



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 69 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 February 25th 2016 approved the following:

REGULATION ON INVESTMENT OF ASSETS COVERING TECHNICAL AND MATHEMATICAL PROVISIONS AND INVESTMENT OF CHARTER CAPITAL FOR INSURERS

Article 1

Purpose and Scope

1. The purpose of this regulation is to regulate investment categories for assets covering technical and mathematical provisions, maximum allowed investment levels for these assets as well as investment of the insurer's charter capital.
2. The scope of this regulation applies to all insurers and branches of foreign insurers that exert their activities in Kosovo and are licensed and supervised by the Central bank of the Republic of Kosovo.

Article 2

Definitions

All terms used in this Regulation shall have the same meaning as the terms specified in Article 2 of the Law No. 05/L-045 on Insurance.

Article 3

General Limitations

1. Insurers shall maintain adequate assets in covering technical and mathematical provisions not to be less than the gross value of technical provisions, respectively mathematical provisions. Insurers shall ensure adequate distribution of risk related to these investments, as well as undertake necessary actions by continuously evaluating them.
2. Assets covering technical and mathematical provisions cannot be withdrawn, invested, alienated or put as collateral, unless such a prohibition is specifically excluded in this regulation.

Article 4

Investment Principles for Assets Covering Technical and Mathematical Provisions

1. Investment of assets covering technical and mathematical provisions by the insurer should completely fulfil the following requirements:
 - a) invested assets shall be sufficiently secured;
 - b) assets shall be invested in such a form that they would be able to cover liabilities to the insured at any time;
 - c) assets shall be kept in such a form that they are available all the time;
 - d) invested assets need to be sufficiently diversified.
2. Insurers need to be able to demonstrate that they fulfil regulatory requirements for investments as well as other requirements for risk management.
3. Assets covering technical provisions will be evaluated by deducting any liability that is related to these assets.
4. Assets covering technical provisions will be evaluated based on prudential principle taking all possible risks related to these assets as a basis.

Article 5

Categories of Admitted Assets Covering Technical and Mathematical Provisions

1. Insurers and branches of foreign insurers licensed by CBK, to operate in insurance area in Kosovo can cover their technical and mathematical provisions with the following categories of assets:
 - a) Deposits in euro currency in Kosovo licensed banks;
 - b) Treasury bonds, securities and other capital market financial instruments, issued by the Government of the Republic of Kosovo with a maturity of no longer than one year for no-life insurers, while unlimited for life insurers;
 - c) With special request of insurers and prior approval by the CBK, insurers can invest in instruments mentioned in subparagraph b) of this paragraph, issued and guaranteed by the central banks of governments of EU member states, which need to have a credit ranking not lower than BBB from Standard & Poor's or its equivalent of this category from Fitch and Moody's, or their equivalents ranked by other agencies of credit ranking recognized by the CBK;
 - d) Also with prior approval from the CBK, insurers can invest into other securities, traded in a regulated market, where their issuers are ranked not lower than BBB by Standard & Poor's or its equivalent from Fitch and Moody's, or their equivalents ranked by other agencies of credit ranking recognized by the CBK;
 - e) Real estate (land, buildings), as well as other fixed assets evaluated according to depreciation norms;
 - f) Cash at hand, cash in bank and term deposits with a maturity not less than 3 months in banks licensed by the CBK in the Republic of Kosovo;

- g) Reinsurance receivables arising from insurance activities, which are not older than 90 days from when the liability occurred.
 - h) Reinsurance portion of technical provisions;
 - i) Accrued interest arising from investments in bank deposits and other securities;
 - j) Receivables up to 90 days, arising from insureds, agents and brokers, but not more than twenty percent (20%) of the gross unearned premium reserve;
2. Assets related to technical provisions on risks occurring in Kosovo, are required to be held by a custodian inside of Kosovo. While for assets invested abroad, insurers can procure services of investment custodians in order to provide access to information related to these investments.

Article 6

Non-admitted Assets Covering Technical and Mathematical Provisions

1. Insurers and branches of foreign insurers licensed by CBK, to operate in insurance area in Kosovo can not cover their technical and mathematical provisions with the following categories of assets:
- a) Assets used to finance the capital of insurer or the capital of some other entity that is a related party with the insurer and is subject to requirements and limitations of the respective regulator;
 - b) Securities of legal persons, which are subsidiaries (branches) of the insurer, legal persons that are shareholders of the insurer or any other case that is considered to be a related party with the insurer;
 - c) Deferred acquisition costs and prepaid costs;
 - d) Loans and receivables with related parties;
 - e) Loans to brokers and agents;
 - f) Other receivables that do not arise from the insurance activities;
 - g) Receivables on payments arising from reclamation and subrogation;

Article 7

Determined limitations for investment of assets covering technical and mathematical provisions

1. Insurers conducting activities in the Republic of Kosovo can invest their assets covering technical/mathematical provisions as follows:
- a) Without restriction in euro currency deposit in Kosovo licensed banks, however not exceeding thirty percent (30%) invested in a single bank;
 - b) Twenty percent (20%) of the total gross technical and mathematical provisions invested in assets determined in Article 5, paragraph 1, subparagraphs c) and d) of this regulation. Individual investment according to Article 5, paragraph 1, subparagraph d) issued by a single issuer, can not exceed five percent (5%) of assets covering technical provisions;
 - c) Twenty percent (20%) of gross technical provisions for a non-life insurer, in total, while thirty percent (30%) of gross technical and mathematical provisions in total, for a life insurer, in Land and Building. Individual investments should not exceed ten percent (10%) in any or more part of

land or building, close to one another that can be effectively assessed as an individual investment. Investment in real estate is admissible if:

- i. real estate property is equipped with necessary documentation, with which the property is registered in the cadastre records in the name of the insurer or documentation that proves that the purchase contract (or a pre-contract) has been attested at the notary, and the property has to have a construction permit with the competent authorities.
 - ii. real estate value has been valued by an independent licensed valuer according to determined standards.
 - iii. the property generates revenues or expected revenues.
 - iv. real estate property does not have a lean on it or is not under a mortgage and it has not been put under a different person or is not held by a different person.
 - v. insurer has received a written prior approval from CBK.
- d) Twenty-five percent (25%) of gross technical and mathematical provisions from liabilities arising from reinsurers as well as reinsurance portion of technical provisions from Article 5, paragraph 1, subparagraphs g) and h). Excluded from this limitation are reinsurers ranked as BBB or above by Standard & Poor's or the equivalent from Fitch and Moody's, or their equivalents ranked by other agencies of credit ranking recognized by the CBK;
- e) Three percent (3%) of gross technical provisions from the categories determined in Article 5, paragraph 1, subparagraph f);
- f) Five percent (5%) of gross technical provisions in fixed assets different from those determined in subparagraph c) of this Article;
- g) Five percent (5%) of accrued interest in accordance with Article 5, paragraph 1, subparagraph i).
2. Limitations determined in Article 5, paragraph 1, subparagraph b), do not apply for:
- a. treasury bonds and other securities issued by the Government of Kosovo;
 - b. treasury bonds and other securities guaranteed by the Government of Kosovo.

Article 8

Charter Capital (Guarantee Fund)

1. Insurers operating in the Republic of Kosovo, with a prior approval from CBK can invest their charter capital (guarantee fund) in the following investment categories:
 - a) treasury bonds and other securities issued by the Government of Kosovo,
 - b) deposits in euro currency into escrow account with commercial banks licensed in Kosovo, not more than 30% of the deposited amount into any one bank,
2. Insurers are required to deposit and maintain at all time, 10% of their charter capital in cash with the CBK.
3. Assets set aside for charter capital shall not be utilized at any time and they cannot be moved around, withdrawn or invested without a prior approval from CBK. Charter capital assets in no way can be alienated or put under mortgage.

Article 9
Investment Restrictions

1. Every investment must be in the name of the insurer or held in the name of the insurer or its investment custodian. Any investments that are not registered in these names cannot be included or reported as an investment on the insurer's financial statements.
2. If the CBK finds that by reason of investment conditions generally or of the financial condition or current investment practice of an individual insurer, the interests of insureds, creditors, or the public are or may be endangered, the CBK may impose reasonable and temporary restrictions upon the investments of an individual insurer, including prohibition or divestment of a particular investment.

Article 10
Investment Management Committee

1. Board of directors of each insurer will establish an investment management committee, which is made out of at least three (3) members, out of which one should be a non-executive member of the board of directors. The non-executive member shall be the chairman of this board.
2. The investment committee meets at least 4 times a year (each quarter) and should report to the board of directors on:
 - a) soundness of investments both from the capital and income side.
 - b) investment liquidity and available assets coordination in facing potential obligations.
 - c) investment profitability including an assessment if investment are profitable enough to cover the increase in liabilities arising from insurance policies.
 - d) deviation from general investment policies, instructions, plans, objectives or strategies and the financial impact of these deviations.
 - e) adopted correctional measures to compensate for unfavourable results.
 - f) changes or improvements in the investment plan, objectives and strategies, if the need arises, as well as forecasted financial impact of these changes or improvements.
 - g) recommendations on investment policies as needed.

Article 11
Insurer's Investment Policy

1. Each insurer must have a written investment policy that describes in detail the types of investment the company will pursue, how it pertains to the company's future liquidity needs, and be compliant with the investment regulations of the CBK. The investment policy must be approved by the company's board of directors and a hard copy should be submitted to the CBK.
2. Any subsequent change to the investment policy requires approval by the company's board of directors and these change must be submitted in writing to the CBK.

3. All investments acquired and held under this regulation shall be under the supervision and direction of the insurer's board of directors and shall require that all investments be authorized or approved by the board or the investment committee in accordance with delegations, standards, limitations, and investment objectives prescribed by the board.
4. The insurer's board of directors shall receive, review, and approve a quarterly investment report which shall include a detailed listing of all investment activity (including escrow account deposits and cash held at hand) and it shall be documented in the board of directors meeting minutes that the investment activity was received and approved by the board of directors of the insurer.
5. The CBK may review the investment report and the board of directors meeting minutes and take appropriate action as needed if deemed necessary.

Article 12
Investment Custodian Agreement

Each insurer must have a written custodian agreement with a qualified institution, in cases of investments outside of the Republic of Kosovo that details the custodians and the insurer's responsibilities pertaining to the safekeeping of the physical investments. This agreement must be approved by the company's board of directors.

Article 13
Enforcement, Remedial Measures and Civil Penalties

Violation of this regulation will be subject to administrative measures and penalties with fines as determined in the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and Law No. 05/L-045 on Insurance.

Article 14
Entry into Force

This regulation shall enter into force on March 1st 2016. With the entry into force of this regulation all provisions of other regulations, rules and instructions that regulate investment related issues are abrogated.

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

Prof. Dr. Bedri Peci