CENTRAL BANK OF THE RUSSIAN FEDERATION
(BANK OF RUSSIA)

July 28, 2015 No. 3743-U

Moscow

INSTRUCTION

Procedure of Standard Equity to Debt Ratio Calculation by Insurers

This Instruction adopted on the basis of article 25 of Law of the Russian Federation dd. November 27, 1992 No. 4015-1 “On insurance business in the Russian Federation” (Bulletins of the Congress of People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation, 1993, No. 2, art. 56; Corpus of Laws of the Russian Federation, 1998, No. 1, art. 4; 1999, No. 47, art. 5622; 2002, No. 12, art. 1093; No. 18, art. 1721; 2003, No. 50, art. 4855, art. 4858; 2004, No. 30, art. 3085; 2005, No. 10, art. 760; No. 30, art. 3101, art. 3115; 2007, No. 22, art. 2563; No. 46, art. 5552; No. 49, art. 6048; 2009, No. 44, art. 5172; 2010, No. 17, art. 1988; No. 31, art. 4195; No. 49, art. 6409; 2011, No. 30, art. 4584; No. 49, art. 7040; 2012, No. 53, art. 7592; 2013, No. 26, art. 3207; No. 30, art. 4067; No. 52, art. 6975; 2014, No. 23, art. 2934; No. 30, art. 4224; No. 45, art. 6154; 2015, No. 10, art. 1409; No. 27, art. 4001) (hereinafter the Law of the Russian Federation “On insurance business in the Russian Federation”) sets forth the procedures for calculation of the required equity to debt ratio by insurers (and identifies parameters used for such calculation).

1. This Instruction does not apply to health insurers within the scope of their compulsory health insurance business.

2. The required equity to debt ratio (hereinafter – standard ratio) shall be calculated by an insurer as a ratio of actual solvency margin to the required solvency margin and represent the insurer’s equity (capital) adequacy.

The actual solvency margin of an insurer shall not be less than the required solvency margin of such insurer.

3. The required ratio shall be calculated as of the reporting date based on the accounting (financial) statements of the insurer.

The reporting date is the date by which an insurer shall prepare its accounting (financial) statements.

The required ratio may also be calculated at the request of the Bank of Russia or another authorized entity as of the date specified in the request.

4. If any parameter which is necessary for calculation of required ratio according to the laws of the Russian Federation cannot be obtained, it can be assumed equal to its value as of the nearest date at which it could have been calculated.

5. The actual solvency margin is a calculated value determined as a sum of authorized capital, add-on capital, reserve capital, undistributed profit of the reporting year and past years net of the amount of outstanding losses of the reporting year and past years; equity payments of shareholders (members) due; cost of treasury shares (participatory interests or fractions thereof); value of intangible assets; accounts receivable due, net of fair value reserves made as a provision for depreciation of such accounts receivable according to the laws of the Russian Federation; and the amount of subordinated loans granted by the insurer to its subsidiary and affiliated companies.

6. The insurer may increase its actual solvency margin by the amount of residual value of raised subordinated loans, which is calculated as stated in clauses 7 and 8 hereof subject to the limits set by clause 4 of article 25 of the Law of the Russian Federation “On insurance business in the Russian Federation.”

7. The residual value of a specific subordinated loan is determined by the following formula:

$$O = \frac{C}{20} \times Д,$$

where:

O is the residual value of a subordinated loan as of the date of calculation the required ratio;

Д is full value of the subordinated loan;

C is the parameter assumed as one of the following values:

C = 0 during the first quarter of raising a subordinated loan;

C = 20, after the first quarter – during the second and subsequent quarters of raising of the subordinated loan, provided that there are more than 20 full quarters left till subordinated loan redemption;

C = N, after the first quarter – during the second and subsequent quarters of raising of the subordinated loan, provided that there are not more than 20 full quarters left till redemption of the subordinated loan, where

N is the depreciation period: the number of full quarters left till redemption of the subordinated loan counted from the maturity date specified in the subordinated loan agreement ($1 < N < 20$), which is assumed as 20 during the first quarter of the depreciation period, 19 – during the second quarter of the depreciation period and so on, ending with 1 – during the last quarter left till redemption of a subordinated loan).

8. If the loan agreement provides for phased redemption of the subordinated loan in tranches (installments), the residual value shall be calculated as a sum of residual values of each separate tranche determined in accordance with clause 6 hereof, subject to their maturity dates as specified in the agreement.

9. The required solvency margin of an insurer is a calculated value determined by summing up the required solvency margin values calculated in accordance with this Instruction for life insurance and non-life insurance, and values referred to in clauses 13 - 15 hereof.

10. If the required solvency margin of an insurer is less than the minimum equity value stated in clause 3 of article 25 of the Law of the Russian Federation “On insurance business in the Russian Federation”, the required solvency margin of the insurer is assumed equal to the statutory minimum authorized capital.

11. The required solvency margin of an insurer for life insurance is equal to the product of five percent of the amount of life insurance reserves as of the reporting date and the correction factor (Fl).

The correction factor (Fl) is determined as a ratio of life insurance reserves set up by the insurer as of the reporting date net of the shares of reinsurers in such reserves, and the total amount of such insurance reserves.

If the correction factor (Fl) is less than 0.85, it is assumed equal to 0.85 for calculation purposes.

12. The required solvency margin of an insurer for non-life insurance is calculated based on premiums and payments under insurance and co-insurance contracts and under accepted non-life contracts (hereinafter insurance, co-insurance and accepted reinsurance contracts).

The required solvency margin for non-life insurance is equal to the highest of two values multiplied by the correction factor (Fnl).

12.1. The first value is calculated based on premiums. The reporting period for calculation this value is one year (12 months) preceding the reporting date.

The first value is equal to 16 percent of the amount of premiums accrued under insurance, co-insurance and accepted reinsurance contracts in the reporting period, net of:

premiums returned to insured (reinsured) in connection with termination (modification) of insurance, co-insurance and accepted reinsurance contracts during the reporting period;

withholdings from premiums under insurance and co-insurance contracts made by the insurer during the reporting period according to the laws of the Russian Federation and the rules and standards of professional associations, unions, insurance associations authorized to accumulate withholdings from insurance premiums made by insurers to comply with the laws of the Russian Federation.

The insurer, whose first insurance license (except for voluntary life insurance licenses) was duly issued less than one year (12 months) before the reporting date, shall assume the period elapsed from obtaining the said license to the reporting date as the period for calculation of the first value.

The reinsurer, whose reinsurance license was duly issued less than one year (12 months) before the reporting date, shall assume the period elapsed from obtaining the said license to the reporting date as the period for calculation of the first value.

12.2. The second value is calculated based on insurance payments. The reporting period for calculation this value is three years (36 months) preceding the reporting date.

The second value is equal to 23 percent of one third of the amount of:

insurance payments actually made under insurance and co-insurance contracts and accrued under reinsurance contracts, net of the amounts accrued based on subrogation and recourse claims during the reporting period;

changes in the reserve for reported but not paid claims and the reserve for incurred but not reported claims under insurance, co-insurance and accepted reinsurance contracts during the reporting period.

The insurer, whose first insurance license (except for voluntary life insurance licenses), or a reinsurer whose reinsurance license was duly issued less than three years (36 months) before the reporting date does not have to calculate the second value.

12.3. The reporting period for calculation of the correction factor (Fnl) is one year (12 months) preceding the reporting date.

The correction factor (Fnl) is determined as a ratio of the amount of:

insurance payments actually made under insurance and co-insurance contracts and accrued under reinsurance contracts net of the accrued share of reinsurers in insurance payments during the reporting period;

changes in the reserve for reported but not paid claims and the reserve for incurred but not reported claims under insurance, co-insurance contracts and accepted reinsurance contracts, net of the change in the share of reinsurers in such reserves during the reporting period;

to the amount of:

insurance payments actually made under insurance and co-insurance contracts and accrued under accepted reinsurance contracts in the reporting period;

changes in the reserve for reported but not paid claims and the reserve for incurred but not reported claims under insurance, co-insurance and accepted reinsurance contracts during the reporting period.

If there are no payments in the reporting period under insurance, co-insurance and accepted reinsurance contracts, the correction factor (Fnl) is assumed equal to 1.

If the correction factor (Fnl) is less than 0.5, it is assumed equal to 0.5 for calculation purposes, and if more than 1 – equal to 1.

The insurer, whose first insurance license (except for voluntary life insurance licenses), or the reinsurer, whose reinsurance license was duly issued less than one year (12 months) before the reporting date, the period elapsed from obtaining the said license to the reporting date shall be used as the period for calculation of the correction factor (Fnl).

13. The required solvency margin of insurers providing independent guarantees and sureties shall be increased by the value equal to two percent of the amount of liabilities under such independent guarantees and the amount of liabilities assumed by the insurer under sureties.

14. The required solvency margin of insurers involved in insurance or co-insurance of developer's third party liability in accordance with Federal Law dd. December 30, 2004 No. 214-FZ "On participation in co-funded construction of apartment houses and other real property and amending certain regulations of the Russian Federation" (Corpus of Laws of the Russian Federation, 2005, No. 1, art. 40; 2006, No. 30, art. 3287; No. 43, art. 4412; 2008, No. 30, art. 3616; 2009, No. 29, art. 3584; 2010, No. 25, art. 3070; 2011, No. 49, art. 7015, art. 7040; 2012, No. 29, art. 3998; No. 53, art. 7619, art. 7643; 2013, No. 30, art. 4074, art. 4082; No. 52, art. 6979; 2014, No. 26, art. 3377; No. 30, art. 4225; "Official legal information website" (www.pravo.gov.ru), July 14, 2015), and organizations accepting reinsurance of indemnity payment obligations for the insurance sector specified above in this clause (hereinafter developer's liability insurance), shall be increased by the amount by which the total net reinsurance liability determined for each developer under all developer's liability insurance contracts effective as of the reporting date (per developer) exceeds the value equal to 30 percent of the actual insurer's solvency margin.

15. The required solvency margin of insurers involved in insurance or co-insurance of tour operator's third party liability in accordance with Federal Law dd. November 24, 1996 No. 132-FZ “On basics of tourist activities in the Russian Federation” (Corpus of Laws of the Russian Federation, 1996, No. 49, art. 5491; 2003, No. 2, art. 167; 2004, No. 35, art. 3607; 2007, No. 7, art. 833; 2009, No. 1, art. 17; No. 26, art. 3121; No. 52, art. 6441; 2010, No. 32, art. 4298; 2011, No. 27, art. 3880; 2012, No. 19, art. 2281), and organizations accepting reinsurance of indemnity payment obligations for the insurance sector specified above in this clause (hereinafter tour operator TPL insurance), shall be increased by the amount by which the total net reinsurance liability determined for each tour operator under all tour operator's liability insurance contracts effective as of the reporting date (per tour operator) exceeds the value equal to 10 percent of the actual insurer’s solvency margin.

16. Total net reinsurance liability is understood as the amount due from the insurer to insured or beneficiaries under insurance, co-insurance or reinsurance contracts, subject to simultaneous occurrence of insured events, in the amount of the sum insured under all insurance, co-insurance or reinsurance contracts effective as of the reporting date, net of the shares of reinsurers in such payments as set forth in the reinsurance contracts made by the insurer, including retrocession agreements.

17. This Instruction will be published in the “Bulletin of the Bank of Russia” and, according to the Board's decision of the Bank of Russia (minutes of the Board's meeting of the Bank of Russia dd. 17, 2015 No. 21), will come into effect upon validation of Order of the Russian Federation Ministry of Finance dd. July 29, 2015 No. 121n “On recognizing certain orders of the Russian Federation Ministry of Finance as void.”

18. Insurers should bring their required ratios in line with this Instruction within 30 calendar days of its coming into effect.

Chairman of Central Bank
of the Russian Federation E.S. Nabiullina