



*The Governor*

## **DIRECTIVE N° 4230 /2020 – 00022 [613] OF 15/07/2020 GOVERNING THE UNDERWRITING OF LARGE RISKS**

Pursuant to Law N° 48/2017 of 23/09/2017 governing the National Bank of Rwanda, article 6, 8, 9, 10;

Pursuant to Law N° 52/2008 of 10/ 09/2008 governing the organization of insurance business, articles 9;

Pursuant to Regulation N° 03/2017 of 22/02/2017 on administrative and pecuniary sanctions applicable to insurers;

Pursuant to Regulation N°001/2010 of 28/01/2010 relating to market capacity facilitation for foreign insurers especially, article 2;

Considering the need to maintain a sound and stable insurance sector, the National Bank of Rwanda, herein referred to as “ the Regulator” decrees:

### **CHAPTER ONE: GENERAL PROVISIONS**

#### **Article 1: Purpose**

This Directive sets guidance on the underwriting of large risks in order to:

- 1° ensure that local insurers exhaust local capacity through co-insurance arrangements;
- 2° avoid unfair competition; and
- 3° ensure the growth and development of the insurance market.

#### **Article 2: Definitions**

In this Directive, the following terms shall mean:

- 1° **large risk**: any risk that is above the retention capacity as stipulated in the approved strategic underwriting policy of each insurer;

- 2° **retention capacity:** the maximum amount of liability an insurer agrees to assume on any risk underwritten;
- 3° **insurer:** an institution licensed in accordance with the Law governing organization of insurance business;
- 4° **lead insurer:** a first underwriter of the large risk who subsequently calls for other local insurers to participate in co-insurance arrangement;
- 5° **coinsurance arrangement:** a mechanism whereby an insurer opts to share the risk with other local insurer (s) in the same line of business when the amount at risk is greater than the insurer's retention capacity for that category;
- 6° **externalization of risk:** legitimate placement of an insurance risk either part or whole with the foreign insurer or reinsurer after exhausting the capacity of local market through coinsurance arrangement;
- 7° **fronting:** an arrangement in which an insurer acts as the insurer of record by issuing a policy but then passes the entire risk to a reinsurer or foreign insurer or retain less than its retention capacity in exchange for an insurance commission;
- 8° **re-insurance:** transaction in which a reinsurer agrees to cover all or part of the losses and/or loss adjustment expenses of the primary insurer in exchange for a premium. Indemnification is on a proportional or non-proportional basis.

### **Article 3: Scope**

This Directive applies to insurers licensed in accordance with the Law governing organization of insurance business.

### **Article 4: Fronting prohibition**

Fronting arrangements are prohibited.

### **Article 5: Products bundling and repackaging**

Bundling and repackaging of risks with exotic covers or non-conventional covers with the clear or hidden intention of externalization of the risk are prohibited.

In case of special risks or exotic covers that are bundled with other covers for which the local insurer has capacity, the package policy shall be unbundled by outlining the policy limits and corresponding premium for each cover. Externalization shall be authorized only for the special cover under the following condition:

- 1° issuance of a no-objection certificate by Association of Insurers of Rwanda; and

- 2° written confirmation from the reinsurer who would support the risk that they can specifically support the exotic extensions.

#### **Article 6: Co-insurance requirements**

Insurers shall use coinsurance arrangements with other local insurers before externalizing any risks.

#### **Article 7: Responsibilities of the lead insurer**

Coinurance arrangements shall always specify the lead insurer in the policy.

The lead insurer shall have the following responsibilities:

- 1° issuing the documentation to other coinsurers;
- 2° advising other co-insurers on any change that occurs during the period of insurance and propose the way forward;
- 3° notify other co-insurers of the occurrence of the risk;
- 4° remittance of premiums to coinsurers within 5 working days upon receipt;
- 5° settling the claim for the insured;
- 6° carry out any other duty as may be agreed with co-insurers.

#### **Article 8: Claim settlement arising from coinsurance arrangements**

The lead insurer shall pay the admitted claim within the limits set in the coinsurance agreement and recover the amount paid from coinsurers within 30 days after notification.

#### **Article 9: Disclosure to the insured**

The lead insurer shall notify the policyholder regarding the terms of the coinsurance arrangement.

#### **Article 10: Underpricing practices**

Insurers shall not participate in coinsurance arrangements in which risks are underpriced.

A co-insurer who accepts an underpriced risk in a coinsurance arrangement shall be treated the same as the insurer who priced it.

#### **Article 11: Externalization of large risk with foreign re-insurers**

Upon exhaustion of co-insurance arrangement, the lead insurer shall seek consent for externalization of large risk from the Association of Insurers of Rwanda.

A non-objection certificate issued by this Association after due consultation with licensed local insurers, proves the consent of the Association for externalization of risk.

The certificate shall be issued within three working days from the date of application for externalization of large risk.

The lead insurer shall ensure that before reinsuring any business with other foreign reinsurers, mandatory sessions are exhausted.

### **Article 12: Externalization of large risk with foreign insurers**

An insurer that seeks externalization of large risk with the foreign insurer shall make an application to the Regulator and shall indicate that the underlying foreign insurer:

- 1° complies with legal and regulatory requirements evidenced by a non-objection from the supervisory authority;
- 2° is financially sound and stable as evidenced by its audited financial statements of the last three years or rated at least B+ by international reputed credit rating agencies and
- 3° has sound corporate governance practices as evidenced by a governance structure indicating a well-diversified skills, experience and qualifications of senior management and board of directors.

### **Article 13: Reporting of large risks externalized**

Every insurer shall provide to the Regulator within five working days after the end of the reference quarter, a report on co-insured and externalized large risks policies in accordance with the prescribed template in this Directive.

The report referred to in Paragraph One of this Directive shall indicate the cases of underpriced risks.

### **Article 14: Establishment and composition of large risk committee**

The Association of Insurers shall establish a large risk committee.

The large risk committee shall be composed of:

- 1° technical person at senior management level appointed by each licensed insurer; and

- 2° a person representing the secretariat of the Association of Insurers of Rwanda the Executive Secretary for Association of Insurers.

The Committee shall elect its chair from the persons specified in item 1° and 2° of this article.

### **Article 15: Responsibilities of large risk committee**

The large risk committee shall have the following responsibilities:

- 1° set underwriting best practices/guidelines for underwriting of large risks;
- 2° ascertain the adequacy of pricing of large risks;
- 3° recommend insurers on which action to be taken in order to streamline their coinsurance practices;
- 4° monitor the implementation of underwriting conditions of large risks among members;
- 5° assess and report to the Regulator any irregularities in underwriting of large risk;
- 6° any other responsibilities that the Association of insurers may assign to the Committee.

## **CHAPTER II: MISCELLANEOUS AND FINAL PROVISIONS**

### **Article 16: Review of strategic underwriting policy**

Insurers shall revise their strategic underwriting policies within six (6) months from the signature of this Directive to accommodate the requirements of this Directive.

### **Article 17: Repealing provisions**

All prior provisions contrary to this Directive are hereby repealed.

### **Article 18: Commencement**

This Directive shall come into force from the date of its signature.

Done on 22/07/2020.



**RWANGOMBWA John**  
**Governor**

Appendix -QUARTERLY REPORT

INSURER’S NAME:.....  
MONTH:.....  
YEAR:.....

No .	Insured	Policy Number	Insurance Class	Sum Insured	Premium	PML/E ML	Underwri ting Capacity	Retention (inclusive of Treaty)		Excess Capacity (%)	Coinsurance /Local Fac out (%)	Facultative reinsurance outside (%)	Rea son Fac. outside
								Percentag e	Amount				
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													