



Based on Article 35, Paragraph 1, Subparagraph 1.1 of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16 August 2010) and Article 4, Paragraph 3 and Article 67 of the Law 05/L-045 on Insurance (Official Gazette of the Republic of Kosovo, No. 38/24 December 2015), the Board of the Central Bank of the Republic of Kosovo in the meeting held on 28th of April, 2016 approved the following:

REGULATION ON CALCULATION AND RETENTION OF TECHNICAL AND MATHEMATICAL PROVISIONS FOR NON-LIFE AND LIFE INSURERS

Article 1

Scope and Purpose

1. This regulation sets out the methods of retention and evaluation of technical and mathematical provisions for insurers and branches of foreign insurers.
2. This regulation applies to insurers and branches of foreign insurers that exercise their activity in Kosovo and that are licensed, regulated and supervised by the CBK.

Article 2

Definitions

1. All terms used in this Regulation shall have the same meaning as the terms defined in Article 3 of Law No. 05/L-045 on Insurance or by the following definitions for the purpose of this Regulation:
 - a) "Technical Provisions" mean the determined amount based on actuarial methods, that are retained by the insurer to cover liabilities, that derive from non-life insurance contracts;
 - b) "Mathematical Provisions" mean the determined amount based on actuarial methods, that are retained by the insurer to cover liabilities, that derive from life insurance contracts;
 - c) "Subrogation" means the right of the insurer to go after a third part that has caused the insured event, for which the insurer has compensated the insured.
2. For the purposes of this regulation, unless specified differently with special provisions, the term "Insurer" shall also mean branch of a foreign insurer.
3. Whenever the term technical reserve is used in this regulation it shall mean technical provision and vice versa.

Article 3

General Provisions

1. The insurer must establish and maintain adequate technical and mathematical provisions, the amount of which at any moment must cover the liabilities deriving from insurance contracts.
2. Calculation of technical and mathematical provisions must be based on an actuarial opinion by the insurer's appointed actuary, who needs to argue that the use of methods which are not included in this regulation is not inconsistent with the applicable legal provisions and actuarial principles, and describe the impact of applying these methods to the position and financial performance of the insurer.
3. The amount of estimated technical and mathematical provisions retained by the insurer should not be lower than the amount which results from the calculating these provisions in accordance with the methodology defined in this Regulation.
4. The insurer must at all-time calculate technical and mathematical provisions also at gross terms as well as the portion of technical provisions ceded/transferred to the reinsurer arising from insurance contracts.
5. Technical and mathematical provisions in accounting terms must be registered separately by type of provision provided for in article 4, paragraphs 1 and 2 of this regulation.
6. Technical and mathematical provisions will be recognized and recorded in the accounting records in Euro currency. While in case of occurrence of transactions in foreign currency, the exchange will be made in Euro currency according to the official exchange rate set by the Central Bank of Kosovo on the day of calculation of these provisions.
7. Technical and mathematical provisions will be calculated on the last day of the current period as follows:
 - a) for the first quarter, up to 31st of March of the current year,
 - b) for the second quarter, up to 30th of June of the current year,
 - c) for the third quarter, up to 30th of September of the current year
 - d) for a full calendar year, on 31st of December (annual account)

Article 4

Types of Technical and Mathematical Provisions by Insurance Contracts

1. Insurers who operate in non-life insurance should assess and maintain at any time technical provisions as follows:
 - a) Unearned Premium Reserve (UPR)
 - b) Reserve for outstanding claims, which consists of:
 - i. Reserves for claims reported but not settled (RBNS);
 - ii. Reserves for claims incurred but not reported (IBNR);
 - iii. Reserve for loss adjustment expenses.

- c) Reserve for unexpired risk.
 - d) Reserve for claims reconciliation (if applicable).
2. Insurers who operate in life insurance, should assess and maintain technical and mathematical provisions as follows:
- a) Mathematical Reserves;
 - b) Unearned Premium Reserve;
 - c) Reserve for additional benefits;
 - d) Reserve under section 1 of this article, if applicable.

Article 5

Unearned Premium Reserve Estimation

1. Unearned Premium Reserve is composed of the portion of Gross Written Premium in relation to the unexpired period of the insurance contract. This provision must be maintained from the beginning of the period of calculation for technical provisions until the expiry of the insurance contract, in order to cover costs and damages arising within the effective period of the insurance contract.
2. Unearned Premium Reserve is calculated separately for each insurance contract.
3. Unearned Premium Reserve (UPR) for an insurance contract will be calculated according to the method "pro rata temporis", using the following formula:

$$UPR_i = GWP_i * \frac{DR_i}{TD_i} \text{ where:}$$

UPR_i = Unearned Premium Reserve;

GWP_i = Gross Written Premium;

DR_i = number of days remaining until expiration of the insurance contract for which an insurance premium has been paid (GWP_i) and which will be determined as the difference between the total number of contract valid days (TD_i) and number of days expired since the issuance of the contract in force.

TD_i = total number of insurance contract valid days for which gross written premium was paid (GWP_i) covering the contract.

i = insurance contract which Unearned Premium Reserve has been calculated.

4. Total Unearned Premium Reserve is equal to the sum of all Unearned Premium Reserves from each insurance contract (UPR_i) for which premium was written from the date of assessment and is expressed by this formula:

$$UPR_t = \sum_{i=1}^n UPR_i \text{ where:}$$

UPR_t = Total Unearned Premium Reserve on the date t

n - number of contracts for which the Unearned Premium Reserve (UPR) has been calculated.

5. For insurance contracts which come into force on a date later than the recording date of written premiums on these contracts in the accounting books, unearned premium reserve shall be equal to the premium written.
6. Amount (part) of reinsurers in technical reserves for unearned premiums will be calculated separately for each insurance contract pursuant to an agreement for proportional reinsurance in accordance with the provisions of the insurance contract. Non - proportional reinsurance will not reduce the unearned premium reserve.
7. Unearned premium reserve should not be a negative value for any effective insurance contract.

Article 6
Reserves for Outstanding Claims Estimation

1. Reserves for gross outstanding claims represent the amount of reported and not reported claims up to the date of valuation according to the description in article 4, paragraph 1, subparagraph b) of this regulation.
2. Technical reserves for outstanding claims cover the amount of all reported and not reported claims to the insurer for which the full payment has still not been made up to the date of valuation. The insurer is required to maintain reserves for outstanding claims in order to serve the payment of claims in the future as well as cover the costs of handling claims for insured cases as follows:
 - a) when the claim request/application is received, but no full payment has been made by the insurer up to the date of valuation (hereinafter - RBNS);
 - b) when an event occurred, but the claim request/application associated with this event was not reported to the insurer (hereinafter - IBNR).
3. **Reserves for claims reported but not adjusted (RBNS)** will be calculated separately for each insurance contract in accordance with the application of the insured claim:
 - a) insurer has received/accepted an application regarding an insured event and has valued the insured claim. In this case, RBNS should be placed on the valued amount of the claim. Valuation of the insured claim should be reasonable and documented.
 - b) insured claim is paid in the form of periodic payments (e.g., disability, retirement pension). If the duration of the periodic payment is known, RBNS reserves will be calculated by capitalizing the present value of all expected costs in the future.
 - c) request for a claim is subject to legal proceedings in court. In this case RBNS will be placed on the average amount outstanding paid by the insurer for the same type of insurance contracts or events of the same nature belonging to the request for a claim that is subject to the court proceeding. This amount will be held as RBNS reserve until the final decision by the court. Also, the insurer must hold in reserve any additional expense, whose value is known and is related to the handling of the claim.
 - d) a request for a claim has been reported to the insurer, but the amount of the claim is still not known, then RBNS will be equal to the average costs of claims paid by the insurer for the same type of insurance contracts or events of the same nature.

4. Amount (part) of the reinsurer for the RBNS reserve will be calculated separately for each insurance contract in accordance with the provisions of the reinsurance contract.
5. RBNS reserve for specific types of insurance can be reduced by the amount which is recovered through ceding. For these amounts the insurer must hold information for each group of insurance contracts in order to be able to carefully assess their value. If the insurer does not have such statistical data, RBNS will not be reduced for those amounts.
6. RBNS reserve should not be a negative value for any effective insurance contract.
7. The insurer is obliged to maintain a Register of Claims according to requirements provided for in **Annex I**, in order that all records and documents relating to incurred and reported claims, including dates of resolved claims (paid) to be performed on a daily basis.
8. **Reserve for claims incurred but not reported (IBNR)** should be calculated for each class of insurance business, based on best practices from the insurer, actuarial methods, using statistical reasonable data. This reserve should be established and maintained for claims which have occurred but which have not been reported up to the reserve valuation date.
9. In evaluating the reserve (IBNR) "*triangle method*" of claims development should be used (e.g. - chain ladder method, etc.). This method should be based on actuarial methodology and assumptions which meets at least the following requirements:
 - a) Claims development triangles should be presented using quarterly or annual data, at least for 20 quarters or 5 year of prior accounting periods associated with paid claims and claims reported but not adjusted (occurred) in calculating this reserve.
 - b) The statistical data used in the calculation of reserves for claims incurred but not reported should exclude the value of "subrogation", salvages and regression.
 - c) Unusual claims of very high values can be excluded from statistical data in calculating IBNR, if the actuary considers that this is required by best practices of reserve evaluation. In this case, the actuary will give a special note for the reasons of exclusion of these values from the calculation.
 - d) If the insurer provides services of any kind of insurance for a period of less than three years, the statistical data used by the insurer are not enough for IBNR reserve calculation using the "*triangle method*", then the reserves for IBNR calculated by any other method should not be less than 10% (ten percent) of gross written premiums within the 12 month period for the relevant type of insurance.
 - e) In the triangle method does not give reasonable results, then calculation of IBNR will be based on the professional judgment of the actuary with a explanatory note in the actuary opinion.
10. Claims management expenses and other claim handling expenses should be calculated separately for each business class. These expenses will be calculated by applying a certain percentage on the claims reserves (IBNR and RBNS).

11. Also, based on requirements deriving from Regulation on "KIB Compensation Fund", as well as border insurance, insurers are required to hold reserves for claims incurred and reported (RBNS), claims not reported (IBNR), as well as expenses for claim handling.

Article 7 **Unexpired Risk Provisions**

1. Unexpired risk reserves (hereinafter URR) will be calculated by assessing claims and costs which are expected to occur after the conclusion of the financial year and which are related to insurance contracts in force until the date of the assessment. The insurer is obliged to hold additional reserves for unexpired risk, if the unearned premium reserve (UPR) is not sufficient to cover expected claims and expenses that relate to insurance contracts in force.
2. Basis of calculation (URR) is the value of (UPR) at the date of calculation.
3. The insurer is obliged to perform the test of adequacy for each accounting period, covering the last 12 months regarding the unexpired risk reserve.
4. Technical reserves for unexpired risk (URR) for the types of insurance will be calculated with the following formula:

$$URR = \left(\frac{NIC + NOE}{NWP - \Delta NUP} - 1.00 \right) \times UPR$$

Insurers will maintain additional reserves (AR) for the unexpired risk only when: $AR \geq \max(0, URR)$

wherein:

- NIC - Net Incurred Claims.
- NOE - Net Operating Expenses¹.
- NWP - Net Written Premium.
- ΔNUP - Change in Net Unearned Premium.
- UPR - Unearned Premium Reserve.

5. Unexpired risk reserves should be kept separately for each class of insurance business.

Article 8 **Technical Reserves for Claims Reconciliation**

1. This technical reserve is intended to mitigate high year to year fluctuations in claims development.
2. For claims resulting in high severity and low frequency (e.g. disasters) insurers can create technical reserves to constantly and sustainably meet liabilities arising from these risks which have not been transferred the reinsurer.

¹ Net Operating Expenses means all expenses that are related to the insurers operations after subtracting reinsurance commissions and DAC.

3. In the case of co-insurance, insurers who participate in co-insurance must establish insurance technical reserves to such an extent, which correspond to the liabilities of each party.

Article 9

Mathematical Reserves Estimation

1. Companies engaged in life insurance are required to maintain an adequate amount of mathematical reserves in accordance with actuarial principles, in order to cover their liabilities towards the insured (the beneficiaries of life insurance, personal accident insurance and medical) for periods of time longer than a year.
2. Mathematical reserves in life insurance will be calculated on actuarial basis using the prospective method of calculation, where the reserve is equal to the difference between the present value of expected liabilities in the future and the present value of future premiums payable based on insurance contracts.
3. Mathematical reserves in life insurance will be calculated according to the provisions of the insurance contract, including:
 - a) the amount of insurance payable if an insured event or several events occur,
 - b) declared bonuses which policyholders are either collectively or individually entitled to,
 - c) the amount payable when the contract is canceled prior to its expiration,
 - d) changing the terms of the contract or contract modification,
 - e) costs associated with the insurance contract including commissions,
 - f) insurance premiums receivable in the future.
4. Mathematical reserves in life insurance will be calculated separately for each life insurance contract, using actuarial-mathematical methods and mortality tables that correspond to the type of contract. Mathematical reserves for group life insurance contracts, with different composition of insured persons shall be calculated separately for each insured person.
5. Interest rate which is used to calculate the present value with the "prospective" method will be determined by adhering to the principle of reasonableness and the currency in which the insurer has taken over liabilities. The interest rate used in calculating the present value should not be more than **3.5%**.
6. Mathematical reserves of life insurance contract shall not be less than the sum insured in case of cancellation of the contract (Surrender Value) at the time specified, if the contract provides for a certain payment in the case of cancellation of contract or in case of occurrence of an event.
7. "Retrospective" method for calculating life insurance mathematical provisions shall apply in cases where the application of the future "prospective" method is not possible. The interest rate used for the calculation of technical provisions with retrospective method will not be lower than the interest rate provided in the insurance contract.

8. If during the calculations, the value of mathematical reserves of life insurance comes out to be negative; this value will be considered as equal to zero.
9. The amount of reinsurance in technical and mathematical provisions of life insurance will be calculated separately for each insurance contract in accordance with the provisions of the reinsurance contract.
10. Technical and mathematical reserves of life insurance linked to investment units (Unit-Linked) will be maintained in accordance with the value of assets which under the provisions of the insurance contract, determine the amount of the insurance contract, the amount of claims for damage and amount in case of cancellation of the contract before its maturity (Surrender Value).
11. If the insurer, in accordance with the provisions of the life insurance contract linked to investment units (Unit-Linked), upon the occurrence of a certain event guarantees a certain amount of the payment, an amount which is not associated with the amount of assets specified in the contract, then the insurer is also required to maintain technical and mathematical reserves for life insurance contracts linked to investment units while respecting the provisions of paragraph 3 of this article.

Article 10

Reinsurers' Share in Gross Technical and Mathematical Reserves

1. Reinsurers' share of gross technical and mathematical reserves shall be determined by paragraphs **5, 6 and 7** of this article, depending on the type, terms and conditions of the reinsurance contract.
2. The insurer will calculate and retain the reinsurers' share in technical and mathematical reserves as an asset in its financial statements at the same time while calculating gross technical and mathematical reserves. Reinsurers' share will be calculated and reported separately for each type of technical and mathematical reserves and it should be well documented, with all necessary documents verifying that the risk has been transferred (ceded) to the reinsurer.
3. In determining the reinsurers' share of technical and mathematical reserves resulting from contracts ceded/transferred to the reinsurer, one must consider the ability of insurers to pay compensation for the claim and recovery adequacy of this payment from the reinsurer.
4. The transfer of assets between insurer (cedent), who transfers the risk, and the reinsurer, who accepts the risk, should be transparent, truthful and complete.
5. Reinsurance share in gross unearned premiums provisions that results from contracts ceded to the reinsurer shall be calculated in accordance with the method used for calculating the (UPR) described in this Regulation, or if this method is not applicable, then in accordance with the provisions of the reinsurance contract, at the date when the contract becomes effective.
6. Share of reinsurer in claims reported but not adjusted (RBNS) reserve that results from contracts ceded to the reinsurer, will be calculated separately for each insurance contract, in accordance with the terms of the contract and the amount recoverable from the reinsurer for damage reported.

7. Part of reinsurance in mathematical reserves shall be calculated separately for each insurance contract or group of contracts under the provisions of the reinsurance contract or reinsurance program.

Article 11

Maintaining and Reporting of Technical and Mathematical Reserves

1. Technical and mathematical reserves are established before the result of financial activity is derived in accordance with the Law on Insurance and Regulation on Financial Reporting.
2. Technical and mathematical reserves must be presented according to their type and reported in the insurer's financial statements 30 days after the end of a quarter and on an annual basis after the end of the year.
3. For technical and mathematical reserves of the insurer presented on the end of year balance and of each quarter, coverage must be made by invested assets in different areas in accordance with "Regulation on Investment of Assets Covering Technical and Mathematical Provisions and Investment of Charter Capital for Insurers".

Article 12

Financial Plan

1. In cases where CBK determines that technical and mathematical provisions are insufficient or that the foreseen coverage is not satisfactory, the CBK can require from the insurer to submit a financial plan for approval to the CBK.
2. The financial plan needs to be for a period of time, no longer than six months, and should contain measures for re-placing technical and mathematical provisions of the insurer and their coverage. The insurer should submit the financial plan for approval to the CBK, within 30 days after receiving the request.
3. CBK will make a decision within 30 days from the date of submission for approval of the financial plan, if the financial plan is adequate for re-placing of technical and mathematical provisions of the insurer. In case the financial plan does not get approved, or its implementation fails, the CBK has the right to:
 - a) Temporarily limit or prohibit the insurer in utilizing assets during its activity, until they fulfil CBK requirements.
 - b) Impose an official transfer of insurance portfolio for the insurer.
 - c) Require drafting a new financial plan by the insurer and submit it to CBK for approval.

Article 13

Annexes

Integral parts of this regulation are also: Annex I and II.

Article 14
Entry into Force

This regulation shall enter into force on 2nd of May 2016. With the entry into force of this regulation, all rules, regulations and instructions that regulate the issue of technical and mathematical provisions for insurers are abrogated.

Chairman of the Board of the Central Bank of the Republic of Kosovo

Prof. Dr. Bedri Peci

Annex I

Database to be reported to CBK, which serves as basis for calculating technical reserves.

Along calculating and maintaining technical reserves, insurance companies should also report the database that served as basis in calculating the abovementioned technical reserves. The following are the data that are required by tables:

Table 1. Data on written premium and insured risks of the insurer

Insurance policy serial number
Name and surname of the policyholder
Type of insurance contract
Initial date of the insurance contract
Expiry date of the insurance contract
Data on the insured item
Gross written premium value
Premium portion transferred to the reinsurer
Sum insured
Sum insured transferred to the reinsurer
Initial expenses and underwriting commissions

Table 2. Data on incurred claims

Claim serial number
Insurance policy serial number
Data related to the claim
Initial date of the insurance contract
Expiry date of the insurance contract
Data when the claim occurred
Date when the claim was reported
Type of claim (material, non-material)
Value of the claim assessed by the company
Value of the claim requested by the claimant (by type of claim)
Value of the claim paid by the insurer (by type of claim)
Claim payment date for every payment made
State of the claim (e.g. Outstanding, Paid, Closed etc.)
Technical reserves for outstanding claims (by type of claim)
Data on the reinsurance portion of the claim (including payments and the reinsurance portion to the claim reserve)

The abovementioned data need to be filled in for all previous periods, considering all claims whether they are in a court proceeding, paid, outstanding or have been refused by the insurance company.

These data are reported to the CBK together with calculation of technical reserves, within 30 calendar days from the end of each quarter.

Annex II

Technical reserves reporting form

Table A1. Provisions structure, unearned premiums for the period: _____

Code	Classes of insurance	Written premium	Unearned premium provisions (and unexpired risk provisions)	Reinsurance part	Provisions for unearned premium net of reinsurance (4-5)
1	2	3	4	5	6
1	Accidents				-
2	Health				-
3	Land vehicles				-
4	Railway vehicles				-
5	Aircraft				-
6	Ships				-
7	Goods in transport				-
8	Fire and force majeure				-
9	Other damage to property				-
10	Motor third party liability				-
	TPL				-
	TPL+				-
	Border				-
	Compensation fund				-
11	Aircraft liability				-
12	Ship liability				-
13	General liability				-
14	Credit				-
15	Guarantees				-
16	Miscellaneous financial loss				-
17	Legal expenses				-
18	Assistance				-
	Total	-	-	-	-

Company's authorized actuary

(Name and Surname, companies stamp)

Place and date

Table A2. Claims provisions structure for the period: _____

Code	Classes of insurance	Technical provisions for reported claims	IBNR	Claim handling cost	Reinsurance part (total for 3, 4, and 5)	Technical provisions for claims net of reinsurance (3+4+5-6)
1	2	3	4	5	6	7
1	Accidents					-
2	Health					-
3	Land vehicles					-
4	Railway vehicles					-
5	Aircraft					-
6	Ships					-
7	Goods in transport					-
8	Fire and force majeure					-
9	Other damage to property					-
10	Motor third party liability	-	-			-
	TPL					-
	TPL+					-
	Border					-
	Compensation fund					
11	Aircraft liability					-
12	Ship liability					-
13	General liability					-
14	Credit					-
15	Guarantees					-
16	Miscellaneous financial loss					-
17	Legal expenses					-
18	Assistance					-
	Total	-	-	-	-	-

Company's authorized actuary

(Name and Surname, companies stamp)

Place and date

Year of Accident	Claims paid, gross values											
	Years of Development											
	-	1	2	3	4	5	6	7	8	>	Total	
<												-
N-8												-
N-7												-
N-6												-
N-5												-
N-4												-
N-3												-
N-2												-
N-1												-
Current Year N												-

Table B2. Number of loss development.

Year of Accident	Incurred Claims (paid and unpaid), Number of Claims											
	Years of Development											
	-	1	2	3	4	5	6	7	8	>	Total	
<												-
N-8												-
N-7												-
N-6												-
N-5												-
N-4												-
N-3												-
N-2												-
N-1												-
Current Year N												-

Year of Accident	Claims Paid, Number of Claims											
	Years of Development											
	-	1	2	3	4	5	6	7	8	>	Total	
<												-
N-8												-
N-7												-
N-6												-
N-5												-
N-4												-
N-3												-
N-2												-
N-1												-
Current Year N												-

Triangles are constructed specifically for different classes of insurance. These are mandatory for TPL insurance class and classes of policies whose premium revenues exceed 10% of the total annual premium income.