

# ROYAL MONETARY AUTHORITY OF BHUTAN

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## REGULATIONS FOR ESTABLISHMENT OF REINSURANCE BUSINESS IN BHUTAN

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These Regulations are adopted pursuant to section 202 of the Financial Services Act of Bhutan 2011 and shall apply to reinsurance companies to be established in Bhutan. **The requirements which are preconditions for granting a licence should be met at all times during the on-going business operations.**

### Definitions

1. In this regulation the following terms shall have the meanings indicated unless the content clearly indicates otherwise.
  - i. *Authority* -  
Royal Monetary Authority of Bhutan established under the Royal Monetary Authority Act of Bhutan, 2010.
  - ii. *Approved Securities* -  
RMA bills, Government bonds; Government guaranteed bonds, and any other instruments issued by the Authority and the Royal Government of Bhutan.
  - iii. *Applicant* -  
Promoter(s) of the proposed Reinsurance Company.
  - iv. *Companies Act* -  
The Companies Act of the Kingdom of Bhutan, 2000 and amendments thereto.
  - v. *Company*-  
Company means a parent company/a holding company, its subsidiaries and affiliates, and vice versa.
  - vi. *Cross Ownership* -  
Ownership of stocks in other companies conducting insurance business.
  - vii. *Individual* -  
Individual includes spouse, the individual's dependent children being of the same household; and
  - viii. *Reinsurance* -  
An insurance contract between pure reinsurer (the reinsurer) and pure insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium).
  - ix. *Retrocession* -  
Transaction whereby a reinsurer cedes to another or reinsurer all or part of the reinsurance it has assumed.

- x. *Retention* -  
Amount which a reinsurer assumes for its own account.
- xi. *Subsidiary company* –  
Definition provided in the Companies Act 2000

## **Type of License and other requirements**

2. An applicant seeking approval to carry on reinsurance business under this regulation shall be granted a license for any of the following activities.
  - a. Life reinsurance business.
  - b. General reinsurance business.
  - c. Composite reinsurance business.
3. The Reinsurance Company shall be a public limited company registered under the Companies Act of Bhutan.
4. The Reinsurance Company shall be listed with the stock exchange in Bhutan.
5. The Reinsurance Company must divest a minimum of 40 percent of the paid up capital to the public through initial public offerings within one year of its operation. The shareholding shall be within the prescribed limit given under section 11.
6. All licensed Reinsurance companies must be rated investment grade or equivalent by rating agencies such as S&P, A.M Best, Moody's etc within 5 years of commencement of business operations.

## **Capital requirement**

7. The initial paid up capital for a new Reinsurance Company shall be as stated below.
  - a. Life reinsurance: Nu. 300 million.
  - b. General reinsurance: Nu. 500 million.
  - c. Composite reinsurance: Nu. 800 million.
8. The initial paid up capital shall be raised to the minimum paid up capital requirement within five years of commencement of business. The minimum paid-up capital shall be as stated below.
  - a. Life reinsurance: Nu. 500 million.
  - b. General reinsurance: Nu. 1 billion.
  - c. Composite reinsurance: Nu. 1.5 billion.

9. The capital contribution by the applicants of the proposed reinsurance company shall be deposited with the Authority and must be verified by the Financial Regulation and Supervision Department of the Authority. The contribution shall not be funded through borrowings and it must be from legitimate source.
10. The Founding Shareholders shall not transfer or dispose of any shares for a minimum period of three years, from the date of the listing of the Company. Once the Lock-in Period has elapsed, the Promoters may dispose of or transfer their shares after obtaining the required approval from the Authority. The Company shall notify the Authority of shareholder's ownership in excess of 5% and any changes to such ownership.

### **Share Ownership**

11. No person shall hold more than the following percentage of interest in shares of a proposed reinsurance company:
  - a. For Individuals – 20%.
  - b. For Companies, Corporations and Organizations – 30%.
  - c. For Insurance/Reinsurance Company/ies incorporated and licensed in Bhutan - 5%.
  - d. Only non-Bhutanese Reinsurer/Insurer shall be allowed to establish a Joint Venture Reinsurance Company in Bhutan. The limit for non-Bhutanese participants on such ownership shall not exceed 49% of the paid-up capital of the proposed Reinsurance Company.

### **Licensing Requirements**

#### **Applicant**

12. The applicant must be financially sound with strong capital support and good track record of operating profits (in case an applicant is a company) to ensure that the proposed Reinsurance Company provides good security and continued commitment to its business.
13. The applicant must be able to demonstrate that the proposed business can contribute effectively to the development of the insurance industry in Bhutan.
14. The applicant must be able to demonstrate that the proposed business will be guided by the following

objectives.

- a. Maximize retention of local risks.
- b. Local participation in the strategic and managerial position of the company.
- c. Transfer of technical expertise to the local industries.

### **Board of Director(s) and Chief Executive Officer (CEO)**

15. In nominating individuals as the Chief Executive Officer or Directors, the applicant must meet the requirements of Section 1.3 of the Prudential Regulations 2002.
  
16. The Authority has the power to suspend /remove key personnel of the company if they are found to have committed any infraction against any provisions under the Financial Services Act of Bhutan 2011 or other relevant laws.

### **Actuary**

17. The proposed Reinsurance Company is required to have at least one (1) appointed actuary, which shall be among the empanelled list of Actuaries maintained by the Authority. .

### **Documents to be submitted to the Authority**

18. An applicant seeking approval to conduct reinsurance business is required to submit the information and relevant documents as stated below along with an application fee of Nu.200,000 (Ngultrum Two Hundred Thousand) in cash/draft/cheque in favor of the Authority.
  - a. Letter of Application (see Annexure I).
  - b. Licensing Application Form (see Annexure II).
  - c. Articles of Incorporation.
  - d. Details of each applicant, director(s), and key personnel<sup>1</sup> of the proposed reinsurance business as per the format in Annexure III.
  - e. Minutes of shareholders' (applicants') meeting;

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<sup>1</sup> *(Key post holders/ personnel include but are not limited to Chief Executive Officer, Chief Finance Officer, Appointed Actuary, and Heads of Marketing, Investment, Internal Audit, Underwriting, Reinsurance, head of IT etc.)*

- f. Written agreement by the shareholders to establish a proposed company;
- g. Feasibility Report:
  - 1. Macroeconomic background/environment of Bhutan
  - 2. Financial system and structure
  - 3. SWOT analysis
  - 4. Survival and growth strategies/justification

**5. Business plan**

The applicant is required to furnish a comprehensive business plan to the Authority setting out the business model which the proposed company intends to adopt. The business plan shall cover the following aspects.

- i. Various insurance policies (descriptive part of the business plans to be submitted separately), information on risk control system of the proposed operations in Bhutan, including reinsurance arrangements, outsourcing arrangements, anti-money laundering arrangements, business continuity arrangement, and corporate governance framework.
- ii. Retention policy to ensure the maximum possible retention commensurate with its financial strength and volume of business.
- iii. The applicant must specify the class of reinsurance business which it intends to be involved in and where possible identify its major clients.
- iv. The business plan must be supported by financial projections based on assumptions, for a period of not less than five years from the date of application.
- v. Market Research and analysis incorporating market penetration, and consumer needs, with full description of research, along with conclusions arrived.
- vi. Based on market research and analysis undertaken, applicant shall provide information on products to be sold and distribution channels.
- vii. Underwriting and claims policies should be in place indentifying the lines of business and types of risk to be assumed by the reinsurer.

- viii. Reinsurers should have policies and procedures in place for establishing technical provisions.
- ix. The type of special reserves to be set aside.
- x. In view of reinsurers operating in more than one market and managing global portfolios of assets and liabilities, applicant are required to furnish comprehensive investment and liquidity management plans.
- xi. The reinsurer should identify, monitor, and measure any concentration of risk on the underlying lines of business and on the portfolio as a whole due to one and the same event (e.g. storm, quake, flood, hail and man-made disasters).
- xii. Business line and geographical diversification.
- xiii. Reinsurer should define and document their strategy for retrocession management.
- xiv. An applicant shall furnish organization chart outlining the various departments of the organization, including description of its activities.
- xv. The applicant is required to establish operational team(s) and furnish a list of persons who will discuss with the Authority on the preparation and implementation of the operational and information technology system.
- xvi. Recruitment and training programs.
- xvii. The applicant is required to furnish a set of policies and procedures for various activities including monitoring system that it intends to have in place.
- xviii. Sensitivity analysis based on a base scenario and a few alternate scenarios.

19. The completed application form and any correspondence should be addressed to the following.

The Governor



Royal Monetary Authority of Bhutan  
Chophel Lam  
Kawangjangsa  
Post Box 154  
Thimphu, Bhutan  
Tel: +975 02 323111  
Fax: +975 02 322847

20. Thereafter, any additional documents/information pertaining to the proposal must be submitted to the Director, Financial Regulation and Supervision Department of the Authority by 1st June 2011.

### **Additional Requirements for Joint Venture Reinsurance Company**

21. Basic Information on the applicant.
- a. Name.
  - b. Address of registered and principal office.
  - c. Website (if any).
  - d. Date and place of incorporation.
  - e. Authorized and paid-up capital (as at latest financial year end).
  - f. Shareholders' fund (as at latest financial year end).
  - g. Name, addresses and nationalities of shareholders holding 10 percent or more of the shares and their respective shareholdings.
22. Contact person of the applicant to whom queries on the application can be directed.
- a. Name.
  - b. Designation.
  - c. Telephone.
  - d. Email.
23. Overview of domestic and global operations of the applicant:
- a. Information on applicant – Description on business activities, including products offered, and areas of specialization.
  - b. Ranking in country of origin and internationally, in terms of total assets, gross and net premium written, and any other indicators.

- c. The applicant's highest and lowest financial strength rating in the last three years, together with rating reports, from any rating agencies such as S&P, AM Best, Moody's and any other recognized rating agencies.
- d. Information on the financial position and performance of the applicant.
- e. Complete information on holding company incase Joint Venture partner is a subsidiary.
  - i. Name, address, date and place of incorporation
  - ii. Names, addresses and nationalities of shareholders holding 10% or more of shares
  - iii. Brief description on business activities within the group
  - iv. Areas of insurance and other financial activities which the group has particular strength in, both in country origin or internationally.
  - v. Details on structure of the entire group, their network, subsidiaries, representative offices, joint ventures with other parties or any special purpose vehicles. The information should at the minimum include name, business activities, country of incorporation and shareholding owned by holding company for each entity in the group including the group organizational structure with description on business activities and areas of specialization.

24. Other supporting information and documents.

- a. Letter of approval from the supervisory authority in the home country to operate reinsurance business in Bhutan.
- b. Board resolutions and minutes of annual general meeting of the applicant in respect of carrying on reinsurance business in Bhutan.
- c. Joint venture agreements.
- d. Technical service agreements.
- e. Latest three year audited financial statements of the applicant.
- f. Cover letter signed by a director or authorized person of the applicant confirming the accuracy and completeness of the documents and information submitted to the Authority.

25. Comment on how and from what sources the proposed company will be funded. Discuss how the applicant organization will be able to serve as a source of financial strength for the proposed office. If the applicant's home country maintains foreign exchange restrictions or other capital export controls, discuss in detail the limitations such controls would place on the applying organization's ability to serve as a source of strength for its interests in Bhutan.

26. Existing Operations of the Joint Venture Applicant in Bhutan.

- a. Describe the existing operations of the applicant and its ultimate parent, if any, in Bhutan, including bank and nonbank subsidiaries, branches, and agencies, commercial companies and representative offices.
- b. If any existing office has been determined by the Authority to be in less than satisfactory condition, the applicant should discuss why it believes it should be permitted to enter or expand within Bhutan, despite that condition.
- c. Discuss the purpose/s for establishing the proposed company and the reasons why it is believed that such an office would further the development of the applicant's international business.
- d. Aside from describing the type of business to be conducted and the types of services to be offered, include whether any existing or planned future business will be transferred to the proposed company.

27. Home Country Supervision of the Joint Venture Applicant:

- a. Describe the regulatory system in the home country of the applicant and indicate.
  - vi. The extent to which the insurance/reinsurance company is subject to comprehensive supervision or regulation on a consolidated basis by its home country authorities.
  - vii. The powers and functions of the insurance supervisory authorities.
  - viii. The frequency and scope of supervisory examinations of insurance/reinsurance company.
  - ix. The functions of the regulatory body and its relationship to private/public insurance companies.
- b. Provide the details of the contact person in the office of the home supervisory authority who may respond to questions regarding the applicant.
  - i. Name
  - ii. Designation
  - iii. Telephone
  - iv. Email

28. Legal Impediments in the case of Joint Venture Applicants.

- a. Describe whether there exist any secrecy laws or other impediments that would restrict the ability of the applicant and its ultimate parent, if any, to provide information to the Authority as needed by the Authority to determine and enforce compliance with Bhutanese law. If any impediments exist.

- i. Explain how the applicant and the ultimate parent, if any, propose to provide the Authority with adequate assurances of access to such information;
- ii. Describe what policies, procedures and internal audit measures will be put in place to ensure compliance with the Bhutanese law.

29. Corporate Papers of a Joint Venture Applicant

- a. Attach a copy of the articles of incorporation of the applicant, as amended to date.
- b. Attach a copy of the by-laws of the applicant, as amended to date.

**Issue of Licence**

After consideration of the documents and other investigations, the Authority if satisfied may issue in-principle approval. This approval shall be valid for the period of twelve months. During this period, the applicant shall take all necessary preliminary measures specified therein. The issue of in-principle approval does not bind the Authority to issue a license to conduct business.

30. A company in respect of which an In-principle approval has been given should not commence business before the issue of a license. Every advertisement, notice, etc. issued prior to the issue of the license should specify that it has not been issued a license to carry on reinsurance business.

31. An applicant upon complying with the conditions specified in the In-principle approval may request the Authority to issue a license. The Authority being satisfied may issue a license to an applicant to carry on reinsurance business.

32. A licensed reinsurance company shall commence business within three months of issuance of a license.

**Other Requirements**

1. Once the license is issued by the Authority, all insurance companies must reinsure 20% of every underwritten business premium for every business with a Bhutanese Reinsurance Company.

2. Licensed Reinsurance Company shall pay an annual renewal license fee of Nu. 100,000 (Ngultrum one hundred thousand only) in cash/cheque/draft in favor of the Authority before the 31<sup>st</sup> of December each year.
3. The new reinsurance company shall not be allowed to set up a subsidiary that provides financial services for at least three years from the date of commencement of business.
4. All reinsurance companies should obtain the prior approval of the Authority to carry on their business in and outside Bhutan.

### **Investment and Liquidity Requirements**

5. Every reinsurer shall deposit with the Authority 10% of the total paid-up capital as statutory deposit. This deposit can either be in cash or in approved securities estimated at the market value of the securities on the day of deposit or partly in cash and partly in approved securities so estimated. The deposit shall be refunded when the reinsurance company ceases to carry on business and once its liabilities have been fully satisfied.
6. Every Reinsurer must invest in assets that in terms of security, return, diversification and marketability are sufficient to cover their obligations as they fall due. In addition, they need to have appropriate and effective tools to manage their investments and liquidity risks and monitor their cash flows.
7. Reinsurer may invest in assets similar to that of insurance companies in Bhutan.

## ANNEXURE I

The Governor  
Royal Monetary Authority of Bhutan  
Chophel Lam  
Kawajangsa  
Post Box 154  
Thimphu, Bhutan

Date:

### **Sub: Application to establish Reinsurance Company in Bhutan**

Dear Sir/Madam,

We are eager to establish Reinsurance Company under section 18 of Financial Services Act of Bhutan, 2011 to conduct reinsurance business in Bhutan. We confirm and declare that all applications made by us are in full compliance with the Regulations for Establishment of Reinsurance Business in Bhutan issued by the Authority. We further confirm and declare that we are satisfied to the best of our knowledge, information and belief, there is no information or statement nor is there any omission which would make our application false or misleading. We undertake to provide to Authority such information and documents as the Authority may reasonably require in relation to the applications.

This application is made by the undersigned authorized person of (\_\_\_\_\_) pursuant to the authority granted to by written resolution of our Board of Directors passed on (\_\_\_\_\_).

For and on behalf of proposed company

Yours Sincerely,

Name

Address

Tel No

Fax No.

Email:

Encl: Documents pertaining to the application.

## ANNEXURE II

### LICENSING APPLICATION FORM

*(Please ensure that this form is filled properly. In case of any clarifications, please feel free to call or visit Financial Regulation and Supervision Department of the Authority).*

In accordance to section 18 of the Financial Services Act of Bhutan 2011, an application form is required to be submitted by the applicant to the Authority for a licence to conduct the reinsurance business in Bhutan.

#### 1. Information on lead applicant

Name

Address

Phone No.

Fax No.

E-mail Address

Name of Proposed Company

#### 2. Please indicate which of the following activities the applicant intends to provide or seek to be licensed.

- a. Life Insurance
- b. General Insurance
- c. Composite Insurance

#### 3. Details of Applicant(s)

- a. Name
- b. Date of Birth
- c. Address
  
- d. Qualification

- e. Experience
  
- f. Present Occupation
  
- g. No. of Shares
  
- f. % of Total Shares

*Use additional sheet, if required.*

**4. If some applicants are company or body corporate, provide the following key aspects of the company.**

- a. Name of the company
  
- b. Date of Registration
  
- c. Registration Number
  
- d. Place of Registration
  
- e. Type of Business

**5. Proposed Capital Structure of the reinsurance company.**

- a. Amount of Authorized Capital and No. of Shares
  
- b. Amount of Issued Capital and No. of Shares
  
- c. Amount of Paid Up Capital and No. of Shares

**Please note that any changes in the above office must be notified to the Director, Financial Regulation and Supervision Department, Authority, within 7 days of each change.**



## DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted on behalf of the proposed Reinsurance Company are true, complete and correct to the best of my knowledge and belief.

Should the Authority come across any inconsistencies on the information provided, I hereby agree to fully abide by the penalties listed under section 138 of the Financial Services Act of Bhutan 2011.

Further, I would like to pledge that if granted a license to conduct the business, the proposed company will not violate any laws and regulation of the Authority.

Name:

Position Held:

Signature (Affix  
Legal Stamp):

Date:

Witness

Name:

Citizenship ID No (please  
attest copy):

Address:

Occupation:

Telephone No.:

Email Address:

Signature:

## ANNEXURE III

### BIOGRAPHICAL REPORT

#### 1. Personal Details.

a. Name	
b. Date of Birth	
c. Nationality	
d. Citizenship ID No.	
e. Passport No.(Non-Bhutanese)	

#### 2. Contact Information

a. Telephone No	
b. Mobile No.	
c. Fax No.	
d. E-mail	

#### 3. Present Position.

a. Name and Address of the Firm	
b. Nature of Business	
c. Telephone No	

#### 4. Marital Status.

<input type="checkbox"/> Single	<input type="checkbox"/> Married	<input type="checkbox"/> Divorced
If married, Spouse's Name and Citizenship ID No.		

**5. Dependents.**

Name	Relationship	Date of Birth (dd/mm/yyyy)

**6. Family History.**

Relationship	Name	Date of Birth	Occupation	Email Address	Mobile No.
Father					
Mother					

**7. Education.**

Name & Address of University	Years of Attendance	Major Area of Study	Degree/Certificate Granted	Date Awarded

**8. Employment Record (Pertaining to previous 5 years). Use additional sheets, if necessary, and account for all gaps in employment.**

Position held/ Department	Main responsibilities	Organization	Country	Duration

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9. Status of the proposed appointment. Please tick relevant box.

<input type="checkbox"/> Initial Appointment	<input type="checkbox"/> Independent Director	<input type="checkbox"/> Non-Independent Director
<input type="checkbox"/> Re-appointment		

10. Do you have a license to practice any profession?  Yes  No

If yes, please give details.

a. Nature of License	
b. Date of Issue	
c. License/Registration No.	
d. Licensing Agency and Address	

11. (a) If self-employed, describe each enterprise, including the name, address, license number, your percentage of ownership and the type of business which you own or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the corporation or other entity).

(b) List names, addresses and percentage of control and/or ownership of other incorporators, partners, directors, or officers of the entity or corporation referred to above.

Are you employed in any professional capacity, or do you perform any services for or have any business connections with any institution which is subject to the supervision of the Royal Monetary Authority of Bhutan, or any other authority of the Royal Government of Bhutan?	<input type="checkbox"/> Yes
	<input type="checkbox"/> No
If "Yes", indicate the name of the institution, address and nature of your work.	

**12.**

Have you had, or do you now have, any financial interest, direct or indirect, in any financial institution in Bhutan	<input type="checkbox"/> Yes
If “Yes”, give the name of the institution, address and nature of the financial interest.	<input type="checkbox"/> No

**13. Please tick whichever is relevant for the following questions below.**

1. Do you have more than 5 years experience in banking, insurance, securities, finance, accounting, information technology & investment management	<input type="checkbox"/> Yes
	<input type="checkbox"/> No
	<input type="checkbox"/> N/A
2. Were you declared insolvent and adjudicated bankrupt	<input type="checkbox"/> Yes
	<input type="checkbox"/> No
	<input type="checkbox"/> N/A
3. Were you convicted by a court in any criminal offense or has been involved in any fraud/forgery, financial crime or other illegal activities	<input type="checkbox"/> Yes
	<input type="checkbox"/> No
	<input type="checkbox"/> N/A
4. Are any of your loan accounts with financial institutions classified as non-performing at any point of time (loan default by 90 days)	<input type="checkbox"/> Yes
	<input type="checkbox"/> No
	<input type="checkbox"/> N/A

**14.** Practicing accountants may be appointed as directors of financial institutions provided they are not employed or are not partners in an accounting firm, which has been engaged to conduct audit or consultancy work for that particular financial institution.

**15.** Are you a practicing accountant/consultant?  Yes  No  
If “yes”, in what capacity?

16. Are you affiliated to any political party?  Yes  No  
 If “yes”, in what capacity?

17. Answer “Yes” or “No” to any of the questions below if they apply to you as an individual, or a partner, director or officer of a corporation except for minor traffic violations.

a. Are any arrests, indictments, criminal information or other criminal proceedings now pending against you?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b. Were you ever convicted for any violations of the law?	<input type="checkbox"/> Yes <input type="checkbox"/> No
c. Have you or has any partnership of which you were a CEO or a major owner (more than or equal to 10% of the capital of the company) ever been liquidated or judged bankrupt?	<input type="checkbox"/> Yes <input type="checkbox"/> No
d. Has any business of which you were a director, officer, partner or major shareholder (10% or more of the voting shares) defaulted on his/her loan repayment?	<input type="checkbox"/> Yes <input type="checkbox"/> No
e. Has any enterprise in which you were a partner, director or officer been the subject of criminal indictment or other criminal proceedings?	<input type="checkbox"/> Yes <input type="checkbox"/> No

18. Income tax clearance: Fiscal Year ..... (Attach tax clearance certificate)

## **DECLARATION**

I certify that I am aware that it is an offence under section 138 of the Financial Services Act of Bhutan, 2011 to provide the Authority any information which is false or misleading in a material particular.

I certify that the information given in the form above and accompanying documents is complete and accurate to the best of my knowledge, information and belief and that there are no other facts relevant to this application of which the Authority should be aware.

I also undertake that as long as I continue to be a Director/Applicant/Key Personnel, I will notify the Director of the Financial Regulation and Supervision Department of the Authority of any material changes to, or affecting the completeness or accuracy of, the information given above as soon as possible, but in any event no later than 10 days from the day the changes come to my attention.

Further, I would like to pledge that as long as I continue to be a Director/Applicant/Key Personnel of the company, I will not violate any laws and regulations of the Authority.

Name Position Held

Signature(Affix Date  
Legal Stamp):

### **Witness**

Name:

Citizenship ID No (please  
attest copy)

Address

Occupation

Telephone No.

Email Address

Signature