# REGULATION

## ON

## LIQUIDITY MANAGEMENT BY INSURANCE AND REINSURANCE COMPANIES

*Approved by the Board Decision no. 56, dated 28.04.2016*

## Article 1

### The Object

1. This regulation determines:

   a) the method of calculating the liquidity ratio;

   b) the plan of measures and activities in case of illiquidity,

   c) the content, method and time limits on reporting to the Financial Supervisory Authority.


2. Provisions of this regulation are applicable by all entities licensed by the Financial Supervisory Authority to carry out insurance and reinsurance activities in the Republic of Albania, as well as for the branches of foreign insurance companies, which hereinafter in this Regulation shall be referred to as "the insurance company".


## Article 2

### Legal Basis

This regulation is drafted on the basis and in implementation of Article 14, paragraph 2, of the Law no. 9572, dated 03.07.2006 "On the Financial Supervisory Authority" as amended, as well as Article 84, paragraph 4 of the Law no. 52, dated 22.05.2014 "On the Activity of Insurance and Reinsurance".


## Article 3

**Liquidity Management**

1. The insurance company manages its financial resources and its investments in order to fulfill its obligations every time there is a due payment.

2. The Supervisory Board of the insurance company, in order to protect the risk of illiquidity, approves internal acts for the systematic liquidity management, which include:

a) Policies/strategies and procedures of internal audit of the insurance company;

b) Organization;

c) Cash flow Planning, expected and potential;

d) Strategies and policies of liquidity management that define the methods of liquidity management of the insurance company, in regular and unusual circumstances;

e) Appropriate system of information management used for measuring, monitoring, control and liquidity reporting;

f) Plan and procedure measures for prevention and elimination of causes of illiquidity.

**Article 4**

**Cash Flow planning**

1. The insurance company shall regularly plan expected, known and possible money outflow, and sufficient money inflow.

2. For the purpose of monitoring liquidity, the insurance company shall plan possible cash flow on a daily, weekly and monthly basis according to the way the plan for this cash flow is made:

a) For each working day;

b) For each first working day in a week and following working days in the same week;

c) For each first working day of the month and for the following working days during that month.

3. The insurance company shall file with its records its plans of cash flow, as referred to paragraph 2 of this Article.

**Article 5**

**Methods of calculating the liquidity Ratio**

1.  Liquidity ratio shall be the ratio between the company's liquid assets and liabilities that have fallen due, as well as liabilities that will soon fall due.

2.  Liquid assets are assets available to the insurance company, which consist of:

a)  Bank accounts balance;

b)  Cash in hand;

c)  Demand deposits, deposits/bank loan guarantee with maturity up to seven (7) calendar days and deposits which can be withdrawn up to seven (7) calendar days;

d)  Securities/shares, which can be cashed immediately, i.e. those with maturity up to seven (7) calendar days.

3.  Insurance company's liabilities that have fallen due are the liabilities for insurance and co-insurance contracts, liabilities for reinsurance contracts, liabilities for commissions, liabilities arising from investment activities, as well as other liabilities that have fallen due in the day of calculating the liquidity ratio.

4.  Insurance liabilities that will soon fall due are liabilities for insurance and reinsurance contracts, commissions, liabilities arising from the investment activity, as well as other liabilities that will fall due in seven (7) calendar or that may be withdrawn within a period of seven (7) days from the day that the liquidity ratio is calculated.

5.  Liabilities referred to in paragraphs 3 and 4 of this Article also include balance-sheet items and off-balance sheet items which cannot be withdrawn but are related to the expenses or liabilities from future contracts and guarantees given.

6.  Liabilities referred to in paragraphs 3 and 4 of this Article also include deferred expenses not presented as liabilities in the balance sheet but which are expected to fall due in one (1) day after the day the liquidity ratio is calculated for, taking into account this liability.

7.  For the purpose of calculating the liquidity ratio, liquid assets and liabilities arising from them shall be reflected in the bookkeeping value.

8.  In calculating the liquidity ratio, non-tradable securities and the securities for which the trading place cannot be determined shall not be included in liquid assets by the insurance company.

9.  Securities shall not be considered as part of liquid assets until maturity, unless they had or have maturity in seven (7) days period.

## Article 6
## Liquidity Ratio Retention Level

1.  The insurance company shall be considered liquid if the result of the calculation, referred to Article 5 of this Regulation, is higher than or equal to 1 (one).

2.  The insurance company shall be considered illiquid if the result of the liquidity ratio calculation referred to Article 5 of this Regulation is less than 1 (one).

## Article 7
## Daily evidence and monitoring

1.  The insurance company shall calculate according the following on the daily basis:
    a)  Amount of liquid assets referred to Article 5, paragraph 2 of this Regulation;
    b)  Level of liabilities that have fallen due under the provisions of Article 5, paragraphs 3 - 6 of this Regulation;
    c)  Liquidity ratio provided in Article 5 of this Regulation.

2.  The insurance company shall calculate the amount of the liquid assets, the level of liabilities that have fallen due and the liquidity ratio referred to in paragraph 1 of this Article by using Form 1.

3.  The insurance company shall file duly filled Form 1 in its records on a daily basis.

# Article 8

## Notification in case of illiquidity

1.  In case the illiquidity is detected in accordance with the provisions of Article 7, paragraph 2 of this regulation, the insurance company shall notify the Authority on this occurrence no later than 24 hours after the illiquidity is detected.

2.  The notification referred to paragraph 1 of this Article shall also include the total amount and structure of liquid assets and outstanding liabilities of the insurance company that have fallen due, the reasons for the inability to make payments, as well as the measures planned and taken for the purpose of eliminating the temporary inability to make payments, i.e. elimination of causes of illiquidity.

3.  In addition to the notification referred to paragraph 2 of this Article, the insurance company shall specifically state the measures taken, i.e. details on the source of assets that have been or will be used in order to eliminate the illiquidity, as well as cash flow plan for the next month.

4.  In addition to notification, the insurance company shall also submit the calculation of the liquidity ratio according to Form 1, at the day the company presented illiquidity.

5.  The provisions of paragraph 1 of this Article shall be applied accordingly to the executive directors of insurance companies.

# Article 9

## Content, method and time limits on reporting

1.  The insurance company shall notify the Authority of the liquidity ratio, liquid assets and liabilities for all the working days of the previous month, by using Form 1.

2.  The insurance company shall submit the duly filled Form 1, no later than five (5) days period after the latest day in month for which Form 1 has been prepared.

3.  The insurance company shall submit Form 1 to the Authority electronically and in hardcopy.

## Article 10

### Supervisory Measures

The Financial Supervisory Authority, in case of failure to meet the obligations of this regulation, shall apply the provisions provided in the Law "On Insurance and Reinsurance" and other by-laws for its implementation.

## Article 11

### Entry into force

This Regulation shall enter into force three months after its approval by the Board of the Financial Supervisory Authority.

## Article 12

### Final Provision

Form 1 attached to this Regulation constitutes an integral part of this regulation.

**FORM 1**

Insurance company:_____

Year of exercise:_____

Month:_____

## Daily calculation of liquidity ratio

| No. | Description | Balance as at (*) |
|---|---|---|
| | | **1** |
| A | **LIQUID ASSETS (1+2+3+4+5+6+7)** | **0** |
| 1 | Cash on ALL account | |
| 2 | Cash on foreign currency account (EUR, USD, GBP) | |
| 3 | Cash in hand | |
| 4 | Demand deposits | |
| 5 | Deposits bank loan guarantee with remaining maturity up to seven (7) days | |
| 6 | Deposits that can be withdrawn up to seven (7) days | |
| 7 | Securities/shares which can be cashed immediately, i.e. those with maturity up to seven (7) days (7.1 up to 7.3) | **0** |
| 7.1 | Classified - until maturity | |
| 7.2 | Classified - available for sale | |
| 7.3 | Classified - at fair value at profit and loss account | |

| B | Liabilities that have fallen due (8+9+10+11+12+12+14+15) | 0 |
|---|---|---|
| 8 | **Liabilities that have fallen due on the basis of conducting insurance activities (8.1 up to 8.5)** | 0 |
| 8.1 | Liabilities for insurance and co-insurance contracts | |
| 8.2 | Liabilities for insurance and co-insurance contracts that fall due in five (5) days | |
| 8.3 | Liabilities that have fallen due for royalties and services | |
| 8.4 | Liabilities for intermediary commissions that fall due in seven (7) days | |
| 8.5 | Other liabilities for direct insurance activity that have fallen due | |
| 9 | Liabilities that have fallen due from financial activities | |
| 10 | Liabilities from financial activities that fall due in five (7) days | |
| 11 | Liabilities that have fallen due for creditors | |
| 12 | Liabilities for creditors that fall due in seven (7) days | |
| 13 | Liabilities that have fallen due for employees | |
| 14 | Liabilities for employees that fall due in seven (7) days | |
| 15 | Other liabilities that have fallen due or fall due in seven (7) days | |
| 16 | **Liquidity Ratio (A/B)** | 0 |

Insert the date and month for which the coefficient is calculated in place of (*).

Example: 01.03. if the liquidity ratio is March 1st

Place, date:_____

Prepared by (name, surname):_____

Signature: _____

Responsible person (name, surname):_____

Signature:_____