FRA Issues Decree Introducing New Solvency Standards for Insurance Companies

By Mariam Fahmy and Malak Sobhy

Introduction

The Financial Regulatory Authority ("**FRA**") issued Decree No. 148 for the year 2025 (the "**Decree**"), introducing a new framework for calculating financial solvency margins of insurance and reinsurance companies, repealing Decree No. 262 for the year 1995.

The Decree was published in the Official Gazette on July 30, 2025 and came into effect the following day.

We shall delve into the key highlights of the Decree as follows:

Scope of Application

The Decree applies to companies operating in any of the following activities: (i) insurance and reinsurance; (ii) takaful and retakaful; (iii) specialized medical insurance; (iv) microinsurance; and (v) specialized insurance.

Solvency Margin Requirements

The Decree sets out an obligation on the relevant companies to maintain a solvency margin under which the value of assets exceeds the liabilities by at least 125% of the required solvency margin, at any point in time.

Property and Liability Insurance

With regard to property and liability insurance, companies must calculate the required margin using a premium-based method and a compensation-based method, applying the higher calculated amounts. Until the end of the 2027 financial year, the requirement amounts to 20% of net premiums or 25% of net compensation incurred across all insurance branches. After the end of the 2027 financial year, differentiated rates apply at 30% for engineering, aviation, petroleum and energy insurance branches; and 25% for other insurance branches.

Life and Capital Accumulation Insurance

As for life and capital accumulation insurance, the financial solvency margin is determined by applying the prescribed percentage to the insurance capital, then adding the required technical provisions minus liabilities after reinsurance.

The required solvency margin is set as the aggregate of:

(i) 0.3% of sums insured under active contracts at risk, subject to a maximum 50% reduction for reinsurance;

(ii) 4% of provisions for outstanding coverage, subject to a maximum 15% reduction for reinsurance; and

(iii) 1% of reserves relating to the investment component associated with investment units and fund accumulation absent a guarantee, or 4% where a guarantee is provided.

In all cases, the required solvency margin may not fall below the minimum paid-up capital thresholds set by the FRA, and reliance on unregistered reinsurers is disregarded for the purposes of calculation.

Valuation of Assets and Liabilities

The Decree also establishes regulatory provisions with regard to the valuation of assets and liabilities. The same stipulates that only net assets recognized in the company's financial statements may be accounted for and outlines a list of excluded items. Said excluded items include investments in other insurance companies operating in Egypt in the same line of business, investments exceeding statutory concentration limits, financial investments abroad unless through approved subsidiaries or branches, overdue receivables older than three months, excess policyholder account balances, intangible assets, treasury shares, and other assets deemed by the FRA as lacking sufficient funds.

Procedures and Measures in case of Shortfalls

The Decree also grants the FRA powers to enforce corrective measures in case a company's available solvency margin falls below the required thresholds. In case the margin remains between 100% and 125%, the company is instructed to restore compliance within the following financial year. If the margin falls below 100%, the FRA has the power to mandate immediate action such as the retention of distributable profits, increasing capital or subordinated shareholder loans.

Market Reaction

The Decree comes in line with the efforts of the FRA to strengthen the financial resilience of Egypt's insurance sector and to establish a regulatory framework for financial solvency margins.