

Criteria for assessing an insurer as a systemically important insurer

1. General provisions

1.1. The Criteria for assessing an insurer as a systemically important insurer (hereinafter – the Criteria) have been developed in accordance with Article 95.5 of the Law of the Republic of Azerbaijan ‘on Insurance Activity’ (hereinafter – the Law) and establish the criteria for assessing insurers operating in the Republic of Azerbaijan as systemically important insurers.

1.2. The definition ‘insurer’ used in these Criteria cover reinsurers as well.

1.3. The definitions used in these Criteria bear the meanings specified in the insurance legislation of the Republic of Azerbaijan.

2. A methodology for determining systemic importance

2.1. The systemic importance of insurers is defined separately for life and non-life insurance.

2.2. The systemic importance of reinsurers exclusively engaged in reinsurance activities is assessed together with insurers engaged in non-life insurance.

2.3. Mutual insurers are not considered in determining the systemic importance of insurers.

2.4. The systemic importance of the insurer is assessed through the indicators specified in the below table (category, indicators and weights assigned to those indicators):

N	Category	Indicator	Weight (%)
1.	Scope	Total assets	20
		Insurance premiums	10
		Number of insurance agreements	10
2.	Diversification	Liabilities of the insurer due to financial institutions	6.67
		Assets placed by the insurer with financial institutions	6.67
		Reinsurance premiums	6.67
3.	Substitutability	Insurance premiums on specific insurance (reinsurance) types	30
4.	Complexity	Diversity of insurance (reinsurance) portfolio	10

2.5. The following indicators are used to define the systemic importance of the insurer:

2.5.1. total assets – total amount of insurer’s long- and short-term assets.

2.5.2. insurance premiums – total amount of insurance premiums calculated.

2.5.3. number of insurance agreements – the number of insurer’s insurance agreements as of the reporting date.

2.5.4. liabilities of the insurer due to financial institutions – total amount of non-insurance liabilities due to banks, non-bank credit institutions, insurers, as well as leasing, factoring, pawnshop, and other similar institutions operating in the territory of the country not attributed to insurance activities.

2.5.5. assets placed by the insurer with financial institutions – total exposures due to the institutions specified in sub-item 2.5.4 of these Criteria.

2.5.6. reinsurance premiums – total reinsurance premiums calculated on risks assumed by insurers in connection with reinsurance activities.

2.5.7. insurance premiums on specific insurance (reinsurance) types – total insurance (reinsurance) premiums calculated on the below types of insurance:

2.5.7.1. fire and other risks insurance and compulsory property insurance (non-life insurance).

2.5.7.2. insurance of aircrafts and civil liability insurance of aircraft owners (non-life insurance).

2.5.7.3. credit life insurance on credit agreements with individuals (life insurance).

2.5.8. diversity of insurance (reinsurance) portfolio – the mean market share of not less than 20% of calculated insurance (reinsurance) premiums for insurance classes the insurer operates in.

2.6. Using the indicators specified in Item 2.4 of these Criteria the systemic importance per insurer is calculated with the below formula:

$$SII = \sum_{i=1}^n \left(\frac{I_i}{L_i} \times W_i \right)$$

where,

SII – the insurer’s systemical importance index.

I_i – the mean of recent 3 (three) years on the insurer’s relevant indicator.

L_i – the mean of recent 3 (three) years on the relevant indicator of the insurance area (life and non-life insurance).

W_i – the weight per indicator.

n – the number of indicators estimated.

2.7. Indicators that do not exist in more than 75 (seventy-five) percent of insurers are not considered in the assessment when calculating the systemic importance index of insurers. At that, the weight of the indicator not considered in the assessment is distributed among other indicators in proportion to their share in total weight.

2.8. For the reinsurer engaged exclusively in reinsurance activity, the indicators specified in sub-items 2.5.2 and 2.5.3 of these Criteria are not evaluated. Special weights for these indicators are included in the overall weight for other indicators within the same category.

2.9. The systemic importance of the insurer is evaluated based on annual statements of recent 3 (three) years for each year. If the insurer has been operating for less than 3 (three) years, then annual statements for the years of operation are taken as the basis.

2.10. After calculating the systemic importance index for each insurer, the mean and standard deviation of the indices for the insurance sector (the measure of the deviation of each index from the mean of the indices) are computed. An insurer whose systemic importance index exceeds the sum of the mean and standard deviation of the systemic importance indices for the relevant insurance sector is considered a systemically important insurer.

2.11. The list of systemically important insurers is approved by the decision of the Management Board of the Central Bank of the Republic of Azerbaijan (hereinafter - the Central Bank) by March 1 every year.

2.12. Within 5 (five) working days from the date of the decision, related information is sent to the relevant systemically important insurer through the electronic system of the Central Bank or by mail notification.