

REGULATIONS
for determining the required capital of insurers

Baku 2012

1. General Provisions

1.1. These Regulations have been developed in accordance with Article 79.3 of the Law of the Republic of Azerbaijan "On Insurance Activity" and regulate the rules for calculating the insurer's required capital, as well as other issues stipulated in the legislation.

1.2. The following definitions are used for the purposes of these Regulations:

1.2.1. reporting date – the date on which the insurer's relevant report was compiled;

1.2.2. reporting period - 12 months preceding the reporting date;

1.2.3. insurance (reinsurance) contracts – insurance contracts concluded during the reporting period and reinsurance contracts for risks accepted for reinsurance;

1.2.4. the insurance premiums method - method of calculating the required level of solvency of the insurer for the general insurance area based on the obligations assumed under insurance contracts;

1.2.5. the insurance payments method - method of calculating the required level of the insurer's solvency for the general insurance area based on the obligations fulfilled under insurance contracts;

1.2.6. total earned insurance premiums – the amount remaining after subtracting the base portion of the unearned insurance premium reserve at the end of the period from the sum of the total insurance premiums calculated under insurance (reinsurance) contracts concluded during the reporting period and the base portion of the unearned insurance premium reserve at the beginning of the reporting period;

1.2.7. risk capital - the amount remaining after deducting the amount of insurance reserves under insurance contracts that provide life insurance against death (guaranteeing the risk of death) in force as of the reporting date from the total insurance amount under those contracts. If this amount is negative, risk capital is taken to be zero.

1.3. In these Regulations, the term "insurer" refers not only to insurers but also to reinsurers, as defined in Article 1.2 of the Republic of Azerbaijan's Law "On Insurance Activity".

2. Required capital

2.1. The insurer's required capital is the greater of the two following amounts, which are determined separately for life and non-life insurance.

2.1.1. the minimum amount of required capital determined by the insurance supervisory authority;

2.1.2. the required level of solvency of the insurer calculated in accordance with these Regulations.

3. Required level of solvency

3.1. The required level of the insurer's solvency for non-life insurance (general insurance) is the greater of the amounts calculated in accordance with paragraphs 4.1 and 5.1, taking into account the requirement of paragraph 5.3 of these Regulations.

3.2. The required level of solvency of the insurer for life insurance is equal to the sum of the amounts calculated in accordance with paragraphs 6.1 and 6.2 of these Regulations.

3.3. The required level of solvency of a reinsurer is equal to the sum of the required levels of its solvency for general insurance and life insurance, calculated separately in accordance with the procedure provided for in paragraphs 3.1 and 3.2 of these Regulations.

3.4. The required level of solvency of the insurer as of the reporting date for the general insurance is equal to the greater of the calculated required level of solvency of the insurer as of that date and the required level of solvency adjusted by the reserve coefficient as of the reporting date preceding the reporting date.

4. Calculation of the insurer's required solvency level for general insurance using the insurance premiums method

4.1. The required level of the insurer's solvency calculated by the insurance premiums method for the general insurance is equal to the product of 16% of the greater of the following amounts and the correction coefficient determined in accordance with paragraph 7.1 of these Regulations:

4.1.1. The amount remaining after deducting the commissions calculated for intermediary services provided for the conclusion of insurance (reinsurance) contracts, the commissions calculated for reinsurance policyholders, and the insurance (reinsurance) premiums returned as a result of the termination of insurance (reinsurance) contracts or changes in their terms from the amount of total premiums calculated for insurance (reinsurance) contracts concluded during the reporting period.

4.1.2. The amount remaining after deducting the commissions calculated for intermediary services provided for the conclusion of insurance (reinsurance) contracts, the commissions calculated for reinsurance policyholders, and the insurance (reinsurance) premiums returned as a result of the termination of insurance (reinsurance) contracts or changes in their terms from the amount of total earned premiums during the reporting period.

5. Calculation of the insurer's required solvency level for general insurance using the insurance payments method

5.1. The required level of insurer solvency, as calculated by the insurance payment method for general insurance, is equal to 26% of one-third of the total insurance payments calculated during the last three reporting periods prior to the reporting date, in accordance with the procedure specified in paragraph 5.2 of these Regulations, multiplied by the correction coefficient, as determined in paragraph 7.1 of these Regulations.

5.2. For the purposes of paragraph 5.1 of these Regulations, the amount of calculated aggregate insurance payments is increased by the amount of loss reserves reported but not adjusted as of the reporting date for the amount of insurance payments made during the last three reporting periods preceding the reporting date and the amount of loss reserves reported but not adjusted as of the beginning of the last three reporting periods preceding the reporting date is subtracted from the resulting total.

5.3. If the insurer has not made any insurance payments during the last three reporting periods preceding the reporting date, the insurance payments method is not used to calculate the insurer's required level of solvency.

6. Calculation of the insurer's required level of solvency for life insurance

6.1. For the purposes of paragraph 3.2 of these Regulations, the sum of the following amounts shall be used for insurance contracts that provide life insurance in the event of death:

6.1.1. for contracts with a term of up to one year - the product of 0.02% of the risk capital amount and the adjustment coefficient calculated in accordance with paragraph 7.3 of these Regulations;

6.1.2. for contracts with a term of one to three years - the product of 0.1% of the risk capital amount and the adjustment coefficient calculated in accordance with paragraph 7.3 of these Regulations;

6.1.3. for contracts with a term of three to five years - the product of 0.15% of the risk capital amount and the adjustment coefficient calculated in accordance with paragraph 7.3 of these Regulations;

6.1.4. for contracts with a term of more than 5 years - the product of 0.3% of the risk capital amount and the adjustment coefficient calculated in accordance with paragraph 7.3 of these Regulations.

6.2. For the purposes of paragraph 3.2 of these Regulations, the product of 4% of the insurance reserves under insurance contracts that do not provide life insurance against death and the adjustment coefficient calculated in accordance with clause 7.4 of these Regulations shall be used for those contracts.

7. Adjustment coefficient and reserve ratio

7.1. The adjustment coefficient applied to calculate the required level of solvency in general insurance is the ratio of the amount of insurance payments remaining after deducting the share of reinsurers from the total insurance payments calculated during the last three reporting periods as of the reporting date to the amount of total insurance payments calculated during that period. If this ratio is less than 0.5, the adjustment coefficient is set to 0.5.

7.2. If the insurer has not made insurance payments for the last three reporting periods as of the reporting date, the adjustment coefficient is accepted as 1.

7.3. The adjustment coefficient applied to calculate the required level of solvency in life insurance is the ratio of the amount remaining after deducting the reinsurers' share in the insurance reserves and the total sum insured from the risk capital under insurance contracts providing for life insurance against death to the risk capital under those contracts. If this ratio is less than 0.5, the adjustment coefficient is 0.5.

7.4. The adjustment coefficient applied to calculate the required level of solvency in life insurance is calculated as the ratio of the amount remaining after deducting the share of reinsurers from the total insurance reserves at the end of the reporting period for insurance contracts that do not provide for life insurance against death to the amount of total insurance reserves at the end of the reporting period. If this ratio is less than 0.85, then 0.85 is accepted for the calculation.

7.5. The reserve ratio applied for calculating the required level of solvency in general insurance is the ratio of the amount remaining after deducting the reinsurers' share from the amount of the reserve for losses reported but not adjusted at the end of the reporting period to the amount remaining after deducting the reinsurers' share from the amount of the reserve for losses reported but not adjusted at the beginning of the same reporting period. If this ratio is greater than 1, the reserve ratio is assumed to be 1.

8. Reports on required capital

8.1. Insurers shall prepare reports on required capital on a quarterly basis using the appropriate forms specified in Appendices 1-5 to these Regulations. These reports shall comply with the following requirements and be submitted to the Ministry of Finance of the Republic of Azerbaijan in paper and electronic formats within 20 days of the end of each quarter of the calendar year.

8.1.1. The reports shall accurately and completely reflect the required indicators according to the specified reporting form;

8.1.2. Reports shall be signed by Chairperson of the Board of Directors of the insurer (or a person temporarily acting for him/her) and Chief Accountant and shall be certified with the insurer's seal;

8.1.3. The relevant amounts in the reports shall be expressed in manats;

8.1.4. If the amounts shown in the reports are less than fifty gapiks, they shall be recorded as zero, and if they are equal to or greater than fifty gapiks, they shall be recorded as one manat;

8.1.5. Corrections of any kind, as well as the presence of corrupted or illegible information, are not permitted in the reports.

8.2. Reports that do not meet the requirements set forth in paragraph 8.1 of these Regulations are returned without review.

9. Transitional provision

In accordance with Article 128.1 of the Law of the Republic of Azerbaijan “On Insurance Activity”, the required capital of an insurer operating in both life and non-life insurance sectors is equal to the sum of its required capital calculated separately for life and non-life insurance.

*Annex 3
to the Regulations
for determining the
required capital of
insurers
Form No. 3*

REPORT
on the required level of insurer's solvency in life insurance (quarterly)

Insurer's name: _____

Reporting date: as of _____ 20____

No.	Indicators	Line code	Amount <i>(in manat)</i>
I. Insurance contracts providing for life insurance against death			
<i>a) For insurance contracts with a term of up to 1 year and in force at the end of the reporting period</i>			
1.	Risk capital (5113 - 5111)	5110	
2.	Total amount of insurance reserves	5111	
3.	Reinsurers' share in aggregate insurance reserves	5112	
4.	Total insurance amount	5113	
5.	Reinsurers' share in the total sum insured	5114	
<i>b) For insurance contracts with a term of 1 to 3 years and in force at the end of the reporting period</i>			
6.	Risk capital (5118 - 5116)	5115	
7.	Total amount of insurance reserves	5116	
8.	Reinsurers' share in aggregate insurance reserves	5117	

9.	Total insurance amount	5118	
10.	Reinsurers' share in the total sum insured	5119	

c) For insurance contracts with a term of 3 to 5 years and in force at the end of the reporting period

11.	Risk capital (5123 - 5121)	5120	
12.	Total amount of insurance reserves	5121	
13.	Reinsurers' share in aggregate insurance reserves	5122	
14.	Total insurance amount	5123	
15.	Reinsurers' share in the total sum insured	5124	

d) For insurance contracts with a term of more than 5 years and in force at the end of the reporting period

16.	Risk capital (5128 - 5126)	5125	
17.	Total amount of insurance reserves	5126	
18.	Reinsurers' share in aggregate insurance reserves	5127	
19.	Total insurance amount	5128	
20.	Reinsurers' share in the total sum insured	5129	

Sum

21.	Risk capital excluding reinsurers' share ("5110" + "5115" + "5120"+"5125")	5130	
22.	Risk capital remaining after deducting the share of reinsurers from the aggregate insurance reserves and the aggregate insurance amount ("5130" + "5112" - "5114" + "5117" - "5119" + "5122" - "5124"+ "5127" - "5129")	5131	

23.	Adjustment coefficient (if "5131" / "5130" > 0.5, then "5131" / "5130"; if "5131" / "5130" ≤ 0.5, then 0.5)	5132	
24.	The required level of solvency for insurance contracts providing for life insurance against death is ((“5110” x 0.0002 + “5115” x 0.001 + “5120” x 0.0015 + “5125” x 0.003) x “5127”))	5133	
II. Insurance contracts that do not provide for life insurance against death			
1.	The amount of insurance reserves at the end of the reporting period	5134	
2.	The amount of insurance reserves for calculation is (“5134” x 0.04)	5135	
3.	The amount of insurance reserves at the end of the reporting period, excluding the share of reinsurers in insurance reserves	5136	
4.	Adjustment coefficient (if “5136” / “5134” > 0.85, then “5136” / “5134”; if “5136” / “5134” ≤ 0.85, then 0.85)	5137	
5.	Required level of solvency for insurance contracts that do not provide life insurance against death ("5135" x "5137")	5138	
Required level of solvency of the insurer under life insurance contracts ("5133" + "5138")		5139	

Chairperson:

signature

name, surname, patronymic

Chief Accountant:

signature

name, surname, patronymic

L.S.

*Annex 4
to the Regulations
for determining the
required capital of
insurers
Form No. 4*

**REPORT
on the insurer's required capital in life insurance (quarterly)**

Insurer's name: _____

Reporting date: as of _____ 20____

No.	Indicators	Line code	Amount (in manat)
1.	Minimum amount of capital required as of the reporting date	6110	
2.	The required level of solvency of the insurer as of the reporting date ("5134")	6111	
3.	The amount of the insurer's required capital as of the reporting date ("6110" or "6111", whichever is greater)	6112	

Chairperson:

signature

name, surname, patronymic

Chief Accountant:

signature

name, surname, patronymic

L.S.