calculated by **dividing the TCA by the MRC**.
2. A **CAR 150% or more is required** to maintain the financial soundness of the insurer's insurance business.
3. 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.

CAR < 150%

- Report to FRD within 5 working days.
- Submit financial recovery plan within 1 month.
- Recover the CAR to at least 150% within a specified period not exceeding 12 months.

CAR < 100%

- Report to FRD within 2 working days.
- Submit financial recovery plan within 15 working days.
- Recover the CAR to at least 100% within a specified period not exceeding 6 months.
- Plan shall contain effective measures to cover CAR in the short term.

## C. Solvency Margin Ratio Guidelines

4. 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.
5. An insurer shall submit modified financial recovery plan if the FRD considers that the plan is not adequately effective.
6. If CAR does not recover at least 100% within a specified period not exceeding 6 months, IBRB shall order insurers to **suspend part or all of the insurer's operations**.
7. IBRB may allow insurers a longer period than specified 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.
8. An insurer shall calculate its CAR and submit it in accordance with the form prescribed by the FRD.
9. An insurer shall notify the FRD in advance of any possible delay in submission of the CAR for unavoidable reasons.

## D. Calculation of Margin Amount

1. TCA is the **amount defined as capital minus the amount defined as deductions**.
2. The amount defined as capital is the sum of the following items recorded in the net assets section of the balance sheet:
  - a. Issued and paid-up capital
  - b. Life assurance fund
  - c. General insurance fund
  - d. General reserve fund
  - e. Other funds
  - f. Retained earnings
  - g. Revaluation reserves
3. If IBRB allows the subordinated debt as capital, it can be defined as capital.
4. The subordinated debt shall have more than 5 years from the date of issuance to the date of repayment and less than 50% of the amount defined as capital.

## D. Calculation of Margin Amount

5. The amount defined as deductions is the sum 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.
  - g. Investments in shares and subordinated debts of other insurers or financial institutions.

## E. Calculation of Risk Amount

1. MRC is the defined amount calculated based on **risk-based capital minimum**.
2. **Risk-based capital minimum** is defined as

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

Where:

- a. R1 = **Insurance risk capital charges** is the total amount equivalent to the insurance risk, which is the potential loss arising when the actual accident rate exceeds expectations.
- b. R2 = **Market risk capital charges** is the total amount equivalent to the investment risk, which is the potential loss arising from investment activities.
- c. R3 = **Credit risk capital charges** is the total amount equivalent to the credit risk, which 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.
- d. R4 = **Operational risk charges** is the total amount equivalent to the operational risk, which 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.

## E. Calculation of Risk Amount

3. **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%

## E. Calculation of Risk Amount

Type of Product	Risk Exposure	Risk Factor
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%

4. **R1 for general insurers** is defined as the total amount calculated on the claim reserves basis and the premium reserves basis.
5. **R1 for general insurers on a claim reserves basis** is the sum of the amount calculated by multiplying the amount of each risk exposure for each type of product by the respective risk factor, as stipulated in the table on page 13 – 14.
6. **R1 for general insurers on a premium reserves basis** is the sum of the amount calculated by multiplying the amount of each risk exposure for each type of product by the respective risk factor, as stipulated in the table on page 13 – 14.
7. **R1 for composite insurers** is the sum of the amount of R1 for life insurers and general insurers.

## E. Calculation of Risk Amount

	Claim Reserves Basis		Premium Reserves Basis	
Type of Product	Risk Exposure	Risk Factor	Risk Exposure	Risk Factor
Property	Outstanding claims provision + Incurred but not reported (IBNR)	20%	Unearned premium reserve (UPR)	18%
Motor	Outstanding claims provision + IBNR	14%	UPR	13%
Liability	Outstanding claims provision + IBNR	22%	UPR	18%
Marine	Outstanding claims provision + IBNR	24%	UPR	22%
Aviation	Outstanding claims provision + IBNR	24%	UPR	22%
Health & medical	Outstanding claims provision + IBNR	18%	UPR	17%
Personal accident	Outstanding claims provision + IBNR	18%	UPR	17%

## E. Calculation of Risk Amount

	Claim Reserves Basis		Premium Reserves Basis	
Type of Product	Risk Exposure	Risk Factor	Risk Exposure	Risk Factor
Travel	Outstanding claims provision + IBNR	18%	UPR	17%
Engineering (CAR/EAR)	Outstanding claims provision + IBNR	26%	UPR	22%
Worker's compensation	Outstanding claims provision + IBNR	54%	UPR	49%
Agriculture, crop and livestock	Outstanding claims provision + IBNR	54%	UPR	49%
Theft/cash	Outstanding claims provision + IBNR	54%	UPR	49%
Bond	Outstanding claims provision + IBNR	54%	UPR	49%
Other general insurance	Outstanding claims provision + IBNR	54%	UPR	49%

## E. Calculation of Risk Amount

8. The amount of **market risk capital charges (R2)** is the value calculated as

$$\sqrt{(M1)^2 + (M2)^2 + (M3)^2 + (M4)^2}$$

Where:

- a. M1 = **Amount of equity risk** is the value of shares recorded in the assets section of the balance sheet multiplied by risk factor of 25%.
- b. M2 = **Amount of property risk** is the value of investment properties recorded in the assets section of the balance sheet multiplied by a risk factor of 10%.
- c. M3 = **Amount of currency risk** is the value of bank deposits and any other investment assets in foreign currencies multiplied by a risk factor of 10%.

- d. M4 = **Amount of interest risk** is 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%

## E. Calculation of Risk Amount

9. **R3 for insurers** is 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%

## E. Calculation of Risk Amount

Risk Exposure	Risk Factor
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%

10. **R4 of insurers** is the value calculated as

$$30\% \times \sqrt{(R1)^2 + (R2)^2 + (R3)^2}$$

1. 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.
2. Where the financial reporting is less than 1 year due to a change in 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.
3. This directive shall apply to Myanmar Insurance established under the Myanmar Insurance Law when it becomes ready to follow IFRS.