



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), Article 4, paragraph 3 and Article 72 of the Law 05/L-45 on Insurance (Official Gazette of the Republic of Kosovo, No. 38/24 December 2015), the Board of the Central Bank of Republic of Kosovo, in its meeting held on March 31, 2016 approved:

REGULATION ON RISK RETENTION AND REINSURANCE COVERAGE REQUIREMENTS

Article 1

Purpose and Scope

1. The purpose of this regulation is to establish requirements that insurers must maintain and follow concerning the insurers obligation to reinsure to a reinsurer, the risks insured, which exceed the maximum coverage limits outlined in this regulation.
2. This regulation applies to all insurers and branches of foreign insurers licensed by CBK to operate in the Republic of Kosovo.

Article 2

Definitions

1. All terms used in this regulation have the same meaning as the terms specified in Article 3 of the Law No. 05/L-45 on Insurance (hereinafter Law on Insurance), or according to the following definitions for the purposes of this regulation:
 - a) "*Financial Year*" means the twelve month period commencing January 1 and finishing December 31. For a newly licensed insurer the initial financial year begins on the date of its license and ending on December 31 of the year it obtained its first license. Thereafter, financial year shall be from January 1 to December 31 of any calendar year;
 - b) "*Insured Event*" means an event which if it occurs can cause the provision of the right to receive an insurance claim;
 - c) "*Ceding*" means transferring a portion of an insured risk from an insurer to a reinsurer;
 - d) "*Reinsurance*" means ceding certain risks from an insurer to a reinsurer;

- e) *“Reinsurer”* means a legal person licensed to conduct reinsurance activities according to the provisions of the Law on Insurance;
 - f) *“Risk retention”* means that amount or portion of sum insured by an insurer that is not reinsured (was not ceded to a reinsurer);
 - g) *“Sum Insured”* means the sum that the insurer and the insured have agreed upon or that could have been set differently through legislation in force and it sets the limit of liabilities of the insurer towards the insured;
2. For the purposes of this regulation the term insurer shall also mean branches of foreign insurers.

Article 3

Retention of Risk for Licensed Insurers

1. No insurer may retain a single risk higher than 10% of their reported charter capital, arising out from a single insurable event.
2. The insurer may reinsure (cede) contractual responsibilities of the insured to domestic or foreign reinsurers.
3. Each insurer should monitor exposure towards accumulates risks, as well as exposure towards force majeure and in relation to them maintain adequate reinsurance coverage.
4. Calculations on limits according to this article will be based on annual audited financial statements submitted to CBK.
5. CBK may require other or additional reinsurance if it deems that this would protect the interests of the policyholders.

Article 4

Purchase of Reinsurance Coverage

1. All licensed insurers must purchase the necessary reinsurance coverage for the difference between the risk underwritten and the maximum risk retention level.
2. The reinsurance cover must be in place no later than January 1st for the next financial year and will be outlined in the submitted Reinsurance Summary Plan and updated during the calendar year if significant changes are made.

3. It is not allowed to underwrite a risk without full reinsurance coverage. If it is uncovered that an underwritten risk was made without full reinsurance coverage, then the insurer will be subject to administrative measures according to Article 6 of this regulation.
4. If the reinsurance coverage is less than the required coverage then the insurers is obligated to buy full coverage for the underwritten risk within ten days of discovery of the deficiency.
5. For long-term reinsurance contracts, the insurer should purchase the necessary reinsurance coverage from reinsurers that have a rating not lower than BBB+ assigned by Standard and Poors, or the equivalent of Fitch and Moody's, or equivalents from other rating agencies accepted by the CBK.
6. For short-term reinsurance contracts, the insurer should purchase the necessary reinsurance coverage from reinsurers that have a rating not lower than A-3 assigned by Standard and Poors, or the equivalent of Fitch and Moody's, or equivalents from other rating agencies accepted by the CBK.

Article 5
Reinsurance Program Submission

1. The insurer must finalize its calculation of their retention limits and prepare a reinsurance program based on its current Business Plan for the next calendar year and submit it for approval to CBK, not later than 30 calendar days before the end of the financial year.
2. The reinsurance program should be approved by the insurer's board of directors before being submitted for approval to CBK.
3. The insurer should design and implement its reinsurance program, depending on the structure of portfolio insurance and it should determine and confirm that the reinsurance program and agreements provide sufficient coverage for specific and overall risks.
4. Reinsurance Program Summary should contain at least:
 - a) calculation of total risks for each class of insurance held;
 - b) maximum coverage table, compiled on the basis of the calculations referred to in subparagraph a) of this paragraph;
 - c) procedures, bases and criteria for determining the highest probability of losses that may arise from the occurrence of a single event, from a certain risk assumed;
 - d) the names of the reinsurers and their participation percentages; and
 - e) specific terms of the contracts.

5. After considering the Reinsurance Program Summary, CBK can refuse it, if it feels the program does not meet the criteria established by this Law or any additional criteria set by the CBK.
6. In cases of paragraph 2 of this Article, CBK will require the insurer to do necessary changes in order that the reinsurance program is in accordance with legal and regulatory requirements.
7. This retention calculation will be updated quarterly and submitted to CBK, based on current data, within 30 days of the quarter end.
8. The board of directors and chief executive officer of the insurers are held directly responsible for complying with the requirements of this regulation.
9. The CBK may issue additional instructions for enforcing this regulation.

Article 7

Enforcement, remedial measures and civil fines

Violation of provisions of this regulation will be subject to administrative measures and penalties with fines as set forth in the Law No. 03/L-209 on the Central Bank and Law No05/L-045 on Insurance.

Article 8

Abrogation

With the entry into force of this regulation, all other provisions of regulations, rules and instructions related to insurance shall be abrogated.

Article 8

Entry into force

This regulation shall enter into force on April 1, 2016.

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

Prof. Dr. Bedri Peci