

Pursuant to Article 134, Article 135, paragraph 3 and Article 137, paragraph 4 of the Insurance Law (RS Official Gazette 139/2014) and Article 15, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 and 40/2015 – decision of CC), the Executive Board of the National Bank of Serbia hereby issues

DECISION ON INVESTMENT OF INSURANCE FUNDS

Introductory Provisions

1. This Decision prescribes limitations for investment of technical provisions in individual types of assets referred to in Articles 131 and 133 of the Insurance Law (hereinafter: the Law) and detailed requirements relating to those types of assets, as well as other types of assets that may be acquired using technical provisions, with the exception of those specified in Articles 131 and 133 of the Law.

This Decision regulates more closely also the rules for investment of guarantee reserves and prescribes other criteria for granting approval of the National Bank of Serbia for investment of insurance funds abroad and limitations for such investments, in addition to the ones stipulated in Article 137, paragraphs 2 and 3 of the Law.

2. For the purposes of this Decision, insurance funds shall mean funds designated in Article 115 of the Law, established in accordance with the Law and regulations governing technical provisions and capital adequacy of an insurance/reinsurance undertaking (hereinafter: undertaking).

Investment of Technical Provisions

3. Technical provisions may be invested in types of assets designated in Article 131 of the Law, separately for life insurance and non-life insurance, while observing the following limitations:

- 1) in securities referred to in Article 131, paragraph 2, item 1) of the Law – without limitation;
- 2) in securities referred to in Article 131, paragraph 2, item 2) of the Law – without limitation;
- 3) in securities referred to in Article 131, paragraph 2, item 3) of the Law – up to 35% of technical provisions and in securities of the same issuer – up to 10% of technical provisions;

4) in securities referred to in Article 131, paragraph 2, item 4) of the Law where the issuer is a legal person with the head office in the Republic – up to 35% of technical provisions and in securities of the same issuer – up to 5% of technical provisions;

5) in securities referred to in Article 131, paragraph 2, item 5) of the Law – up to 3% of technical provisions and in securities of the same issuer – up to 0.5% of technical provisions;

6) in securities referred to in Article 131, paragraph 2, item 6) of the Law – up to 25% of technical provisions and in securities of the same issuer – up to 5% of technical provisions;

7) in securities referred to in Article 131, paragraph 2, item 7) of the Law – up to 5% of technical provisions and in securities of the same issuer – up to 1% of technical provisions;

8) in equity interests referred to in Article 131, paragraph 2, item 8) of the Law – up to 5% of technical provisions and in equity interests in one legal entity – up to 1% of technical provisions;

9) in investment units referred to in Article 131, paragraph 2, item 9) of the Law – up to the level of technical provisions calculated for a class of life insurance referred to in Article 8, item 5) of the Law, and in investment units of a single investment fund – up to 50% of those technical provisions;

10) in immovable property and other proprietary rights on immovable property referred to in Article 131, paragraph 2, item 10) of the Law – up to 30% of technical provisions of life insurance, and/or 20% of technical provisions of non-life insurance, provided that not more than 10% of technical provisions of life insurance and/or 7% of technical provisions of non-life insurance is invested in one and/or several spatially connected immovable properties which make up one whole.

Up to 20% of technical provisions of life and or non-life insurance may be deposited with banks having a head office in the Republic of Serbia, provided that no more than 5% of those technical provisions are deposited with a single bank.

Technical provisions may be held as cash in the insurance undertaking's cash box or in its bank account, in the amount of up to 7% of technical provisions of life insurance and/or 10% of technical provisions of non-life insurance, provided that the sum of deposits and funds in the accounts of one bank does not exceed 5% of technical provisions of life and/or non-life insurance.

4. Other types of assets that may be acquired using technical provisions, apart from those specified in Articles 131 and 133 of the Law shall be the following:

1) unearned premium reserves, outstanding claims reserves and other technical provisions charged to coinsurer, reinsurer and retrocessioner, up to the level of their book value, determined by taking into account the creditworthiness of the coinsurer, reinsurer and retrocessioner;

2) unearned premium receivables under unexpired non-life insurance, coinsurance and reinsurance – up to 10% of technical provisions of non-life insurance.

Assets referred to in paragraph 1, item 2) of this Decision may be acquired by using technical provisions of non-life insurance only until 31 December 2024, provided that the undertaking keeps special records of these assets, including the name of the insured person, policy number, invoice number (for legal entities), total amount of premium and the amount of unearned premium.

The assets acquired by using technical provisions through compensation or in other similar manner, irrespective of the will of the undertaking, that are not of the type specified by the Law and this Decision, may, by way of derogation, be considered other type of assets for the purposes of paragraph 1 of this Section in the period of 30 days from the day of acquisition, after which they must be converted into a type of asset stipulated by the Law and this Decision, without the possibility of being subsequently re-classified and shown as assets acquired by using guarantee reserves or other insurance funds.

5. Up to 20% of mathematical reserves of life insurance may be invested in prepayments referred to in Article 133, paragraph 2 of the Law.

Requirements for Investment of Technical Provisions

6. When investing technical provisions, an undertaking shall observe the following requirements:

1) An issuer and/or underwriter referred to in Article 131, paragraph 2, items 1) and 3) of the Law shall have a credit rating for long-term borrowing in foreign currency not lower than the rating of the Republic of Serbia according to the assessment of Standard&Poor's, Fitch-IBCA or Moody's rating agencies;

2) Technical provisions shall be invested in securities referred to in Article 131, paragraph 2, items 5) and 7) of the Law based on the prior documented assessment of the issuer's operations, provided such assessment is reviewed at least once a year and the appropriate records of the issuer's operations are kept by the insurance undertaking;

3) Technical provisions shall be invested in securities referred to in Article 131, paragraph 2, items 4) and 6) and the securities issued abroad

provided that the issuers were awarded credit rating corresponding to at least "A" by Standard&Poor's, and/or the corresponding rating by Fitch-IBCA or Moody's or that the securities have been officially quoted on the stock exchange for at least last two years;

4) Technical provisions may be invested into equity interests referred to in Article 131, paragraph 2, item 8) of the Law if undertakings from that item are not persons related to the insurance undertaking and provided that the undertaking reviews its assessment of operations of those legal persons at least once a year and keeps appropriate records of their operations;

5) For each immovable property acquired using technical provisions, the undertaking must obtain:

- excerpt from the Land Registry,
- title deed,
- sale contract,
- certified valuation of the immovable property.

When depositing technical provisions with a bank, the undertaking shall acquire a written statement of that bank that it shall not make any offsetting against such funds, and/or withhold them on any grounds. One statement may cover several individual deposits.

In case that the assets acquired by using technical provisions no longer meet the requirements from paragraph 1 of this Section, the undertaking shall disinvest those assets within six months from becoming aware of this fact.

7. Technical provisions may not be invested in persons which are closely linked within the meaning of the Law, except in the case of acquiring the types of assets referred to in Section 4, provision 1) of this Decision.

Rules for Investment of Guarantee Reserves

8. Guarantee reserves shall be invested pursuant to the Law so as to achieve optimum diversification of the total investment portfolio, taking also into account the part of investment portfolio formed by using technical provisions.

9. Assets acquired by using guarantee reserves may not be subsequently reclassified and presented as assets acquired by using technical provisions.

Where assets referred to in paragraph 1 of this Section are acquired based on frequent money transactions, the undertaking shall define the methodology and deadlines for classification of cash by source of funds,

which classification must be completed by the end of the quarter in which such assets are acquired.

Criteria and Limitations for Investment of Insurance Funds Abroad

10. An undertaking may invest insurance funds abroad under the terms specified in Article 137, paragraphs 2 and 3 of the Law, while observing the following limitations:

- 1) that assets acquired abroad cannot be acquired under the same or more favourable terms in the Republic of Serbia;
- 2) that assets are not acquired in countries whose credit rating was degraded over the last year by Standard&Poor's, Fitch-IBCA or Moody's to a level equal to or lower than the credit rating awarded to the Republic of Serbia by the same agencies.

11. When deciding on the request for approval referred to in Article 137, paragraph 2 of the Law, the National Bank of Serbia shall assess the adequacy of investment policy and business results of the undertaking in the last three years.

An undertaking shall inform the National Bank of Serbia of all changes related to the approved investment of insurance funds abroad (change in value exceeding 25%, conversion into other type of assets, and/or disinvestment) within 15 days after the change has occurred.

Investment Portfolio Disclosures

12. For the purposes of reporting to the National Bank of Serbia pursuant to Article 178, item 6) of the Law, an undertaking shall prepare quarterly overviews of assets acquired by using insurance funds in accordance with the Law and this Decision.

An undertaking shall prepare quarterly overviews of assets acquired by using guarantee reserves and other insurance funds, including types of assets not specified by the Law and this Decision, but by the undertaking's investment policy.

An undertaking shall prepare quarterly overviews of assets acquired by using technical provisions, broken down by individual asset.

13. In preparing the overviews referred to in Section 12 of this Decision, the undertaking shall clearly specify the insurance funds by which the assets were acquired as well as the insurance group as defined by the Law. Once reported, the source of funds may not be subsequently changed.

An undertaking engaged in both life and non-life insurance business pursuant to Article 25 of the Law, and/or an undertaking engaged in reinsurance shall prepare overviews referred to in Section 12 of this Decision separately for life and non-life insurance.

Transitional and Final Provisions

14. An undertaking shall align assets acquired by using insurance funds with the provisions of this Decision by 31 December 2015, whereas for the purpose of reporting to the National Bank of Serbia on 30 June and 30 September 2015, the invested insurance funds shall be presented in accordance with the regulations that were in force prior to the coming into force of this Decision.

15. This Decision repeals the Decision on Limitations on Certain Forms of Deposits and Investments of Technical Provisions and on Maximum Amounts of Certain Deposits and Investments of Guarantee Reserve of Insurance Company (RS Official Gazette No 87/2012).

16. This Decision shall be published in the RS Official Gazette and shall enter into force on 27 June 2015.

NBS Executive Board No 57

19 June 2015

B e l g r a d e

Chairperson

Executive Board of the National Bank of
Serbia

G o v e r n o r

National Bank of Serbia

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