

Regulation on setting limits and requirements for reinsurance of risks with foreign insurers, as well as requirements for insurers’ and reinsurers’ reinsurance policies and reinsurance of catastrophic risks

1. General provisions

This Regulation has been developed in accordance with Articles 10.2, 10.6 and 78.2 of the Law of the Republic of Azerbaijan “On Insurance Activity” (“Law”) and establishes the limits and requirements for reinsurance of risks with foreign insurers, as well as the minimum requirements for insurers’ and reinsurers’ reinsurance policies and reinsurance of catastrophic risks.

2. Definitions

2.1. For the purposes of this Regulation, the following terms shall have these meanings:

2.1.1. **lead reinsurer** is a foreign insurer responsible for negotiating the terms and conditions of a reinsurance contract (contracts) involving more than one foreign insurer who have agreed to and bound by the same terms and conditions;

2.1.2. **credit rating** means a rating assigned to foreign insurers by relevant internationally recognized rating agencies regarding the ability to fulfill their long-term financial obligations, as specified in Annex No. 1 to this Regulation;

2.1.3. **rating group** – means the classification of credit quality of foreign insurers into 4 groups, starting from group 0, characterized by minimal credit risk, up to to group 4, categorized by very high credit risk, as specified in Annex No. 1 to this Regulation;

2.1.4. **Solvency II regime** is an EU regulatory framework for implementing risk-based supervision of insurers operating in the EU;

2.1.5. **Solvency II equivalent supervisory regimes** are insurance supervisory regimes recognized by the European Commission and published on its official website as equivalent to the EU Solvency II Regime;

2.1.6. **solvency ratio** is a financial metric that measures the ability of foreign insurers within the scope of the Solvency II regime and Solvency II equivalent supervisory regimes to meet their financial obligations, as calculated under the Solvency II directive and acts adopted thereunder;

2.1.7. **catastrophic risk** means earthquake for the purposes of this Regulation;

2.1.8. **probable maximum loss** (hereinafter "PML") is the probable maximum loss per event that may occur as a result of a catastrophic risk occurring once;

2.1.9. **concentration risk** - for the purposes of this Regulation, the sum of insurance risks concentrated at least by country, region, as well as insurer and foreign insurer;

2.1.10. **high-risk zones** are high-risk zones determined in accordance with Article 9.5 of the Law of the Republic of Azerbaijan "On Prevention of Legalization of Criminally obtained Property and the Financing of Terrorism" and countries and territories with preferential taxation as determined by Decree No. 1505 of the President of the Republic of Azerbaijan "On approval of the list of countries and territories with preferential taxation" dated July 11, 2017;

2.1.11. **Protection and Indemnity Club** (hereinafter "P&I Club") is an association of shipowners accepting risks to insurance and (or) to reinsurance;

2.2. The terms "insurer" and "foreign insurer" used in this Regulation shall also include reinsurers and foreign reinsurers, respectively.

3. Requirements for ceding risks to foreign insurers

3.1. Insurer may reinsure insurance risks with foreign insurers that have a license (permit) to conduct reinsurance activities and meet the following requirements:

3.1.1. foreign insurers shall have credit rating as provided in Annex No. 1 to this Regulation, issued within the last 12 calendar months prior to conclusion of the reinsurance contract;

3.1.2. foreign insurers that do not meet the requirements of subsection 3.1.1 of this Regulation shall have a solvency ratio in relation to relevant credit rating in accordance with Annex No. 1 to this Regulation, assigned within the last 12 calendar months prior to conclusion of the reinsurance contract.

3.2. When reinsuring insurance risks with foreign insurers specified in section 3.1 of this Regulation, the insurer shall meet the following requirements:

3.2.1. in the case of proportional reinsurance contracts, participation of every foreign reinsurer having credit rating of group 4 as indicated in Annex No. 1 hereof shall not be more than 10% of the total sum insured under the insurance contract, and participation of all foreign reinsurers meeting the same criteria shall not exceed 20% of the total sum insured under one insurance contract;

3.2.2. in the case of non-proportional reinsurance agreement, reinsurance is permitted only with foreign insurers of group 3 or higher as specified in Annex No.1 to this Regulation;

3.2.3. taking into account the requirement of subsection 3.2.4 hereof, reinsurance of risks with foreign insurers located in high-risk zones shall be permitted only if such foreign insurers are included in credit rating group 0 or 1 as specified in Annex No.1 hereto;

3.2.4. reinsurance of catastrophic risks shall be permitted only with foreign insurers having a credit rating. In this case, the foreign insurer shall have a credit rating equivalent to group 3 or

higher as specified in Annex 1 to this Regulation, and when located in high-risk zones, to group 0 or 1.

3.3. If the reinsurance agreement envisages the existence of lead reinsurer, then this reinsurer's credit rating shall include in credit rating group 3 or higher as specified in Annex No.1 to this Regulation.

3.4. In respect to subsection 3.1.1 of this Regulation, the lowest credit rating in force shall be considered.

3.5. In respect to subsection 3.1.2 of this Regulation, the solvency ratio determined based on the latest official report (solvency and financial condition) published by foreign insurers themselves on their official websites shall be considered.

4. Reinsurance of catastrophic risks

4.1. If the insurer insures (reinsures) catastrophic risks, it shall calculate the PML amount for the risks that will occur over a period of at least 250 years in relation to accumulated catastrophic risks under all valid insurance (reinsurance) contracts.

4.2. The insurer may retain with itself that portion of the PML amount for catastrophic risks not exceeding 20 percent of its aggregate capital. This is applied to the lowest amount of aggregate capital calculated during the 12 calendar months preceding the reinsurance contract.

4.3. The insurer shall submit quarterly reports to the Central Bank of the Republic of Azerbaijan regarding accumulated catastrophic risks. The reports shall be submitted through the electronic system of the Central Bank of the Republic of Azerbaijan within 20 (twenty) days after the end of the relevant quarter, approved by the enhanced electronic signature of the Chairman of the Board of Directors of the insurer (or the person temporarily performing his/her duties) in accordance with the form specified in Annex 2 of this Regulation.

5. Determination of reinsurance policy

5.1. Taking into account the requirements of this Regulation, the insurer shall determine the policy for reinsurance operations at least in accordance with the following guidelines:

5.1.1. types of reinsurance contracts intended to be concluded with respect to insurance classes;

5.1.2. the insurer's expected retention for each class;

5.1.3. criteria for selecting insurers and foreign insurers, as well as insurance brokers and obtaining reinsurance quotes;

5.1.4. mechanisms and procedures for monitoring the financial condition of insurers and foreign insurers, including, at a minimum, analysis of financial statements and credit ratings;

5.1.5. mechanisms and procedures for monitoring the reinsurance program and reviewing the continuity of sufficient (adequate) reinsurance coverage.

5.2. The insurer shall determine its risk and loss profiles in relation to classes of insurance.

5.3. The insurer's reinsurance policy shall specify the objectives of the reinsurance program and ensure that the reinsurance program established is consistent with the insurer's objectives and risk profile.

5.4. The insurer's reinsurance policy shall reflect the requirement that the insurer that has insured (reinsured) the risks under the insurance (reinsurance) contract shall not accept those risks for reinsurance.

5.5. The insurer's reinsurance policy shall have the function of reducing the possible negative impact of losses on insurance and reinsurance contracts.

5.6. If the insurer's reinsurance policy changes, the insurer shall conduct an analysis of the impact of such changes on its financial condition and report thereon to the Board of Directors each calendar year.

5.7. The insurer shall measure the concentration risk with respect to risks ceded to the reinsurer and submit reports thereon to the Board of Directors each calendar year.

5.8. The insurer shall update the reinsurance policy on the basis of the report submitted in accordance with sections 5.6 and 5.7.

6. Closing provisions

6.1. The requirements set out in section 3 of this Regulation shall not apply to the reinsurance of risks by P&I Clubs and to the reinsurance of insurance risks within the travel insurance class.

6.2. The requirements of section 3 of this Regulation shall apply to reinsurance contracts concluded, continued and renewed after the date of entry into force of this Regulation.

6.3. Relations under reinsurance contracts concluded for more than 1 (one) year prior to the entry into force of this Regulation shall be brought into compliance with the requirements of section 3 of this Regulation within 1 (one) year from the date of its entry into force.

6.4. Insurer shall ensure the application of the requirements of section 4 of this Regulation to all insurance (reinsurance) contracts within 3 (three) months from the date of entry into force of this Regulation.

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Credit ratings of foreign insurers

Credit rating group	Credit ratings of foreign insurers				Solvency ratio
	Standard& Poor's (S&P)	Fitch Ratings Inc.	Moody's Investors Service	A.M. Best Company	
0	AAA	AAA	Aaa	aaa	≥ 196%
1	AA+ AA AA-	AA+ AA AA-	Aa1 Aa2 Aa3	aa+ aa aa-	
2	A+ A A-	A+ A A-	A1 A2 A3	a+ a a-	
3	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	bbb+ bbb bbb-	≥ 122% və <175%
4	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3	bb+ bb bb-	≥ 100% və <122%

Annex No. 2

to the regulation on setting limits and requirements for reinsurance of risks with foreign insurers, as well as requirements for insurers' and reinsurers' reinsurance policies and reinsurance of catastrophic risks

CATASTROPHIC RISK ACCUMULATION REPORT (QUARTERLY)

Insurer (reinsurer) name _____

Insurance class _____

Reporting period _____

Administrative territorial unit identification number	Administrative territorial unit name	Number of insurance contracts	Sum insured against catastrophic risks	Sum insured for catastrophic risks covered by proportional obligatory reinsurance contracts	Catastrophic risk retention
AZE_ABS	Absheron District				
AZE_AGA	Aghstafa District				
AZE_AGC	Aghjabadi District				
AZE_AGM	Aghdam District				
AZE_AGS	Aghdash District				
AZE_AGU	Aghsu District				
AZE_AST	Astara District				
AZE_BA	Baku city				
AZE_BAB	Babak District				
AZE_BAL	Balakan District				
AZE_BAR	Barda District				
AZE_BEY	Beylagan District				
AZE_BIL	Bilasuvar District				

AZE_CAB	Jabrail District				
AZE_CAL	Jalilabad District				
AZE_CUL	Julfa District				
AZE_DAS	Dashkasan District				
AZE_FUZ	Fuzuli District				
AZE_GA	Ganja city				
AZE_GAD	Gadabay District				
AZE_GOR	Goranboy District				
AZE_GOY	Goychay District				
AZE_GYG	Goygol District				
AZE_HAC	Hajigabul District				
AZE_IMI	Imishli District				
AZE_ISM	Ismayilli District				
AZE_KAL	Kalbajar District				
AZE_KAN	Kangarli District				
AZE_KUR	Kurdamir District				
AZE_LA	Lankaran city				
AZE_LAC	Lachin District				
AZE_LER	Lerik District				
AZE_MAS	Masalli District				
AZE_MI	Mingachevir city				
AZE_NA	Naftalan city				
AZE_NEF	Neftchala District				
AZE_NV	Nakhchivan city				
AZE_OGU	Oghuz District				
AZE_ORD	Ordubad District				
AZE_QAB	Gabala District				
AZE_QAX	Gakh District				
AZE_QAZ	Gazakh District				
AZE_QBA	Guba District				
AZE_QBI	Gubadli District				
AZE_QOB	Gobustan District				
AZE_QUS	Gusar District				
AZE_SA	Shaki city				
AZE_SAB	Sabirabad District				
AZE_SAD	Sadarak District				

AZE_SAH	Shahbuz District				
AZE_SAL	Salyan District				
AZE_SAR	Sharur District				
AZE_SAT	Saatli District				
AZE_SBN	Shabran District				
AZE_SIY	Siyazan District				
AZE_SKR	Shamkir District				
AZE_SM	Sumgayit city				
AZE_SMI	Shamakhi District				
AZE_SMX	Samukh District				
AZE_SR	Shirvan city				
AZE_SUS	Shusha District				
AZE_TAR	Tartar District				
AZE_TOV	Tovuz District				
AZE_UCA	Ujar District				
AZE_XA	Khankendi city				
AZE_XAC	Khachmaz District				
AZE_XCI	Khojali District				
AZE_XIZ	Khizi District				
AZE_XVD	Khojavand District				
AZE_YAR	Yardimli District				
AZE_YE	Yevlakh city				
AZE_ZAN	Zangilan District				
AZE_ZAQ	Zagatala District				
AZE_ZAR	Zardab District				
Total					