Banking and Payments Authority of Kosovo

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 28 of UNMIK Regulation Nr. 2001/25

Governing Board of the Banking and Payment Authority of Kosovo, at the meeting held on March 28, 2002 adopt the following:

Rule 9 On Prescribing Reserve Requirements of Insurance Companies

Part II
Life Insurance Companies

Section 1
General Provisions

1. Scope of the Rule

This Rule applies to all insurers licensed to carry business on the class or classes of life insurance authorized under the Insurance Regulations.

2. Objectives of Reserving

The objective of providing for technical provisions (reserves) is to determine reserve liabilities and provide assets sufficient to cover for policy benefits over the terms of the respective policies in force in a life insurance company. The valuation of policy benefit reserve liabilities is premised under the assumption that the life insurance company is a going concern.

3. Technical Provisions Mandatory

Every insurer of life insurance is required to provide for technical provisions (reserve requirements) determined and calculated based on methods prescribed under this Rule.

4. Reserve Deposit Account

Every insurer of life insurance shall continuously maintain in deposit cash or near cash assets at an amount not less twenty-five (25%) percent of its technical provisions in a reserve account or accounts with banks or financial institutions approved by the BPK.

Section 2
Determination of the amount for Technical Provisions
(Reserve Requirements)

1. Actuarial determination of policy benefit Liabilities

Technical provisions required of a life insurance company are determined by an actuary, acceptable to the BPK, as of the valuation date, for all the class or classes of life insurance written by, and in force in, a life insurance company.

2. Calculation of Technical Provisions- Methodology

Policy Premium Method

- The acceptable method of valuation for technical provisions (reserves) for life insurance policies is the policy premium method.

  Under this method, life insurance policy benefits, the technical provisions, consist of two (2) components:

a) Matured Policy Benefit Liabilities

The policy benefit liability for each policy payment resulting from events occurring before the valuation date is:

(i) The present value of the benefits as of the valuation date, plus

(ii) Any interest guaranteed or expected to be credited to it; plus

(iii) Administrative expenses, minus

(iv) Portion covered by reinsurance.

b) Unmatured Policy Benefits Liabilities

The policy benefit for each policy payment resulting form contingencies occurring after the valuation date is determined by the policy premium method.

(i) Non – Participating Policies

The policy benefit liability for a non – participating policy is the present value at the valuation of A -B, where:

A is the policy payments after the valuation date; and

B is its valuation premiums, if any, payable after the valuation date.

(ii) Participating Policies – Total Policy Benefit

The total policy benefit liability for a participating policies is the greater of the aggregate amount of A and B, where:

A Is the Minimum Policy Benefit Liability

The minimum policy benefit liability for a participating policy is the liability determined by:

(1) The method under 2.b.(i), above (non-participating policies) but ignoring policy holder dividends; plus

(2) Provisions based on assumptions appropriate to comparable non-participating policies having the same gross premiums and policy payments but without policy dividends.

B Is the Gross Policy Benefit Liability

The gross policy benefit liability for a participating policy is the liability determined by:

(1) The method under 2.b.(i) above, (non-participating policies) including policy holder dividends, using gross premiums as valuation premiums, plus

(2) Provisions based on assumptions appropriate to participating policies, minus

(3) Reductions to policyholder dividends.
The policy holder dividends are reduced by the portion thereof provided by X, Y, and Z where:

X Is the net investment earnings in the participating branch other than those assumed in determining policyholder benefit liabilities;

Y Is the net income from benefits in the participating branch for which no specific policy holder dividend is determined; and

Z Is, "amounts" in other branches.

Section 3
Principles and Guidelines in the Determination of Technical Provisions of Life Insurance Companies

1. Actuarial Valuation

In computing for the policy benefit liabilities of a life insurance company actuarial principles specific to the policy premium method should be applied. In addition, the following general principles must also be adhered to:

a) The actuarial liabilities are to be computed on a going concern basis that recognizes the degree or risk inherent in the obligations.

b) The actuarial liabilities are to include only a limited and reasonable provision for adverse deviations.

c) All acquisition costs, without arbitrary limitation, are to be incorporated into the computation and the calculation of the actuarial liabilities is made over the full term of the policy.

d) The costs that factor into the calculation of the actuarial liabilities include policyholder dividends, experience refunds, related expenses and direct taxes (premium tax).

e) Surrender privileges and policy lapsations must be accounted for in a manner similar to other policy benefits by applying normal actuarial techniques including discounting for the probability of occurrence.

2. Changes in Assumptions

The effects of changes in the valuation assumptions are to be accounted for in terms of:

a) The period of the change, if the change affects the financial period only, or

b) The period of the change, if the change affects the financial results of both current and future period.

3. Acceptable methods

This rule prescribes the basic method of calculating for technical provisions. The use of alternative methodologies may be adopted provided those methods are based on generally accepted practices of reserving formulated under the International Accounting Standards and approved by the BPK.

4. Approval of BPK

Changes in the use of reserving methodologies must be with prior approval of the BPK and disclosed in the annual report of the insurance company.

5. Underlying Factors

The actuarial liabilities are to be based upon all underlying factors including assumed adverse deviations. Accordingly, all future policy benefits and expenses, reduced by the full amount of future premiums, must be provided for in the actuarial liabilities.

6. Disclosures. The following are to be disclosed:

a) The responsibilities of the appointed actuary.

b) The composition of the actuarial liabilities and related assets which includes:

(i) Actuarial liabilities by lines of business, and

(ii) The types of investments that support each line of business as well as the capital and surplus.

c) The nature of the actuarial liabilities that convey that:

(i) Actuarial liabilities represent the amounts which, together with estimated future premium and investment income, will be sufficient to pay estimated future benefits, including policy holder dividends, and expenses, and

(ii) Actuarial liabilities include additional amounts to provide for adverse deviation from best estimates assumptions and

those amounts vary based on the degree of uncertainty in the assumptions, and

(iii) Many of the estimates used in the actuarial valuation relate to events that may occur in many years into the future and are subject to revision at some subsequent measurement dates.

d) The nature of the measurement uncertainty inherent in the computation of actuarial liabilities to describe:

(i) The major factors (e.g, future policy claims and benefits, future dividends, future investment yields, etc.,) are taken in account in the computation of actuarial liabilities and the major assumptions made relative to these factors, and

(ii) The major sources of data used and key elements of methodologies applied (e.g. the mortality table(s) used in arriving at the mortality estimates, and

(iii) The manner in which measurement uncertainty is allowed in the valuation process including the establishment of margins for adverse deviations.

e) The changes in actuarial liabilities which will include:

(i) Those resulting from changes in the actuarial assumptions and changes in the provision for adverse deviation, by major cause, and

(ii) An explanation for each major change.

f) Negative reserves

g) Credit risks, including:

(i) The event to which expected future investment yields have been reduced, and

(ii) The amount of any additional provisions for cyclical credit losses included in the computation of the actuarial liabilities.

h) Reinsurance Risks, including:

(i) The extent to which actuarial liabilities were reduced or increased as a result of reinsurance, and

(ii) The amount recoverable from reinsurers for claims already incurred, and

(iii) The amounts of significant concentration of reinsurance with any one reinsurer or reinsurance group, and

(iv) The nature and significance of reinsurance and retrocession transactions entered into during the period.

i) Other risks including information on the nature and extent of other significant risks to which the company is exposed.

7. Provision for Adverse Deviations

In evaluating liabilities, consideration should be given to the insurer's obligations to its policyholders and claimants, as well as the variability of conditions affecting future claim payments. Such consideration will result in the estimation of liabilities on a conservative basis.

Section 4
Entry in Force

This present Rule shall enter into force on April 1, 2002

David Weatherman
Acting Managing Director