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NATIONAL INSURANCE COMMISSION

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ALL EXTERNAL AUDITORS OF INSURANCE COMPANIES

<u>COMPUTATION OF SOLVENCY MARGIN - *NON LIFE INSRUANCE COMPANY*</u>

In computing the solvency margin of a General Insurance Company, Section 24 of the Insurance Act 2003 recognized the following as Admissible Assets and Liabilities.

(i) **ADMISSIBLE ASSETS**

- Cash and Bank Balances;
- Quoted Investments at Market Value;
- Unquoted Stock at Cost;
- Land and Buildings;
- Furniture and Fittings;
- Office Equipments;
- Motor Vehicles;
- Prepaid Expenses made to members of staff;
- Amount due from retrocession;
- Staff Loans and advances; and
- Claims receivable.

(ii) **ADMISSIBLE LIABILITIES**

- Provision for unexpired risks;
- Provision for outstanding claims;
- Provision for claims incurred but not yet reported; and
- Funds to meet other liabilities.

(iii) **COMMENTS**

(a) Admissible Assets and Liabilities must be domiciled in Nigeria. In other words, off-shore assets and liabilities are not recognised for solvency margin purpose.

(b) Solvency Margin of a company is the difference between the Admissible Assets and Admissible Liabilities, and this shall not be less than 15% of Net Premium Income (i.e. Gross Premium Income less Reinsurance Premium paid) or the minimum capital base (N3 billion) whichever is higher.

(c) Cash and bank balances are admissible only to the extent that not more than 20% of the total current accounts balances and bank placements are placed in any one bank. Where this limit is exceeded, the excess amount is disallowed for solvency margin purposes while the company is liable to a fine of N500,000.00 for violation of the Guidelines.

(d) Unquoted stocks are admitted at cost; however investments of shareholders' funds in associates, subsidiaries and related companies are limited to only 25% of such funds. Any amount in excess of this limit is disallowed while the company is penalized for violation of the Guidelines.

(e) Reserves arising from revaluation of fixed assets and investment properties of an insurance company must be approved by the Commission and must have remained in the books for at least three (3) years before it shall be recognized as part of the assets and admitted for solvency.

(f) All encumbered investments/assets and those not in the name of the Insurance company shall not be admitted.

(g) While Deferred Acquisition Cost and Prepaid Reinsurance Cost shall be admitted; Goodwill and Deferred Tax Assets shall be disallowed for solvency margin purposes.

(h) Liabilities for the purpose of Section 24 of the Insurance Act, 2003 shall exclude deferred tax.

(i) For solvency margin purposes, the minimum capital base applicable to the general business of a reinsurer shall be N6 billion.

iv. **ADDITIONAL CONSIDERATION**

a. Element of unearned premium attributable to debtors as at the reporting date should be determined and derecognised as part of liabilities (insurance funds) for the purpose solvency margin computation. However, the schedule of such items must be audited and certified by the external auditor.

b. Recoveries made within the first sixty(60) days after the reporting date in respect of premium outstanding as at year end may be applied to make good any shortfall in solvency margin of a company. However, the schedule of such recoveries and all the supporting evidence must be audited and certified by the external auditor.

N. O. Opara
Director (Supervision)
For: Commissioner for Insurance