NATIONAL HEALTH INSURANCE AUTHORITY

SOLVENCY FRAMEWORK FOR PCHIS & PMHIS UNDER THE NATIONAL HEALTH INSURANCE ACT, 2012 (ACT 852)

1.0 This Solvency framework applies to PCHISs and PMHISs under the National Health Insurance Act, 2012 (Act 852). It addresses the following issues relating to solvency;

i. Available Capital Resources
ii. Solvency Capital Requirement
iii. Minimum Solvency Capital Requirement
iv. Capital Adequacy Ratio
v. Solvency Control Levels
vi. Technical Provision
vii. Investment strategy, policies, procedures and controls
viii. Responsibilities of board
ix. Risk management and internal controls
x. Financial Conditions Report

2.0 Available Capital Resources

The Available Capital Resources of a PCHIS and a PMHIS shall be calculated as follows;
ACR = SHF – (IA +AD), Where:

"ACR" represents the company's available capital resources.

"SHF" represents Shareholders' Funds calculated as the sum of the company's share capital, retained earnings and capital surpluses.

"IA" represents inadmissible assets detailed in paragraph 2.1 below

"AD" represents Asset discounts as detailed in paragraph 2.2 below.

2.1 The following shall constitute inadmissible assets for the purpose of paragraph 1 above;

a) Intangible assets,

b) Capitalised research and development costs;

c) Deferred acquisition costs;

d) Deferred tax assets, net of deferred tax liabilities, if any;

e) The value of investments in, and subordinated loans to, a connected person;

f) Any asset that is subject to a charge or any other encumbrance;

g) Reinsurance receivables older than six months

h) Premium debtors not older than three months

i) Corporate stationery, such as product manuals; and

j) Amounts due from connected persons.

2.2 The following discounts shall be applied to the value of the assets as shown on the Balance Sheet

S/N	**Asset**	**Discount to be Applied**
1.	Government of Ghana securities	0%
2.	Bank of Ghana securities	0%
3.	Cash and term deposits held at a licensed bank	5%
4.	Corporate debt	5%
5.	Securities listed on the Ghana Stock Exchange (excluding any securities that are corporate debt)	15%
6.	Any securities not included in paragraphs 1 to 5	30%
7.	Equity backed mutual funds	10%
8.	Money market mutual funds	5%
9.	Land and buildings held as an investment	30%
10.	Land and buildings occupied by the insurer for its own use	50%
11.	Plant, equipment and furniture	50%
12.	Motor vehicles	50%
13.	ICT	5%
14.	Amount due from reinsurers less than 6 months old	10%
15.	Any asset, other than an asset listed in paragraphs 1 to 15 above, except assets required to be deducted from core capital under paragraph 1(4)	50%

3.0 Solvency Capital Requirement

3.1 The solvency capital requirement of a PCHIS shall be the greatest of:

(a) The minimum solvency requirement specified in paragraph 3.0

(b) 25% of the scheme's Net Written Premium of the previous year.

(c) 25% of the total management expenses of the scheme as shown in the profit and loss account for the previous year.

3.2 The solvency capital requirement of a PMHIS shall be the greater of:

(a) 25% of the scheme's Net Written Premium of the previous year.

(b) 25% of the total management expenses of the scheme as shown in the profit and loss account for the previous year.

4.0 Minimum Solvency Capital Requirement

The minimum solvency capital requirement applicable to the PMHIS is **One million Ghana Cedis (GHS1, 000,000).**
The minimum solvency capital applicable to PCHIS is **GHS5,500,000.00.**

5.0 Capital Adequacy Ratio

5.1 The capital adequacy ratio of a PCHIS or a PMHIS shall be calculated in accordance with the following formula:

$$CAR = \frac{ACR}{SCR} \times 100$$

Where:

(a) **"**CAR" represents the scheme's capital adequacy ratio expressed as a percentage;

(b) "ACR" represents the scheme's capital resources calculated in accordance with paragraph 1 and

(c) "SCR" represents the scheme's solvency capital requirement calculated in accordance with 2.

5.2 The Target Capital Adequacy Ratio for both PCHISs and PMHISs shall be **150%.**

6.0 Solvency Control Levels

Capital Adequacy Control Level	**CAR**	**Supervisory implication**	**Supervisory Action**
Level 0 (PCR)	CAR >(150%)	No significant problems	Monitor
Level 1	(125%)< CAR <(150%)	Early warning	Strong recommendations for improvement in risk areas.
Level 2 (MCR)	100% < CAR <125%	Serious risk of insolvency	Enforcement Action aimed at resuscitation
Level 3	CAR < 100%	Entity not viable	Enforcement Action leading to liquidation

6.2 Without limiting the solvency and reporting requirements specified a scheme shall monitor its capital adequacy ratio resources against the Authority's capital adequacy control levels as specified above and shall immediately notify the Authority in writing if its capital adequacy ratio changes:

(a) From Level 0 (the "Target Capital Adequacy Ratio" or "TCAR") to Level 1, Level 2 or Level 3;

(b) From Level 1 to Level 2 or Level 3; or

(c) From Level 2 to Level 3.

7.0 Technical Provisions

The technical liabilities to be determined by the insurer shall include the following:

(a) Liabilities for unearned premiums;

(b) Liabilities for outstanding claims; and

c) Liabilities for claims that have been incurred but not reported (IBNR).

The insurer shall calculate its unearned premiums provision using the 365ths method.
The outstanding claims provision shall be determined as the total of the estimated value of all individual claims outstanding at the end of the period.
The insurer shall calculate its IBNR provision by using the Chain Ladder Method or the Bornhuetter-Furgusson method.

8.0 Investment strategy, policies, procedures and controls

A PCHIS and PMHIS shall establish and maintain:

(a) An investment strategy and such investment policies as the board considers appropriate for the nature, size and complexity of its business; and

(b) Procedures and controls that are sufficient to ensure that the investment strategy and policies are effectively implemented.

8.1 Without limiting paragraph (7), the investment strategy and policies of the insurer shall address:

(a) The risk profile of the insurer;

(b) Mixture and diversification of investment by type, including the long-term asset mix;

(c) The establishment of limits for the allocation of assets by geographical area, markets, sectors, counterparties and currency;

(d) The extent to which the holding of some types of assets is restricted or disallowed, for example illiquid or volatile assets; and

(e) Clear accountability for all asset transactions and associated risks.

9.0 Responsibilities of board

9.1 The board of the PCHIS and PMHIS shall:

(a) Approve the investment strategy and the significant investment policies, and any subsequent changes to the strategy or significant policies, and review them on at least an annual basis;

(b) Ensure that a management structure, including appropriate procedures and controls, is put in place to effectively execute and monitor the investment strategy and policies;

(c) Ensure that effective policies, systems and controls are established and maintained to enable the monitoring and managing of the insurer's asset/liability position to ensure that the insurer's investment activities and assets positions are appropriate for its risk profile; and

(d) Contingency plans are put in place to mitigate the effect of a deterioration in investments

10.0 Risk management and internal controls

10.1 The board of the insurer shall approve the risk management strategy, policies, procedures and controls of the insurer. The risk management strategy, policies, procedures and controls of the insurer shall cover the risks associated with investment activities that may affect the insurer's liabilities or its ability to meet its solvency capital requirement.

10.2 The internal controls established and maintained by the insurer shall cover the insurer's investment strategy and policies and shall ensure that the investment strategy, policies, systems and controls are properly documented and subject to adequate oversight.

11.0 Financial Condition Report

11.1 An insurer shall submit to the Authority, a Financial Condition Report prepared by its actuary. The Financial Condition Report shall include;

(ii) An assessment of the insurer's compliance with the prudential requirements specified by the Authority and any directives imposed by the Authority;

(iii) An assessment of the insurer's Risk Management systems and Internal Controls and Investment Strategy;

(iv) A detailed evaluation of the insurer's financial condition;

(v) A valuation of the insurer's policy liabilities;

(vi) A professional opinion on the matters specified in paragraphs (a) to (c).

11.2 The Financial Condition Report shall be:

(i) Approved by the board of the insurer and signed by the actuary before submission to the Authority; and

(ii) Submitted to the Authority within 3 months after the end of the financial year.