



**FINANCIAL SUPERVISORY
AUTHORITY BOARD**

**REGULATION
ON REINSURANCE CRITERIA**

Approved by Board Decision no. 85/1, dated 30.09.2015

**Article 1
Object**

The object of this Regulation is the determination of criteria on the basis of which reinsurance agreements are made by insurance companies performing their activities in the Republic of Albania.

**Article 2
Legal Basis**

This Regulation is drafted pursuant to Article 116, point 3 of the Law no. 52/2014 “On the activity of insurance and reinsurance”.

**Article 3
Definitions**

For the purposes of this regulation, the following terms shall have these meanings:

- a) “Reinsurance contract” means a contract entered between the insurance and reinsurance companies, which determines the terms and conditions for the risks to be reinsured.
- b) “Reinsurance agreement” means a reinsurance contract which performs the automatic transfer of a part of risks determined in the contract for all insurance policies which are covered by reinsurance contracts.
- c) “Facultative reinsurance” means the transfer of a part of a special risk insured by the insurance company at a reinsurance company, according to a separate contract of reinsurance.
- ç) “Non-proportional reinsurance” means of type of reinsurance which indemnifies an insurance company about the amount of claims in excess of retention up to the limit determined in the contract of reinsurance.
- d) “Layer” means a horizontal segment of non-proportional reinsurance, which determines the points of excess and the insured amount.
- dh) “Main reinsurer” means the reinsurance company, which is liable to negotiate and agree with the insurance company about the conditions and terms of the reinsurance contract.
- e) “Risk of credit” means the risk of loss or aggravation of the financial situation of reinsurance companies, towards which the insurance company is exposed.

- ë) “Credit level” means the credit level of the reinsurance company evaluated by a classification agency.
- f) “Level of Credit quality” means the classification of the Credit Quality of reinsurance Companies in 6 levels, starting from 0 level, characterized by minimal risk of credit up to level 5, categorized by very high credit risk.
- f) “Classification agency” means a company specialized for the evaluation of the credit level of reinsurance companies based on their capacity and possibility to fulfill the financial obligations on time.
- g) “Supervisory regimes equivalent to Solvency II” means the regimes of insurance supervision in the countries which are officially recognized by the European Commission and published in its official website as equivalent to the regime Solvency II of the European Union.
- gj) “Solvency Report” means the Solvency Report with the minimal solvency margin of the reinsurance company.

Article 4

Level of Credit Quality of Reinsurance Companies

1. For the purpose of this Regulation, the level of Credit Quality of reinsurance companies shall be stipulated based on one of the following ways:
 - a) Credit Level of a reinsurance company stipulated not prior than 18 months before the commencement date of the reinsurance contract by one of the following classification agencies:
 - i. Standard & Poors;
 - ii. Fitch;
 - iii. Moody’s;
 - iv. AM Best.
 - a) The latest Solvency report calculated not prior than 12 months from the commencement date of the reinsurance contract, for reinsurance companies which do not have a credit level by the above classification agencies, but are licensed and supervised by supervisory regimes equivalent to Solvency II Regime of the European Union.
 - b) The Level of Credit Quality shall be fixed at 5 (five) for reinsurance companies which do not have a Credit Level or are not subject to supervisory regimes equivalent to Solvency II.
2. The conversion of Credit Level or the Solvency Report of reinsurance companies in the respective level of Credit Quality is stipulated in Annex 1 of this regulation. An integral part of this Regulation is also Annex 2, orientation references, from which insurance companies get information on the financial situation of reinsurance companies.

Article 5

Participation criteria of reinsurance companies in reinsurance contracts

1. Insurance companies in the selection of reinsurance companies participating in Reinsurance agreements shall implement the following criteria:
 - a) Reinsurance companies shall not be under a liquidation or bankruptcy process;
 - b) The level of Credit Quality shall not be higher than 3 (three) for:

- i. The main reinsurers of reinsurance agreements;
 - ii. Reinsurance companies participating in the unlimited layers of reinsurance agreements.
 - c) Every reinsurance company of Level 4 (four) or higher of Credit Quality may participate with:
 - i. Not more than 10% of the total from the reinsurance proportional agreement;
 - ii. Not more than 10% of the total from each limited layer of the reinsurance proportional agreement.
 - ç) Participation of all reinsurance companies of Level 4 (four) or higher of Credit Quality cannot exceed:
 - i. 20% of the total from every reinsurance proportional agreement;
 - ii. 20% of the total from each limited layer of a reinsurance proportional agreement.
 - d) For each risk covered by a reinsurance agreement, the amount reinsured by a reinsurance company of Level 4 (four) or higher of Credit Quality shall not exceed 10 % of own capitals of reinsurance companies.
2. Reinsurance companies participating in facultative contracts of reinsurance shall meet the following criteria:
 - a) Reinsurances with unlimited amounts shall be made with reinsurance companies of Credit Quality Level not higher than 3 (three);
 - b) Reinsurance companies of Credit Quality Level 4 (four) or higher shall follow the criteria stipulated in points c and ç of item 1 of this Article.
3. Before the inclusion of reinsurance companies, which are not classified by one of the classification agencies according to Article 1, point a) of this regulation of with Credit Quality Level 4 (four) or higher, in an agreement or facultative contract of reinsurance, an insurance company shall provide and submit to the Authority reliable information about the financial situation of the reinsurance company, including the report of audited financial statements of the reinsurance company for the last financial year.

Article 6

Review of a reinsurance contract

1. After the review of a reinsurance contract, when the Authority deems that one or several reinsurance companies contracted by the insurance company do not meet the criteria provided in this regulation, asks the insurance company to make amendments to the reinsurance contract of the company, within 30 days from the date of notification, in conformity with the stipulations of this regulation.
2. The insurance company has the responsibility to submit to the authority the relevant information about the financial situation and the plan of measures related to the mitigation of credit risk aggravation which may occur before the reinsurance companies have completely fulfilled the obligations arising from the reinsurance contract. The insurance company implements the plan of measures after its approval by the Authority.

Article 7

Entry into force

This regulation shall enter into force immediately.

Annex 1: Determination of Credit Quality Level ¹

Level of Credit Quality	Reinsurance Company						Explanation of Credit Quality Level
	In credit levels evaluated by ranking agencies				Without credit level, but licensed and supervised by supervisory regimes equal to Solvency II of the European Union	Without credit level and unlicensed, supervised by supervisory regimes equal to Solvency II of the European Union	
	S&P	Moody's	Fitch	AMBest	Solvency Report		
0	AAA	Aaa	AAA	aaa		N/A	The Reinsurance Company has an extremely high capacity to fulfill financial obligations and to be evaluated with minimal credit risk
1	AA	Aa	AA	aa	196 % or more	N/A	The Reinsurance Company has a very high capacity to fulfill financial obligations and to be evaluated with low credit risk
2	A	A	A	a	≥ 175% and < 196%	N/A	The Reinsurance Company has a high capacity to fulfill financial obligations and it is evaluated with low credit risk, but it may be further influenced by negative effects due to changes in markets and economic environment compared with reinsurance companies classified in Level 1 of the Credit Quality
3	BBB	Baa	BBB	bbb	≥ 122% and < 175%	N/A	The Reinsurance Company has an appropriate capacity to fulfill financial obligations and it is evaluated with moderate credit risk. However, negative effects due to changes in markets and economic environment may lead to the weakening of the capacity in fulfilling financial obligations
4	BB	Ba	BB	bb	≥ 100% and < 122%	N/A	The Reinsurance Company has a capacity to fulfill financial obligations, but it is evaluated with considerable credit risk. Ongoing insecurity and exposure to business aggravation, financial and economic conditions may lead to insufficient capacity in fulfilling financial obligations
	B	B	B	B	≥ 95% and < 100%	N/A	The Reinsurance Company has a capacity to fulfill financial obligations, but it is evaluated with high credit risk. Aggravation of business, financial and economic conditions increases the possibility of delivery in capacity or insufficient will in fulfilling financial obligations.
5	< B	< B	< B	< b	≥ 75% and < 95% lower than 75%	Reinsurance companies without credit level, unsupervised by supervisory regimes equal to Solvency Regime II shall be classified in level 5 of Credit Quality	The Reinsurance Company is financially weak or very weak at present and with a very high credit risk, including insolvency. Fulfillment of obligations is enabled by favorable business, financial and economic conditions.

¹ This table may be subject to changes

Annex 2: Orientation References ²

- Directive 138/2009/EC
<http://eur-lex.europa.eu/legal-ontent/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN>
- Technical Standards on the allocation of credit assessments of ECAs to an objective scale of credit quality steps
<https://eiopa.europa.eu/Pages/PageNotFoundError.aspx?requestUrl=https://eiopa.europa.eu/Publications/Consultations/JC%20CP%202015%20001%20%28Joint%20CP%20on%20draft%20ITS%20on%20mapping%20of%20ECAs%20under%20SII%29.%20pdf>
- Technical specifications for the preparatory phase (EIOPA -14/209) -30 April 2014
<http://archive.eiopa.europa.eu/publications/technical-specifications/index.html>
- Insurance: European Commission adopts a first package of third country equivalence decisions under Solvency II
http://europa.eu/rapid/press-release_IP-15-5126_en.htm
- COMMISSION DELEGATED DECISION (EU) of 5.6.2015 on the equivalence of the solvency and prudential regime for insurance and reinsurance undertakings in force in Switzerland based on Articles 172 (2), 227(4) and 260(3) of Directive 2009/138/EC of the European Parliament and of the Council
http://ec.europa.eu/finance/insurance/docs/solvency/international/delegated-act-c-2015-3754_en.pdf

² The list of orientation references may be subject to changes