

Order №01
of the Head of State Insurance Supervision Service
December 24, 2013 Tbilisi

**On approval of the Rules of determining the types and terms of creating
of insurance reserves**

Based on Article 15 and Article 21 Paragraph “L” of the Georgian Law “On Insurance”, as well as on the Article 3, Paragraph “N” of the Regulation of the LEPL State Insurance Supervision Service of Georgia, approved in accordance with the Decree №102 of the Government of Georgia of May 02, 2013, and Article 4 Paragraph 3 of the same Regulation, **I hereby order:**

1. To approve the attached Rules of Determining the Types and Terms of Creating of Insurance Reserves.
2. To bring this Order into force upon publication.

Head of Service

Lasha Nikoladze

Rules of Determining the Types and Creating of Insurance Reserves

Article 1. General provisions

1. This document provides for the types of insurance reserves and terms for their creation.
2. The purpose of insurance reserves is to secure financial stability of Insurers and founders of non-state pension plans (hereinafter – Founders of a Pension Plan) and to ensure the due performance of their insurance and/or pension liabilities.
3. Insurer is obliged to create insurance reserves for non-life, life and non-state pension insurances.
4. Founder of a pension plan, if not at the same time an Insurer, is obliged to create only non-state pension reserve in accordance with these Rules.
5. Insurers and Founders of a Pension Plan are obliged to adhere to the present Rules at each stage of their operations and also after cancellation of license and/or registration until full expiry of their liabilities provided by insurance and/or pension contracts, in accordance with the Law.
6. If engaging in reinsurance or coinsurance business, Insurers must create insurance reserves in accordance with these Rules and by the same method as in direct insurance business.

7. Insurers and Founders of Pension Plans must develop a methodology of calculation of insurance reserves, and establish control of accuracy in calculation of reserves created in accordance with these Rules and internal standards.

8. The obligation to create insurance reserves in accordance with these Rules does not apply to the branch (representation) referred to in Subparagraph “c.b” of Paragraph 2 of the Georgian Law on Insurance, unless the above branch (representation) is engaged in non-state pension protection.

Article 2. Definition of terms

1. For the purpose of these Rules, the terms used in this text have the following meaning:

a) Net Written Premium – amount of written premium represented by the difference between the gross premium written during the reporting period and reinsurance premium for the same reporting period. Gross written premium and reinsurance premium shall be calculated in accordance with the definitions of parameters and accounting principles determined for financial reporting of the Insurers.

b) Reported loss – loss caused by the risks insured and reported to the Insurer.

c) Not settled loss – reported loss not settled or partially settled by the Insurer.

d) Settled loss – loss fully paid by the Insurer.

e) Basic premium – basic data for calculation of the reserve.

f) Actuarial calculations – calculations based on mathematical and/or statistical methods.

g) Capitation method – method of settlement where the cost of service is paid for the agreed periods and in agreed installments, amount of which depends on the number of Insureds enrolled in the given insurance plan.

h) Perspective method – method of calculation based on such data, related to the insurance contracts/policies, which refers to the future period (future estimated premium, future insurance liabilities, etc).

i) Retrospective method - method of calculation based on such data, related to the insurance contracts/policies, which refers to the past period (premium written in the past period, paid losses, etc).

j) Cumulative life insurance – life insurance contracts/policies, which apart of life insurance provide also investment possibilities.

Article 3. Information to be submitted to the LEPL State Insurance Supervision Service of Georgia

1. Insurers and Founders of Pension Plans must submit the following information to the LEPL State Insurance Supervision Service (hereinafter – Service) upon the request of the latter:

a) List of insurance reserves created by the Insurer and/or Founder of a Pension Plan in connection with the performed operations, with indication of the existing balances as of the date fixed by the State Insurance Supervision Service. This information must be signed by the person responsible for the calculation of reserves (with indication of Name, Family Name and Title);

b) Methodology of calculation of each insurance reserve (with reference to the database used for calculations, adjustment factors, mortality tables and other statistical data);

c) Person responsible for calculation of reserves – identity and title.

2. Insurance reserves shall be shown in the corresponding forms of the Insurer's financial and statistical reports, while the reserves of a Founder of a Pension Plan (not being at the same time an insurance company) shall be shown in the corresponding forms of statistical reports, and submitted to the LEPL State Insurance Supervision Service, according to the terms for submission of the reporting forms.

3. Branch (representation) referred to in Subparagraph "c.b" of Paragraph 2 of the Georgian Law on Insurance, must within the terms for submission of Insurer's quarterly statistical reports to the LEPL State Insurance Supervision service, submit a letter issued by the founding insurance organization, certifying the creation by the branch (representation) of the insurance reserve corresponding to the insurance liabilities undertaken within the reporting period, in accordance with the legislation of the country of registration of the founding company. The above branch (representation) must also submit to the Service financial report of the founding insurance / reinsurance organization. The intervals of submission of the latter must be the same as required by the laws of the country of registration of such organization for presenting of financial reports.

Article 4. Types of Insurance Reserves

1. Types of insurance reserves are as follows:

a) For life and non-life insurance (apart of cumulative life and non-state pension insurance):

a.a) Unearned premium reserve;

a.b) Reported but not settled claims reserve;

a.c) Incurred but not reported claims reserve.

b) Insurance reserve for cumulative life insurance (life insurance reserve);

c) Non-state pension insurance reserve – pension liabilities.

Article 5. Unearned premium reserve

1. Unearned premium reserve is a part of insurance premium indicated in the insurance / reinsurance contracts (whether the premium is already paid to the Insurer or not), attributable to the future periods.

2. Unearned premium reserve per each insurance contract / policy shall be calculated according to the following formula:

$$UPR = \frac{P \times t}{T}$$

where

UPR– is amount of unearned premium reserve;

P – is amount of insurance premium indicated in the insurance policy / contract. If the premium in the policy is indicated in foreign currency, then its amount shall be calculated in the national currency, according to the official exchange rate as of the date of policy inception;

t – is the period remaining until the expiry of the insurance policy / contract (expressed in days);

T – is the total period of validity of insurance policy / contract (expressed in days).

3. In the above formula “day” is a unit of period for calculation of the unearned premium reserve.

4. The reinsurer’s share in the unearned premium reserve shall be calculated according to the reinsurance agreement. At the same time, the reinsurer’s share in the above reserve exists only if it is possible to calculate it per each policy / contract. The principle indicated in Paragraph 2 of this Article, used for reappraisal of the insurance premium in the national currency when initially indicated in foreign currency, shall be also used for calculation of the reinsurer’s share expressed in foreign currency.

5. The reinsurer’s share in the unearned premium reserve shall not be reduced by the reinsurance commission due to the Insurer.

6. The total amount of unearned premium reserve is the sum of unearned premium reserves calculated per each contract / policy.

7. The Insurer shall calculate the unearned premium reserve per each contract / policy in force.

Article 6. Reported but not settled claims reserve

1. Reported but not settled claims reserve is created for those losses, which are not settled or are partially settled by the Insurer.

2. Reported but not settled claims reserve must be mandatorily created upon the receipt of a claim for reimbursement under a certain insurance contract / policy.

3. Amount of the reported but not settled reserve shall be defined as follows:

a) If the Insurer has received a claim regarding the occurrence covered by the insurance policy, determined the ultimate amount of loss and taken a decision to reimburse the Insured for such loss, then the reported but not settled claims reserve shall be created in the amount of the sum payable.

b) If the Insurer has received a claim regarding the occurrence covered by the insurance policy, but has not yet determined the ultimate amount of loss and has not yet taken a decision to reimburse the Insured for such loss, then the reported but not settled claims reserve shall be created within the amount of the sum shown in the documents evidencing the reported loss. If the Insurer has no sufficient information on the ultimate amount of loss, the reported but not settled reserve shall be created in the maximal reasonable amount of loss caused by the event covered by the Policy (but not exceeding the Sum Insured under the relevant Insurance Policy), based on the average values for the given line of insurance and the Insurer’s statistics.

c) Amount of capitation expenses incurred by the Insurer is a part of the loss and is subject to allocation within the Reported but Not Settled Claims Reserve, until payment of these expenses by the Insurer. The reserve shall be adjusted according to the accrued amounts as of the last day of each calendar month.

d) If in cases provided by Subparagraphs a) or b) of this paragraph, the period of payment of the loss depends on the duration of the Insured’s life, the current amount of the Reported But Not Settled claims reserve is calculated according to the actuarial calculations made by the insurance organization.

4. The reinsurer's share in the Reported but Not Settled claims reserve shall be calculated for each reported but not settled loss, according to the corresponding reinsurance agreement, in case of such. The reinsurer's share in the Reported but Not Settled claims reserve changes according to the process of payment of the loss or its part by the Insured. In case of full payment of the loss, the reinsurer's share in the corresponding part of the Reported but Not Settled claims reserve shall become nil.

Article 7. Incurred But Not Reported Claims Reserve

1. Incurred but not reported claims reserve is created for those losses caused by the events covered by insurance, which are not reported to the Insurer by the end of the reporting period.

2. Incurred but not reported claims reserve is created by the end of the accounting year. The total amount of this reserve is reduced during the accounting year by deducting the amount of paid losses occurred during the previous accounting year(s), however the part of the reserve to be deducted from the total reserve shall not exceed the total Incurred But Reported claims reserve.

3. Incurred but not reported claims reserve shall be calculated according to the lines of insurance and the basic premium shall be considered:

a) For non-life insurance, the net premium written by the Insurer during the accounting year (inclusive of insurance contracts concluded for a period over one year);

b) For life insurance, the part of net premium written by the Insurer during the accounting year that corresponds to one insurance year. However, for such contracts/policies, the reserve for the incurred but not reported claims in the following insurance years is calculated in consideration of the corresponding parts of the net written premium.

4. The amount of the Incurred But not Reported claims reserve for health insurance shall be calculated as 2 (two) % of the basic premium defined in Article 7, Paragraph 3, while the same reserve for other lines of insurance shall be calculated as 5 (five) % of the basic premium defined in Article 7, Paragraph 3.

5. Reinsurer's share in the Incurred but Not Reported Claims reserve shall not be considered.

Article 8. Insurance reserve for cumulative life insurance (life insurance reserve)

1. The insurance reserve for cumulative life insurances (life insurance reserve) is calculated based on the Insurer's actuarial calculations, considering the Insurer's liabilities to each Insured. For this purpose, the "estimation" (perspective) method of calculation is applied, where the amount of the reserve is the value of insurance liabilities calculated by actuarial methods, by the moment the insurance reserve is created.

2. Life insurance reserve shall be calculated in consideration of the specific conditions of the insurance contracts:

a) Estimated amounts of reimbursement following the insured events;

b) Amounts payable by the Insurer in case of premature cancellation of the life insurance contracts;

c) Additional financial compensations (awards, bonuses, etc.) established by the Insurer for the fulfillment of the terms and conditions of the insurance contract;

d) The right of the parties to change the terms and conditions of the insurance contract/policy.

3. If the value of the future insurance liabilities cannot be calculated by the perspective method, the Insurer shall make calculations based on a retrospective method – in consideration of the revenues earned and compensations paid in past years in cumulative life insurance business.

4. Upon starting of life insurance business, the Insurer must develop a methodology for calculation of life insurance reserve in accordance with the Paragraph 3 of this Article and to present it to the LEPL State Insurance Supervision Service.

5. The reinsurer's share in the life insurance reserve is calculated per each insurance contract, in accordance with the relevant reinsurance agreement, in case of such.

Article 9. Non-state pension insurance reserve – pension liabilities

1. The pension insurance reserve / pension liability is created for each pension plan, for each pension insurance contract with each subscriber, in consideration of all the terms and conditions of such contract.

2. The amount of pension insurance reserve for the defined contribution plans with fixed premium is the amount of total pension liabilities to the subscribers.

3. Calculation of pension insurance reserve for the defined benefit plans:

a) Pension insurance reserve for the defined benefit plans shall be calculated based on “estimation” (perspective) method, and the amount of reserve is the value of pension liabilities calculated by actuarial methods by the time of creation of the reserve;

b) Retrospective method of calculation is also acceptable, including when the amount and/or periodicity of installments is not fixed within the conditions of the pension plan.

4. Amount of the pension insurance reserve shall be shown in the relevant financial and statistical reporting forms developed by the LEPL State Insurance Supervision Service, based on the principles provided by the corresponding regulations.