



**BANKING AND PAYMENTS AUTHORITY OF KOSOVO
AUTORITETI BANKAR DHE I PAGESAVE TE KOSOVES
BANKARSKI I PLATNI AUTORITET KOSOVA**

Pursuant to the authority given under Section 17.b of UNMIK Regulation No. 2001/24 date of October 1, 2001 on Amending UNMIK Regulation No. 1999/20, on Banking and Payments Authority of Kosovo and Section 3.3 of UNMIK Regulation No.2001/25 date of October 5, 2001 on Licensing, Supervision and Regulation of Insurance Companies and Insurance intermediaries,

For the purpose of execution Section 12 of UNMIK Regulation Nr. 2001/25

Governing Board of the Banking and Payment Authority of Kosovo, at the meeting held on December 19, 2005 adopt the following:

Rule 4 on Amending Rule on the Licensing of General and Life Insurance Companies dated October 18, 2001

Section 1

Obtaining Approval for an Insurance Company Licence

1.1 Scope of Rule

This rule applies to all applicants seeking to carry on the underwriting of general or life insurance business in Kosovo.

One of the key requirements for the establishment of an insurance company operation is that the shareholders, directors and senior managers must be "fit and proper" to exercise their responsibilities. Accordingly, in the event that the BPK subsequently discovers that any aspect of the information provided in connection with the application for an insurance company licence was deliberately falsified, the shareholders, directors and senior managers of the proposed insurance company will be subject to sanctions prescribed under Kosovo's insurance regulation or BPK rules. A pending application will be immediately rejected in this case. Where a licence was granted on the basis of this falsified information, the licence of the insurance company may be immediately withdrawn.

Applicants found to have engaged in any activities resulting in criminal charges, past or pending, will be automatically disqualified from further consideration. This disqualification will apply to the present and future applications for an insurance company licence, unless a competent Kosovo court authoritatively dismisses the charges.

1.2 Requirements for All Applicants

- a. **Additional information:** BPK reserves the right at all times to demand additional or supplementary information to that requested herein.
- b. **Language:** All applications must be submitted in Albanian and/or Serbian OR English.
- c. **Application fee:** An applicant for an insurance company licence must submit an application fee of Euros 10,000 ,and an additional fee of Euros 1,000 for each class of insurance that the applicant intends to underwrite.
- d. **All applicants must provide the following data:**
 - d.1 A formal application to underwrite the desired classes of insurance business in the format provided by the BPK General insurance and life insurance classes of business must be underwritten through separate insurance companies;
 - d.2 The original charter document for the proposed insurance company along with its by-laws or equivalent documentation;
 - d.3 Full, detailed Curriculum Vitae (CVs) of the main shareholders (when they hold or will hold more than 10% of paid-up shares), directors and senior managers proposed for the insurance company. The CVs must summarize their professional history and academic background. The CVs of the proposed senior managers should, in particular, demonstrate considerable insurance industry experience, training and knowledge. Tangibly, this means that the proposed senior managers should ordinarily have a recognised business degree from a reputable academic institution and/or a recognised insurance industry qualification and/or considerable professional insurance experience. Original academic and professional qualifications should be submitted to the BPK for review. The BPK will undertake its own investigation of the applicant's background and credentials;
 - d.4 A list of all individuals, with their addresses and nationalities, who are/will be the registered main shareholders (as defined above) or ultimate beneficial owners of the insurance company. The list should include the shareholdings of each main shareholder;
 - d.5 Complete, certified personal balance sheets/statements of financial resources for the main shareholders, directors and

senior managers proposed for the insurance company. The statements must be certified by a BPK-recognised bank or a licensed audit firm. Any exception shall be approved by BPK.

- d.6 Bankruptcy: Persons having been declared bankrupt by any authoritative court in Kosovo or elsewhere are disqualified from further consideration. Similarly, persons having served as shareholders, directors or managers in a bankrupt business enterprise will also be disqualified from further consideration.
- d.7 Three professional references for each of the individual main shareholders, directors and senior managers for the proposed insurance company operation. One reference should be provided by the BPK recognised bank or audit firm having certified the balance sheets/statements of financial resources in the aforementioned point

1.3 Business plan containing:

- a. **Financial Projections:** a forecast of financial results for the first five years of the company operations. The applicant should be able to readily justify all of its financial estimates. These projections will take the form of Income Statement Projections and Balance Sheet Projects.

Business Plan must provide financial projections and equivalent solvency calculations under the following scenarios:

1. Number of policies is the same for five years and average claims cost increases by 10% each year and average premium per policy is the same for each of the years.
2. Incurred loss ratio is comparable and consistent with area averages for the industry for the five years.

A prescribed format for the statements will be used. A description of the main assumptions used that include details on:

1. Calculation of unearned premiums
2. Calculation of deferred acquisition costs
3. Valuation of investments
4. Number of policies per year
5. Average premium of policies per year
6. Average claims cost for claims paid
7. Commission rates paid each year to insurance intermediaries
8. Average return on investments

b. Minimum Solvency Margin Calculation Projections

A realistic calculation of the applicant's minimum solvency margin for each of the first five years of operations is necessary. The formula for the calculation of the Solvency Margin is described in another rule.

- c. Distribution:** Proposed method of distribution for each insurance class, e.g. direct selling, through a bank or other financial institution, through an agent or a through a broker.
- d. Reinsurance Program:** A discussion of the proposed insurance company's reinsurance program; the discussion should address issues such as 1) the net retention levels proposed; 2) details about the reinsurance company partners; and 3) the type of reinsurance program proposed, e.g. excess of loss, pro-rata.
- e. Marketing Plan:** A marketing plan identifying the proposed insurance company's prospective customers. This could involve segmenting the market by demographic statistics (income levels, gender, age occupation etc).
- f. Fees/Commissions:** Information respecting the fees/commissions the proposed insurance company is planning to pay to insurance intermediaries. Insurance companies found to be offering percentages in excess of the fees/commissions indicated in their business plans will be subject to possible sanctions in accordance with BPK regulation. The proposed insurance company should explain how it would ensure that the intermediaries it will be using are financially sound, reputable and trustworthy in their dealings with the Kosovo clients.
- g. Auditing Firm:** The name and contact details of the licensed audit firm for the proposed insurance company. The audit firm submitted must be able to demonstrate that it has gained sufficient experience in having audited insurance companies. The audit firm must also be able to show that it fully understands the issues and challenges associated with auditing the insurance operations of a Kosovo insurance company.
- h. Actuary/Claims expertise:** A description of the actuarial or provision for claims expertise that the proposed insurance company will employ in: (1) setting appropriate premium levels; and (2) establishing appropriate technical provisions levels, including the provision for claims and the provision for unearned premiums for a general insurance company; and, for a life insurance company, a description of the valuation actuarial expertise that the applicant will employ for the same considerations as for a general insurance

company and, additionally in establishing mathematical provisions and setting provisions for adverse deviations. The BPK will expect that both general insurance and life insurance actuaries and provision for claims experts will dispose a recognised professional qualification.

- i. **Banking Arrangements:** An outline of the proposed banking arrangements will include identifying the banks with which the proposed insurance company will be dealing. The applicant must identify who will have signing power over large cash transactions in and out of the applicant's bank accounts (Euros 5,000 and above). Stockholders, Directors and the Chief Executive Officer will not be permitted to have signing authority.

An operating account will be established in a BPK approved Kosovo Bank.

- j. **Investment policy:** An applicant shall outline the proposed insurance company's suggested investment policy. Describe how the proposed insurance company will ensure that there are sufficient funds available to pay claims as they come due;
- k. **Provide Sample policy and claim documents and premium rates**
- l. **Internal control:** Internal control mechanisms (e.g. double signature requirements, Board of Director approvals etc.) to be employed as an internal control policy. Copies of policies, procedures and practices developed in this respect must be submitted for approval by the BPK;
- m. **Information technology:** A description of the computer and telecommunications systems the proposed insurance company will be using.
- n. **Disaster Recovery Plan:** An applicant will submit a copy of its business resumption/disaster recovery plan for approval to BPK.
- o. **Other Key Personnel:** Nominated persons for the roles of compliance officer and Internal Auditor shall be also approved by the BPK.

1.4 Significant changes to business plan:

Significant changes to the business plan submitted by the proposed insurance company must be approved by the BPK. Another BPK insurance rule outlines what the BPK considers to be significant changes. Violations of this requirement

will be subject to sanctions prescribed under Kosovo's insurance regulation or BPK rules.

Section 2

Requirements for Applicants Wishing to Operate through a Kosovo-Incorporated Insurance Company

2.1 Minimum Capital

A minimum paid-in capital of not less than three million Euros in cash (€3.000.000), to be deposited in the BPK, is required for licensing of a general incorporated insurance company.

A minimum paid-in capital of not less than two million five hundred thousand Euros (€2.500.000) in cash, to be deposited in the BPK, is required for establishment of a Kosovo life insurance company.

2.2 Applicant outside Kosovo wanting to get the license for a Kosovo insurance company subsidiary

An incorporated applicant from outside Kosovo wanting to establish a Kosovo insurance company subsidiary, except of the fulfilling the criteria for paid-in capital in accordance with paragraph 2.1, the BPK will require:

Statement from the Supervisor in domestic jurisdiction

Stating that the home supervision authority is in agreement with the applicant's intention to get the license for establishment of an insurance company subsidiary in Kosovo. This document, among others, must state that the applicant is in compliance with the insurance laws of the home country, including information on shareholders, capital, financial strength of the parental company, etc.

Financial Statements

An applicant from outside Kosovo wanting to incorporate a Kosovo insurance company subsidiary must submit its audited annual financial statements for the last five years in Albanian and/or Serbian or English (a certified English translation is acceptable).

The applicant will be expected to have made profits in at least four of those preceding five years.

Audit Firm

The proposed licensed audit firm for the proposed insurance company subsidiary must be approved by the BPK.

2.3 Requirements for Applicants Wishing to get licensed as a Branch in Kosovo

Insurance Company licensed under the foreign jurisdiction desiring to get the license for establishment of the branch in Kosovo, must fulfil the criteria prescribed in Section 2.1 (a minimum paid-in capital) of this Rule. Half of the paid in capital will be deposited in cash in the BPK; the other half of the paid in capital shall be allocated in the balance sheet of the parental company. The allocation is to cover the risk of the branch and must be confirmed by the external auditor.

The supervision authority of the Home Country will be informed of such an allocation by the BPK.

Statement from the Supervisor in domestic jurisdiction

Stating that the home supervision authority is in agreement with the applicant's intention to establish a branch insurance operation in Kosovo. This document, among others, must state that the applicant is in compliance with the insurance laws of the home country, including information on shareholders, capital, financial strength of the parental company, etc.

Financial Statements

An applicant from outside Kosovo wanting to get the license for establishment of a Kosovo insurance company branch must submit its audited annual financial statements for the last five years in Albanian and/or Serbian or English (a certified English translation is acceptable).

The applicant will be expected to have made profits in at least four of those preceding five years.

Audit Firm

The proposed licensed audit firm for the proposed insurance company must be approved by the BPK.

Maintenance of consolidated financial reports

Parental company shall maintain consolidated annual financial reports, where must also include its branch operations in Kosovo.

Section 3 Revocation of an Insurance Company Licence

Once a licence has been granted by the BPK, an insurance company must ensure that it continues to comply with all the conditions contained herein. If the BPK discovers that any of the factors forming an integral part of the insurance

company's application have been modified without the prior permission of the BPK, the BPK reserves the right to immediately revoke the company's licence.

Revocation can also occur when a newly licensed insurance company seriously contravenes Kosovo's insurance regulation or rules promulgated by the BPK. Similarly, any violations of regulations promulgated by any authoritative governmental body in Kosovo could lead to a revocation of a licence.

When an insurance company has not commenced operations within six months of the granting of a licence, the BPK will automatically revoke its licence.

Section 4 Transitional provisions

4.1 Insurance companies licensed in Kosovo are obliged to fulfil additional capital criteria in accordance with Section 2.1 (minimum paid in capital) and Section 2.2 of this Amended Rule, pursuant to the deadlines stated below:

- 2.7 mill. Euro until 31 December 2005;
- 2.8 mill. Euro until 30 June 2006; and
- 3.0 mill. Euro until 31 December 2006.

4.2 Insurance companies' branches must deposit the paid in capital (in cash) in the BPK, in accordance with the amended Section 2.3 of this Rule, pursuant to the deadlines stated below:

- 1 mill. Euro until 31 December 2005;
- 1.25 mill. Euro until 30 June 2006; and
- 1.5 mill. Euro until 31 December 2006.

Section 5 Entry in force

This rule as amended shall enter into force as from 1 January 2006.

Michel Svetchine
Managing Director