

**ALBANIAN FINANCIAL SUPERVISORY AUTHORITY
THE BOARD**

REGULATION

No. 2, date 08 February 2007

On Reinsurance Criteria

Approved upon Board decision No. 2, date 18 June 2007

**Article 1
Scope**

The scope of this regulation consists in defining the criteria, on the basis of which the insurance companies that operate in the Republic of Albania, enter into reinsurance agreements.

**Article 2
Legal Basis**

This regulation is drafted based to Point 4 of Article 107 of Law No. 9267, date 29 July 2004 "On the Insurance, Reinsurance and Intermediary Activity in Insurance and Reinsurance".

Article 3

Definitions

For the purposes of this regulation, the terms described below will have following meanings:

- a) "Insurance Company" implies a legal entity headquartered in the territory of the Republic of Albania, which is licensed to carry out insurance activity in compliance with law requirements.
- b) "Reinsurance Company" implies a legal entity headquartered in the territory of a country where is licensed to carry out reinsurance activity in compliance with the legal requirements of the Insurance legislation of that country.
- c) "Reinsurance agreement" implies a completed agreement between insurance and a reinsurance company, which defines the terms and conditions in relation to risks to be reinsured.

- d) "Reinsurance" implies the ceding part of a risk ensured by the insurance company to the reinsurance company according to a reinsurance agreement or contract.
- e) "Facultative reinsurance" implies the ceding part of a specific risk, which is ensured by the insurance company, to the reinsurance company according to a specific reinsurance agreement.
- f) "Rating of Reinsurance Company" implies the assessment of financial indicators of the reinsurance company made to that reinsurance company by entities (rating agencies), which are specialized for that purpose.
- g) "Reinsurance layer" implies a horizontal segment of the reinsured risk. Reinsurance layers are determined on the basis of the insured levels of risks.

Article 4

Criteria of reinsurance companies' selection

- a) When selecting the reinsurance companies, with which it is going to enter into reinsurance agreements, the insurance company operating in the Republic of Albania shall make sure that they meet the following criteria:
 - they must not be under a bankruptcy process
 - the leader of reinsurance agreement can not have a lower rating than:
 - o BBB+ from Standard& Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST);
 - reinsurers participating on unlimited layers, can not have a rating lower than BBB+ from Standard&Poor's or equivalent to Fitch Ratings, MOODY'S, AM BEST)
 - In each of the layers of the reinsurance agreement, every reinsurer, that participates with 10% or more in that layer, can not have a lower rating than:
 - o BBB- from Standard& Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST);
 - No less than 80% of the reinsurance coverage in the reinsurance agreement for each of the limited layers must consist of reinsurance companies, which have a rating not lower than: o BBB- from Standard& Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST);
- b) The insurance company is liable to make sure that every reinsurer, who is part of the reinsurance agreement with a rating lower than BBB- from Standard& Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST), has not contracted any liability higher than 10% of its own capital.

- c) Reinsurance coverage by means of facultative reinsurance contracts has to meet the following conditions:
- 100% of the unlimited coverage must be carried out through reinsurers, which have a classification not lower than BBB from Standard&Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST);
 - The insurance company is liable to make sure that every reinsurer, who participates in the facultative reinsurance contract with a lower rating than BBB- from Standard& Poor's (or equivalent to Fitch Ratings, MOODY'S, AM BEST), has not contracted any liability higher than 10% of its own capital.
- d) The insurance company has the obligation to submit to the Financial Supervisory Authority all the necessary information on the financial situation and the position of the reinsurance company, which may participate in the reinsurance agreement or contract (according to restrictions set forth in the above paragraphs a, b and c), before signing the reinsurance agreement or contract in cases when:
- The reinsurance company has not been rated by any of the following rating agencies - Standard & Poor's, Fitch Ratings, MOODY'S and AM BEST,
 - It has lower rating than BBB from S&P (equivalent to Fitch Ratings, MOODY'S, AM BEST);

Article 5

Reviewing of reinsurance program

- a) Following the reinsurance program review, the Financial Supervisory Authority, when judging that the reinsurance companies contracted by the insurance company do not meet the criteria set forth in Law No. 9267, date 29 July 2004 and in this regulation, requires to the insurance company:
- To make changes to the company's reinsurance program;
 - Every other measure that the insurance company recommends to the Financial Supervisory Authority and is accepted by the latter.
- b) The Financial Supervisory Authority pronounces on the approval or not of the reinsurance companies participation in the reinsurance agreements or contracts, which are subject to paragraph d of Article 4 of this regulation, by 5 working days following their submission by the insurance company.

Article 6

Transitional provisions

Insurance companies will be obliged to implement this regulation provisions also when entering into reinsurance agreements, which have not been signed until the date when this regulation came into effect.

Article 7

Final

Guideline “On setting the criteria of reinsurance companies, based on which the insurance companies that conduct their activity in the Republic of Albania can enter into reinsurance agreements” adopted upon decision No. 12, date 08 February 2007 of the Financial Supervisory Authority Board, as well as, every other act that does not comply with this regulation becomes subject to repeal.

This Regulation comes into effect as of 18 June 2006.

Chairperson

Elisabeta GJONI