

Pursuant to Article 122 of the Insurance Law ("Official Gazette of the Republic of Serbia" No. 55/04), the Governor of the National Bank of Serbia hereby issues the following

## **D E C I S I O N**

### **ON THE MANNER OF DETERMINING THE LEVEL OF THE SOLVENCY MARGIN**

1. This Decision shall govern the manner of determining the level of the solvency margin, which an insurance company (hereinafter referred as to the "company") shall be required to maintain in its business operations, i.e. the method of calculating the solvency margin.

The solvency margin shall be calculated separately for life insurance activities and separately for non-life insurance activities, in the manner prescribed herein.

2. For the purpose of this Decision, the following terms shall have these meanings:

- *Mathematical reserve retained* for an insurance company shall refer to the mathematical reserve of its own portfolio increased by the mathematical reserve of assumed coinsurance and reduced by the sum of mathematical reserves ceded through coinsurance and reinsurance, and for reinsurance companies - the mathematical reserve of inward reinsurance reduced by the mathematical reserves of outward reinsurance;
- *Total premium* shall refer to the amount of premium before tax determined by the insurance contract (written premium), whereas the *total premium* for 2002, 2003 and 2004 shall refer to the invoiced premium before tax;
- *Total premium retained* for an insurance company shall refer to the premium of the company's own portfolio increased by the premium from assumed coinsurance and reduced by the sum of premiums ceded through coinsurance and reinsurance, and for reinsurance companies - the premium from inward reinsurance reduced by the premium for outward reinsurance;
- *Incurred claims* shall refer to the amount of claims settled (finally or partially settled) in the period of the past twelve months increased by the amount of loss adjustment expenses and the amount of total outstanding claims at the end of the above period and reduced by the amount of total outstanding claims at the beginning of the above period and the amount of collected recourses in the course of the above period;

- *Incurred claims in retention* for insurance companies shall refer to the amount of claims settled in retention in the period of the past twelve months increased by the amount of loss adjustment expenses and the amount of total outstanding claims in retention at the end of the above period and reduced by the amount of total outstanding claims in retention at the beginning of the above period and the amount of collected recourses in the course of the above period;
- *Average amount of incurred claims* in the last 36 months, and/or 84 months (with credit insurance, crop and yield insurance) shall be an arithmetic mean of the 12-month amount of incurred claims in the above period.

3. The solvency margin for life insurance shall be calculated in the following manner:

1) For life insurance and annuity insurance, supplemental health insurance under life insurance policies, voluntary pension insurance, as well as for other types of life insurance - the total amount of mathematical reserves on the last day of the current accounting period is multiplied by 0.04, and then by the ratio that has been derived as the quotient of total mathematical reserves retained and total mathematical reserve, both on the last day of the current accounting period, provided this ratio may not be less than 0.85;

2) For supplemental accident insurance under life insurance policies - in the manner determined by Section 4 hereof.

4. The solvency margin for non-life insurance shall be calculated in the following manner:

1) For types of non-life insurance referred to in Article 10, paragraph one of the Insurance Law (hereinafter referred to as the "Law"), with the exception of voluntary health insurance, as the higher of the amounts obtained subject to indent (a) and (b):

(a) The sum of the amounts of total premium in the course of the past 12 months up to EUR 10,000,000 in dinar counter-value multiplied by 0.18 and the remaining amount out of that premium multiplied by 0.16 is further multiplied by the ratio, which is calculated as the quotient of the amount of total premium retained and total premium, both in the course of the past 36 months, provided this ratio is not lower than 0.50;

(b) The sum of the average amounts of incurred claims in the past 36 months and/or 84 months up to EUR 7,000,000 in dinar counter-value multiplied by 0.26 and the remaining amount of those claims multiplied by 0.23 is further multiplied by the ratio which is calculated as the quotient of the amounts of incurred claims in retention and incurred claims, both in the course of the past 12 months, provided this ratio is not lower than 0.50.

2) For voluntary health insurance - one third of the higher of the amounts calculated under paragraph 1 indents (a) and (b).

The solvency margin for non-life insurance, with the exception of voluntary health insurance, for calculations in the course of the year and during the next three years from the effective date of this Decision, and/or with credit insurance, crop and yield insurance - for the next seven years from the effective day of that Decision, as well as on the day of transferring the portfolio of those insurances, shall be calculated subject only to paragraph 1, indent a) hereof.

The solvency margin for voluntary health insurance, for calculations in the course of the year and during the next three years from the effective day of this Decision, as well as on the day of transferring the portfolio of the above insurance - shall be calculated as one third of the higher of the amounts calculated under paragraph 1 indent (a) hereof.

5. Should the calculated solvency margin of a company fall below the amount of core capital of the company, subject to Article 28 of the Law, the solvency margin shall be taken to be the amount of core capital.

6. A company conducting reinsurance activities and/or a company engaging in life and non-life insurance activities until the time prescribed by Article 234 of the Law – shall calculate the solvency margin as the sum of calculated solvency margins for life insurance and non-life insurance.

7. The calculated solvency margin of a company must at all times be less than the company's guarantee reserves.

8. In calculating the solvency margin, a company shall be required to use data contained in its books of accounts.

9. Solvency margin of a company shall be calculated on the last day of the accounting period:

- on December 31 in the current year (annual calculation)
- on March 31, June 30 and September 30 in the current year (calculations in the course of the year)
- on the day of transferring a portfolio.

10. As an exception to Section 2, indent 2 hereof the *total premium* for 2005 shall mean the amount of written premium for that year increased by the remaining part of insurance premium from 2004 that is invoiced in 2005.

10a. As an exception to Section 3, indent 1 hereof, the solvency margin for supplemental health insurance under life insurance policies concluded prior to 29 September 2010 shall be calculated as determined in Section 4 thereof, in case those insurances are not subject to the calculation of mathematical reserves.

11. This Decision shall become effective as of the day following the day of its publication in the "Official Gazette of the Republic of Serbia".

Decision No.34  
7 April 2005  
Belgrade

Governor  
National Bank of Serbia  
Radovan Jelasic, sign.