INSTRUCTION No.28/ 2025
ON MINIMUM SOLVENCY MARGIN AND ADMITTED ASSESTS REQUIREMENTS FOR LIFE INSURANCE COMPANIES

Taking into consideration of the necessity for life insurance companies to adopt consistent Prudential Financial requirements and methodologies in order to measure their individual solvency margin requirements.

Furthermore, the need for life insurance companies to maintain total assets in their books that exceed their total liabilities as a buffer or a source of financial support to protect an insurer against unexpected loses, and is therefore, a key contributor to its safety and soundness.

It is crucial for insurance companies to be solvent at all times and be able to fulfil their contractual obligations to their policyholders under all reasonably foreseeable circumstances.

For the purpose of providing an early warning for regulatory intervention and early corrective action.

Considering also the article 27 of the Law no. 6/2005, of 7 of July, Law of Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries, that grants exclusive competence to the BCTL to regulate, by Instruction, the margin solvency requirements.

The Governing Board of Banco Central de Timor-Leste pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 of 15 June, and in Law no. 6/2005, of 7 of July, hereby resolves to approve the following Instruction:

Article 1
Definitions

In this Instruction the terms below shall have the following meaning:

a) "Admitted assets" means the assets or class of assets specified herein and within the values specified herein.

b) "BCTL" means the Banco Central de Timor-Leste as established under Law no. 5/2011 of 15 June;

c) "Cash and deposits" mean cash, bank balances and deposits (including fixed deposits, negotiable instruments of deposit, bankers' acceptances and money market instruments) deposited with any financial institution licensed by the Central Bank;

d) "Equity Instrument" means any kind of financial asset representing ownership rights on a commercial company under Timor-Leste law;

e) "Group of borrowers" means a set of natural persons or corporate entities, as the case may be, which are:

   (i) Related corporations or close relatives.

   (ii) Associate companies and for the purpose of determining an "associate", the cut-off level is the ownership or control, directly or indirectly, of not less than 20% of the issued capital; or

   (iii) In the position of a partner in a partnership or a "controller" or an institution controlled as defined under the relevant Law or Regulation applicable in Timor-Leste.

(iv) However, if a borrower is obtaining a credit facility for its own use and not for the use of other entities referred to above, and where the credit facility is extended to it on the basis of its own financial strength without recourse to any other person within the group of borrowers, such a credit facility need not be aggregated with other credit facilities extended to the group.

f) “Low risk assets” means:

(i) A security, bill, certificate or loan or any other paper issued and guaranteed by the Government of Timor-Leste.

(ii) A security, bill, certificate or loan or any other paper issued by the BCTL; and

(iii) A US dollar denominated bond issued by a foreign sovereign with a sovereign rating from at least two major rating agencies of AA- or better.

g) “Policy Loan” means a loan issued by an insurance company and uses the cash value of a person's life insurance policy as collateral.

h) “Property” includes “immovable property” and other “approved property-related investments” defined as follows:

(i) “Immovable property” means self-occupied property or investment property;

(ii) "Approved property-related investments" means private real-estate funds (fund), and shares of unlisted single-purpose property holding companies (entity) whose principal assets comprise of properties and which do not have significant liabilities other than in relation to loan facilities taken for the purchase of property, which meet the following conditions:

(a) the fund/entity shall be established or incorporated in Timor-Leste;

(b) investments in property shall be made in Timor-Leste property only;

(c) the fund/entity shall wholly own a property, including all rights, interests and benefits related to the ownership of the property;

(d) at least one of the main sponsors or managers of the fund should be a financial institution licensed by the Central Bank;

(e) in the case of an investment by a fund in the shares of a single-purpose property holding company, the company should not have significant liabilities other than in relation to loan facilities taken for the purchase of property and the valuation of the acquired company must be backed by the value of properties owned by the company.

i) “Unsecured credit facility” means a credit facility other than a secured facility and which carries a minimum rating of BBB by any recognized rating agency;

j) “Secured credit facility” means a credit facility shall be secured in the manner set out under Article 6.

k). “Sums at risk” means the sums assured less reserves for life insurance liability.

Article 2
Applicability

This Instruction shall apply to all life insurance companies licensed by BCTL to operate in Timor-Leste

Article 3
Required Minimum Capital

1. The capital of a life insurance company shall be calculated based on the company’s balance sheet prepared according to internationally recognized accounting standards as the sum of the following:

   a. Issued and fully paid-up ordinary shares.

   b. share premiums;
   c. paid-up irredeemable preference shares.
   d. capital reserves;
   e. retained earnings (less losses); and
   f. revaluation reserves for self-occupied properties
2. Life insurance companies shall always maintain a minimum capital unimpaired by losses of at least US$1,000,000.00 (one million United States of America dollars).
3. In line with Article 10 (2) of Law No. 6/2005 of July 7 and Article 4.1 of the Instruction No.8/2020 of November 25, On the Licensing of Life Insurance Companies, the first US$1,000,000 (one million United States capital requirement of American dollars) at the time of establishment must be in the form of share capital.
4. The initial capital of a life insurance companies shall be permanent in nature and subscribed in cash and shall not be provided by way of loan, bond or other debt instrument.
5. When the capital of a life insurance companies falls below the required minimum capital, the shareholders of the company must subscribe further capital within a maximum period of 30 days so that the minimum capital requirement is met.

Article 4
The Principal Areas of Concern in Reviewing an Insurer's Investment Portfolio

1. Diversification: This is to ensure that the investment portfolio is adequately diversified to prevent an undue concentration of investment by type or issue.
2. Liquidity: This is to ensure that investment structure is appropriately liquid to allow for generating the necessary cashflows to pay liabilities when they come due.
3. Sufficient: Assets should be readily convertible to cash, and the sale of necessary assets should not involve significant losses caused by market impact.
4. Quality: This is to ensure that the investments held are of good quality. As the quality of an investment decreases, the probability that the principal will be returned and that the expected yield will be realized, tends to decrease.
5. Valuation: This is to ensure that the investments have been appropriately valued in accordance with internationally recognized accounting standards.

Article 5
Prohibited Acts or Transactions

1. Life insurance companies licensed shall not accept immovable property as security for a credit facility unless it is freehold property or leasehold property with an unexpired lease period of at least 25 years.
2. Life insurance companies shall not grant a credit facility.
   (a). for the purchase of immovable property for residential purposes excess of 80% of the purchase price; or
   (b). for any other purpose, in excess of 70% of the market value of the immovable property on the date of granting the credit facility.
3. Life insurance company is prohibited to provide the following credit facilities:
   (a) loans granted to shareholders or partners, directors, managers or employees of the insurance company itself, or to the spouses of any such person; and
   (b) loans granted to companies belonging to the same group in which the insurance company operates.

Article 6
Granting Secured Credit Facility

1. Life insurance company licensed shall not accept immovable property as security for a credit facility unless it is freehold property or leasehold property with an unexpired lease period of at least 25 years.

2. A licensed insurer shall not grant a credit facility.

    a. for the purchase of immovable property for residential purposes excess of 80 percent of the purchase price; or

    b. for any other purpose, in excess of 70 per cent, of the market value of the immovable property on the date of granting the credit facility.

3. A licensed insurer granting a credit facility which is secured by rights and interests in an immovable property, where applicable.

    a. shall enter into an agreement in writing for the credit facility with the borrowers.

    b. shall require the borrower to execute a deed of assignment assigning all his rights and interests in the immovable property to itself and to register the deed of assignment in accordance with applicable law;

    c. shall require the borrower to execute the power of attorney in its favor, authorizing it to execute a charge in its favor on the immovable property which is the subject of the sale and purchase agreement with the borrower.

    d. shall obtain confirmation from the developer or registered proprietor of the immovable property that there is no prior subsisting assignment of the rights and interests in the immovable property which would vitiate the deed of assignment alight to b); and

    e. where the immovable property is subject to a restriction in interest that it cannot be transferred, assigned, charged, or otherwise dealt with, without the consent of the State Authority, shall ensure that the consent of the State Authority has been obtained for the sale or assignment to the person in whose name the immovable property is to be registered and for the licensed insurer or licensed insurance broker, to acquire the immovable property in the event of any default in the repayment of the credit facility.

4. A licensed insurer shall only accept immovable property situated in Timor-Leste as security for a credit facility granted in Timor-Leste, and subject to provisions of any laws applicable in Timor-Leste.

Article 7
Admitted Assets Supporting Total Liabilities and Margin of Solvency

1. Life insurance companies shall maintain admitted assets of a value not less than the required margin of solvency and its total liabilities.
2. Admitted assets comprise assets listed in annex II of this Instruction.
3. Investment in unsecured credit facilities rated below BBB by international rating agencies are not qualified as admitted assets.

Article 8
Calculation of Required Margin of Solvency

1. Life insurance companies shall maintain a margin of solvency (MOS) in respect of its life business which shall be the higher of all the following amounts:

    (i) US$1,000,000.00 (one million United States of America dollars); or

(ii) the aggregate of :
   (a) 4 % of the reserves for life insurance liability (total actuarial reserve), excluding the liability in respect of extensions of life policies under the point (d);
   (b) 0. 1 % of the sums at risk in respect of life policies whose original policy term is 2 years or less.
   (c) 0.2 % of the sums at risk in respect of life policies whose original policy term is more than 2 years; and
   (d) 25% of the net premium accounted during the financial year derived from all extensions of life policies ensuring contingencies for a period not exceeding 12 months and where the premium for the extension is fully earned by the end of the next anniversary date of the policy.

2. Life insurance companies must, at all times, maintain a margin of solvency not less than the minimum capital requirement.
3. Statement of solvency as per Appendix I of this Instruction shall be submitted to the BCTL together with the quarterly financial report.

Article 9
Failure to Meet Solvency Margin

1. Life insurance companies that fail to meet the minimum capital requirement or the minimum solvency margin prescribed in this Instruction must notify the BCTL within one business day of the shortfall being identified by management.
2. Within five business days of their notification to the BCTL, insurance companies in this position must submit a plan for addressing the deficiency that describes the manner in which the deficiency will be overcome, and the date (not being more than 60 business days from the discovery of the shortfall) by which the deficiency will be cleared.
3. If the failure to meet the minimum capital/solvency margin persists beyond the clearance date the BCTL shall apply increasingly punitive sanctions at such intervals as it may deem appropriate to protect the interests of the policyholders and creditors of the life insurance company in line with Law No. 6/2005 of 7 July

Article 10
Entry into Force and Publication

This Instruction shall enter into force on the day of its publication in the Jornal da República.

Adopted on 20 November 2025

Governor

Helder Lopes

Appendix 1: Statement of Solvency Margin

Name of life insurance company: ______________________________

As at: ______________________

No.	Items	Value US$
1.	Total Admitted Assets (a)	
2.	Total Liabilities as per the company Balance Sheet (b)	
3.	Available Margin of Solvency (a-b) = (c)	
3.	Required Margin of Solvency (d) (The higher of US$1,000,00.00 or computed amount)	
4.	Solvency surplus/ (deficit) = (c-d)	
5.	Solvency Margin Ratio (SMR)* = (c/d) %	

* An insurer is required to maintain SMR of not less than 150% at all times.

Nome and Signatura do Director: ______________________________

Date: ______________________

Appendix II: Limit of Admitted Assets

No.	Class of Assets	Limit for aggregate investments in a particular asset class	Sub-limit for individual Investments/exposures to individual counterparties
1.	Low risk asset	No limit	No sub-limit
2. .	Cash and deposits issued by institutions licensed by the central bank	No limit	No sub-limit
3.	Properties b. Immovable properties c. Other approved property-related investment	20%*	The lower of- a. 5% of (MOS + TL**); or b. 5% of the total issue of the fund, or the investee company's equity at the date of investment.
4.	Secured and unsecured credit facilities: (a) Total credit facilities (b) Sub-limit for unsecured credit facilities	30%* 20%*	5% of the (MOS + TL) for total credit facilities, and 2.5% for unsecured credit facilities to any one borrower or group of borrowers.
5.	Equity instruments	20%*	The lower of- (a) 5% of (MOS+TL); or (b) 5% of investee company's equity.
6.	American dollar denominated mutual fund schemes	10%*	The lower of – (a) 5% of (MOS+TL); or (b) 5% of the total issue of the mutual fund at the date of investment.
7.	Other Assets: (a) Reinsurance deposits with ceding companies which are not yet due for repayment (b) Outstanding premiums which are outstanding for not more than 60 days (c) Claims recoverable and amounts due from reinsurers or ceding companies which are outstanding for not more 3 months (d) Investment income outstanding or accrued for not more 3 months (e) Cash proceeds from sale of assets which are outstanding not more than 15 days.	 20%* 20%* No limit No limit No limit	 No sub-limit No sub-limit No sub-limit No sub-limit No sub-limit

** % of (MOS+TL)*
*** TL =Total Liabilities*