



NATIONAL COMMISSION FOR FINANCIAL MARKETS

DECISION for the approval of the Regulation on insurance technical provisions

No 30/10 of 13.06.2023
(in force 23.06.2023)

Official Monitor of the Republic of Moldova No 210-212 Article 605 of 23.06.2023

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REGISTERED:
at Ministry of Justice
of the Republic of Moldova
No 1798 of 21 June 2023

The minister _____ Veronica MIHAILOV-MORARU

Pursuant to Article 65 paragraph (4) and Article 66 paragraph (8) of the Law No 92/2022 on insurance or reinsurance activity (Official Monitor of the Republic of Moldova, 2022, No 129 - 133 Article 229), the National Commission for Financial Market

DECIDED:

1. The Regulation on insurance technical provisions is hereby approved (attached).
2. This Decision shall enter into force on the date of its publication in the Official Monitor of the Republic of Moldova.

PRESIDENT

Dumitru BUDIANSCHI

No 30/10. Chişinău, 13 June 2023.

Approved
by the Decision of
the National Commission for Financial Markets
No 30/10 of 13 June 2023

REGULATION on insurance technical provisions

Chapter I GENERAL PROVISIONS

1. The present Regulation lays down the types of technical provisions for the classes of general insurance and life insurance, the way in which they are calculated for the purposes of entry in the accounting records and the preparation of the financial statements, the quality of the data used, and the requirements for internal regulations on the establishment and maintenance of technical provisions.

2. In the text of the Regulation, the terms used have the following meaning:

1) "*insurance*" and "*insurance undertaking*" refers to entities carrying on both insurance and reinsurance activities, and references to insurance undertakings shall be

read as including references to insurance undertakings under special supervision following the withdrawal of their business licence, unless otherwise stated,

2) "*type of insurance*" refers to those types/products of insurance which are included within a class of insurance, related to the life insurance and general insurance categories.

3. The insurance undertaking shall establish and maintain sufficient technical provisions, the amount of which shall at any time enable it to meet its obligations under insurance contracts. The calculation of technical provisions shall be prudent, reliable, and objective, based on the underwriting risk, in accordance with the realistic approach.

4. The methods of assessment and determination of technical provisions adopted by the insurance undertaking shall be the same throughout the financial year and from one financial year to another unless there are reasonable grounds for changing the methods.

5. In case the methods described in the present Regulation cannot be applied in order to obtain the correct value of the technical provisions due to the lack of sufficient statistical data, the insurance undertaking may, by notifying the supervisory authority, use other methods of calculation of the technical provisions if these methods are supported by the opinion of an actuary. The opinion of the actuary shall contain arguments that the application of these methods is not in contradiction with the legal provisions in force and actuarial principles, as well as a description of the influence of the application of these methods on the financial position and performance of the insurance undertaking. The opinion of the actuary on the application of other methods shall be recorded in the explanatory note, which shall be annexed to the internal rules of the insurance undertaking.

6. The number of technical provisions set up, maintained, and entered in the accounting records of insurance undertakings shall not be less than the value obtained by calculating those provisions in accordance with the provisions of the present Regulation.

7. The insurance undertaking shall be obliged to calculate, at any time, together with the gross technical provisions and the share of gross technical provisions related to ceded reinsurance contracts.

8. The technical provisions shall be entered in the accounting records separately for each category of insurance, i.e. general insurance and life insurance, and, according to the types of provisions referred to in paragraphs 28 and 29, the accounting records of the insurance undertaking shall also make it possible to identify the types of technical provisions related to each class and type of insurance within the two categories of insurance referred to for which the insurance undertaking holds a licence.

9. In case the insurance or reinsurance contract provides for the collection of premiums and the payment of claims in foreign currency, the related technical provisions shall be established and maintained in that currency, the calculation of the premium reserve shall be made in the currency in which the insurance contract was concluded and the calculation of the claims reserve shall be made in the currency in which the claim is to be paid. Technical provisions in foreign currency are recognized and entered in the accounting records in Moldovan lei at the official exchange rate of the Moldovan leu valid on the date of calculation of the reserves.

10. The actuary of the insurance undertaking shall coordinate the calculation of the technical provisions referred to in paragraphs 28 and 29 involving actuarial calculations, shall ensure the use of appropriate methodologies, the basic models used, and the assumptions used, shall assess the sufficiency and quality of the data used in the calculation of technical provisions, and shall identify data which distort the calculation of technical provisions and propose their correction.

11. The insurance undertaking shall be obliged to submit any documents and information requested by the actuary which are necessary for the performance of the

mandatory actuarial duties and the formulation of conclusions and shall be responsible for the accuracy of the information submitted.

12. The actuary is responsible for the correctness and accuracy of actuarial calculations, estimates and conclusions made. The actuary shall submit to the insurance undertaking, on a quarterly basis, all calculations made, information and conclusions relating thereto.

13. The actuary shall, on a quarterly basis, prepare and submit to the supervisory authority, together with the specialised reports, the results of the technical provision adequacy tests, as referred to in paragraphs 28 sub-paragraphs 1) - 3) of the present Regulation, signed by the head of the executive body and the actuary of the insurance undertaking. The adequacy tests shall be carried out on the basis of:

1) previous experience (run-off test) - for reported but unsettled and unadvised claims reserves, separately for each class and type of insurance; and

2) discounted estimates of future cash flows (LAT - liability adequacy test) - for the unearned premium provision, by total classes of insurance, and, depending on the specifics of the risks, by type of insurance.

14. The actuary shall, on a quarterly basis, prepare and submit to the supervisory authority, together with the specialised reports, the results of the technical provision adequacy tests as referred to in paragraph 29 of the present Regulation, signed by the head of the executive body and the actuary of the insurance undertaking.

15. In case, as a result of the adequacy tests carried out, according to:

1) paragraph 13 subparagraph 1), a systematic negative difference in total claims reserves is identified (at least 2 quarters in the last 12 months preceding the reporting period), the insurance undertaking shall analyse and substantiate the source of this difference and make the necessary adjustments to the reserve calculation methods used, informing the supervisory authority within the time limit and under the conditions laid down in paragraph 89 of the present Regulation, and the actuary shall supplement the claims reserves by the amount of the negative difference recorded, by increasing the non-reported claims reserve, except for negative differences which arise from large claims (insured cases with a large amount of claims), which are not systematic and/or are caused by unpredictable factors (that are not under the control of the insurance undertaking),

2) paragraph 13 subparagraph 2) and paragraph 14, a shortfall/deficit of technical provisions is identified, the actuary shall calculate an additional unexpired reserve risk, i.e., an additional mathematical reserve, at least up to the amount of the identified shortfall/deficit.

Chapter II DATA QUALITY

16. The insurance undertaking shall establish internal processes and procedures to ensure the adequacy, completeness and accuracy of the data used in the calculation of technical provisions, which shall be reflected in its own internal rules on the establishment and maintenance of technical provisions.

17. The data used for the calculation of technical provisions shall be considered exhaustive in case the following conditions are met:

1) data include sufficient retrospective information to assess the characteristics of the underwritten risks and to identify risk trends,

2) data are available for each of the homogeneous risk groups of the relevant class or type of insurance and used for the calculation of technical provisions in such a way that, for the calculation of technical provisions, no information is excluded from use without justification.

18. The data used for the calculation of technical provisions shall be considered accurate in case the following conditions are met:

1) data are free from material error,

2) data from different time periods used for the same estimate are consistent,

3) data is recorded in a timely and consistent manner over time.

19. The data used for the calculation of technical provisions shall be considered adequate in case the following conditions are met:

1) data are consistent with the purposes for which they shall be used,

2) volume and nature of the data ensure that the estimates made when calculating technical provisions on the basis of the data do not include a significant estimation error,

3) data are consistent with the assumptions underlying the actuarial and statistical techniques applied to them when calculating technical provisions,

4) data adequately reflect the risks to which an insurance undertaking is exposed in relation to insurance obligations,

5) data have been collected, processed, and applied in a transparent and well-structured manner on the basis of a documented process comprising the following elements:

a) definition of data quality criteria and an assessment of data quality, including qualitative and quantitative standards, specific to different data sets,

b) use and establishment of assumptions formulated at the time of data collection, processing, and application,

c) process for performing data updates, including the frequency of updates, as well as the circumstances leading to additional updates,

6) insurance undertaking ensures that data are used consistently over time for the calculation of technical provisions.

20. For the purposes of paragraph 19 subparagraph 2), an estimation error in the calculation of technical provisions shall be considered to be significant if it could influence the decision-making process or the judgement of the users of the result of the calculation, including the supervisory authority.

21. The insurance undertaking shall apply adjustments to historical data, as appropriate, for credibility or quality enhancement, as input to determine more reliable estimates of technical provisions and to align with the characteristics of the insurance portfolio under consideration and the expected evolution of risks. The insurance undertaking shall take account of changes in the terms of insurance or reinsurance contracts, underwriting, administration procedures or changes in risk characteristics.

22. Situations requiring adjustments to historical data include, but are not limited to:

1) significant changes in claims (damages/benefits) over a period of time,

2) evolution of claims (damages/benefits),

3) impact of future trends,

4) changes of the risk,

5) changes in risk hedging,

6) changes in reinsurance contracts,

7) occurrence of significant claims (damages/benefits).

23. The insurance undertaking analyses the source and impact of significant deviations, assigns their weight, eliminates non-conforming values due to operational errors to ensure the accuracy of the data. Such eliminations shall be documented and justified.

24. The insurance undertaking may use data from an external source provided that, in addition to the conditions set out in paragraphs 17 - 19, the following requirements are met:

1) insurance undertaking shall demonstrate that the use of such data is more appropriate than the use of data, which is available exclusively from an internal source,

2) insurance undertaking knows the origin of such data and the assumptions or methodologies used for the processing of that data,

3) the insurance undertaking shall identify any trends in such data and variations either over time or at the level of the data, in the assumptions or methodologies necessary for the use of that data,

4) insurance undertaking is able to demonstrate that the assumptions and methodologies referred to in subparagraphs (2) and (3) reflect the characteristics of the portfolio of insurance obligations of the insurance undertaking.

25. In case the data do not comply with the conditions set out in paragraphs 17 - 19, the insurance undertaking shall draw up the Data Limitations Instruction, which shall specify whether and how the data limitations shall be remedied and describe the functions within the governance system of the insurance or reinsurance undertaking responsible for this process. Before data are adjusted to remedy limitations, they shall be appropriately registered and stored.

26. In case insurance undertakings do not have sufficient data of adequate quality to apply a reliable actuarial method, they may use appropriate approximations to calculate the best estimate, provided that the following requirements are met:

1) insufficient data shall not be due to inadequate internal processes and procedures for collecting, storing, or validating data used for the assessment of technical provisions,

2) insufficient data shall not be remedied by the use of external data,

3) data deficiency shall not be feasibly adjusted by the undertaking to remedy the deficiency.

27. The actuary shall assess the sufficiency and quality of the data used in the calculation of technical provisions, as well as identify data that distort the calculation of technical provisions and propose opinions on their correction. The insurance undertaking shall use the opinion of the actuary to amend and supplement the data, considering the requirements, assumptions, and reasoning of this chapter.

Chapter III METODE DE CALCUL AL REZERVELOR TEHNICE

Section 1

Technical provisions specific to insurance contracts

28. An insurance undertaking carrying on activities in the general insurance category shall establish and maintain the following technical provisions:

1) unearned premium reserve (UPR),

2) reported but not settled reserves (RBNS),

3) incurred but not reported reserves (IBNR),

4) unexpired risk reserve (URR).

29. An insurance undertaking carrying on activities in the life insurance category shall establish and maintain the following technical provisions:

1) mathematical provision,

2) additional mathematical provision,

3) supplementary benefit provision,

4) provisions specified in paragraph 28, as appropriate.

Section 2

Calculation of the unearned premium reserve

30. The unearned premium reserve shall be calculated separately for each insurance contract on a monthly basis by adding together the shares of the gross written premiums related to unexpired periods of insurance contracts in such a way that the difference between the volume of gross written premiums and this reserve reflects the gross premiums allocated to the part of the risks which have expired at the date of calculation.

31. For the calculation of the UPR value, of an insurance contract, the "*pro rata temporis*" method shall be applied, expressed by the formula:

$$UPR_i = GWP_i \times \frac{C_i}{D_i}$$

where:

UPR_i – unearned premium reserve,

GWP_i – gross written premium. For compulsory internal and external motor third party liability insurance, GWP_i means the gross written premium related to such insurance, which may not be lower than the reference premium calculated by the supervisory authority, with the application of the bonus-malus system,

C_i – the number of days corresponding to the unexpired period of the insurance contract, for which the insurance premium (GWP_i) has been written and which shall be determined as the difference between the total number of days (D_i) corresponding to the period of validity of the insurance contract and the number of days which have expired since the commencement date of the insurance contract,

D_i – the number of days corresponding to the period of validity of the insurance contract for which the insurance premium (GWP_i) has been written,

i – the insurance contract for which the unearned premium reserve is calculated.

32. Total UPR is the sum of the unearned premium reserves calculated on each insurance contract (UPR_i), for which the insurance premium has been written at the valuation date and is expressed by the formula:

$$UPR_t = \sum_{i=1}^n UPR_i$$

where:

UPR_t – total unearned premium reserve as at t ,

n – number of contracts for which UPR is calculated.

33. The gross written premium shall include the premium written under direct insurance by the insurance undertaking and the premium written in respect of risks received under reinsurance by the reinsurance undertaking, and the premium was actually received or recognised and recorded as premium receivable at the date of the UPR assessment.

34. For insurance contracts for which the effective date of the insurance contract starts after the date of receipt of the gross written premium and/or after the date of the revenue entry and the calculation of the UPR is made at an intermediate date between the date of conclusion of the contract and the effective date of the contract, the UPR is equal to the gross written premium.

Section 3

Calculation of the claims outstanding

35. Claims outstanding relate to reported and unreported reserves up to the assessment date and represent the sum of the technical provisions described in paragraphs 28 subparagraphs 2) and 3).

36. The insurance undertaking is obliged to calculate prudently the final costs of not settled reserves which are estimated so as to settle all reserves and/or benefits arising in the period up to the date of calculation of the claims outstanding and which were not settled at that date.

37. The final costs established for the settlement of reserves and/or benefits include the calculated or estimated amount of compensation due for the compensation of claims, allowances or benefits of the insured/victim or beneficiary, plus the actual and/or estimated amount of administrative expenses related to the establishment, assessment and settlement of claims and benefits of insurance contracts, for which the RBNS and IBNR are calculated.

38. The RBNS shall be established and updated daily on the basis of estimates of claims received by the insurance undertaking so that the reserve created is sufficient to cover such claims. The RBNS is updated separately for each notification/information of the occurrence of the insured case, related to a claim file, starting from the foreseeable expenses incurred in the future with the settlement of claims and/or benefits, determined on the basis of the claims reports and/or notices received by the insurance undertaking during the reporting period, in any form (written, telephone, fax, electronic mail/e-mail, etc.), whether or not the final amount of claims and/or benefits is determined, but which have not been paid or have been paid in part at the date of the calculation of the RBNS, so that the amount created in respect of the RBNS is sufficient to cover such claims and/or benefits.

39. The total RBNS is the estimated final cost of settling all claims and/or benefits incurred and reported during the reporting period up to the date of calculation. The estimated amount of final costs calculated for each claim file (insured case) is determined by applying the following formula:

$$RBNS = (A + B - C + D),$$

where:

A – value of outstanding claims and/or benefits from periods prior to the reporting period,

B – value of claims incurred and reported and/or benefits arising from events occurring during the reporting period which shall be recorded, for 'general insurance', in the Register of Claims and, for 'life insurance', in the Register of Claims and Benefits, including annuities related to insurance benefits,

C – value of claims and/or benefits paid in the reporting period,

D – administrative and claims assessment expenses, which shall include, as applicable, the following:

a) 3 % of the value of claims outstanding at the end of the reporting period,

b) actual and estimated amount of costs for establishment, assessment, and settlement of claims, related to services provided by third parties (independent experts), determined at the end of the reporting period, as applicable.

40. In case the outstanding amount of the reported claim or benefit is known at the time of calculation, this amount must be recognised and recorded immediately as RBNS. In cases where the damage has arisen and has been reported but not yet settled and the benefit has been recognised as a liability but not yet settled at the date of the calculation of the RBNS and the amount of the claim or benefit has not yet been estimated or calculated, due to lack of information on the damage that has arisen, the amount to be recorded as RBNS is the average amount of the damage, in accordance with paragraph 41 of the present Regulation, for the type of insurance to which the claim file refers (adjusted by some known information on the insured case, determined on the basis of statistics of the insurance undertaking or collateral statistics from official sources), plus 3% of this value, or plus the best estimated value of the administrative and claims adjustment expenses, if the registration and investigation of claims are carried out through the services of third parties (independent experts).

41. The insurance undertaking shall calculate annually the average damage for each type of insurance, considering a period of at least 12 preceding months of the

previous year, and shall notify the supervisory authority by 25 February of the year following the reporting year, using the following formula:

$$\overline{D}_i = \frac{D_i}{n_i}$$

where:

\overline{D}_i – average damage per type of insurance i ,

D_i – total value of claims and benefits paid by the insurance undertaking for insurance type i , excluding large losses (exceeding MDL 250.0 thousand) or justified by the insurance undertaking,

n_i – total number of claims files, related to insurance damages and benefits, paid by the insurance undertaking for insurance type i .

For domestic motor third party liability insurance, the average damage is calculated separately for the following 2 categories of claims:

- 1) property damage,
- 2) personal injury and death.

The insurance undertaking may add to the amount of the average expected damage an additional amount corresponding to the root mean squared deviation of the damage (standard deviation).

42. The RBNS shall not exceed the sum insured for the insurance contract to which this reserve relates, except in the case of claims files documented through the procedure for the amicable settlement of motor vehicle accidents, where the amount of the declared but not settled reserves shall not exceed the maximum amount of compensation established in accordance with the regulatory acts of the authorised supervisory authority.

43. In the case of claims which are the subject of legal proceedings, the RBNS represent the amount of outstanding claims, as claimed by the plaintiff, submitted on the basis of damage assessment documents drawn up under the responsibility of persons authorised to issue such documents, to which shall be added the estimated amount of court costs, penalties and default interest, which shall not exceed the sum insured. In case the plaintiff does not submit a valuation report, or the insurance undertaking does not agree with the damage assessment report drawn up by the competent persons, the insurance undertaking shall calculate the RBNS on the basis of the estimates available to it, based on valuation reports drawn up by legal experts. The amount of the RBNS thus calculated shall be maintained until a final and irrevocable judgment is pronounced by the court. An additional reserve value shall be created immediately and when the insurance undertaking possesses information that additional expenses are necessary for the settlement of final claims.

44. In case the insurance undertaking issues a decision refusing to pay the insurance claim and the insurance claim is or becomes subject of an action in court, the RBNS shall be established and maintained, until a final and irrevocable decision is pronounced, at the level of the claims submitted to the court, according to the assessment of the damage provided for in paragraph 43.

45. In determining the amount of the RBNS in respect of claims under the compulsory foreign motor third party liability insurance "Green Card", account shall be taken of the amount of claims incurred and declared as well as the costs of settling the claims indicated in the requests, notifications, debit notes or other similar documents submitted by the persons entitled as well as by the national bureaux of the member countries of the "Green Card" system.

46. In the absence of information in notifications or other documents from the foreign adjuster on the preliminary amount of the claim or the reported but not settled reserves, the insurance undertaking shall use the average claim calculated on the basis of statistical

data for claims paid by insurance undertakings licensed for foreign motor third party liability insurance "Green Card", differentiated according to the insurance area in which the insured event occurred, recorded for the last 12 months. The average claim for the type of insurance "Green Card" is determined by applying the following formula:

$$\overline{D}_i = \frac{D_i}{n_i}$$

where:

\overline{D}_i – the average damage in the insurance area i ,

D_i – total value of claims and benefits paid by insurance undertakings licensed for "Green Card" insurance, for insurance area i , excluding large claims, which represent claims with values exceeding EUR 250.0 thousand,

n_i – total number of claims and benefits paid by insurance undertakings licensed for Green Card insurance for the insurance area i .

47. The National Bureau of Motor Insurers of Moldova (NBMIM) calculates, on an annual basis, by 25 February of the year following the reporting year and submits for information to the supervisory authority, the average loss for "Green Card" insurance for each insurance zone separately for the following damage categories:

- 1) property damage,
- 2) personal injury and death.

The average claim calculated according to the specified formula shall be notified to the insurance undertakings issuing the "Green Card", published on the official website of the NBMIM and shall apply from this date.

48. The insurance undertaking shall maintain the Registers of Claims and Disputes referred to in paragraph 93 in such a way that all records of claims incurred and reported, including the calendar dates of claims settlements, are made daily.

49. Incurred but not reported reserves shall be calculated for each class and type of insurance on the basis of the best estimates of the insurance undertaking by actuarial methods using reasonable statistical data. This reserve shall be created and maintained for claims incurred but not yet reported until the end of the reporting period (reserve calculation date).

50. When determining the IBNR, depending on the availability of the insurance undertaking's claims history, the following actuarial methods may be applied:

- 1) Chain Ladder method (loss development method),
- 2) Bornhuetter-Ferguson method,
- 3) average cost per claim method,
- 4) loss ratio method,

5) other familiar techniques. The actuary shall decide which method of calculating the claims reserve shall be used, giving reasons for that method.

51. In the IBNR calculation process, the following requirements shall be respected:

1) use of quarterly statistical information, for at least the last twenty quarters preceding the reporting period, related to claims paid and reported but not settled reserves (claims incurred), recorded in at least the last twenty quarters preceding the date of calculation of this reserve,

2) from the statistical information used in the calculation of IBNR may be excluded, if any, the value of claims and recoveries received by the insurance undertaking as well as claims for which the insurance undertaking has submitted legal proof of their rejection at payment,

3) administration and other claims settlement expenses shall be included in the final IBNR. These expenses shall include the calculated amount of 3% of the IBNR resulting from actuarial calculations, or, where appropriate, the pre-estimated amount of expenses

for the services of third parties (independent experts) related to the establishment, assessment, and settlement of the claim,

4) very large claims shall be excluded if the actuary considers that a prudent approach to the estimates would require their non-inclusion in the statistical information used to calculate the IBNR or their adjustment in terms of claim development coefficients. In this case, the actuary is obliged to keep the Register of large, excluded claims separately,

5) loss development coefficients shall be calculated by at least two of five methods: the weighted average method, the simple average method, the median method, the geometric average method, and the simple average method by excluding the maximum values of the individual coefficients determined for each period of occurrence of the insured event, the most representative coefficient for the development of claims to be selected by the actuary,

6) in order to obtain more accurate loss development results, an analysis based on regression methods and the application of the "tail" factor shall be carried out to take account of the development of paid claims outside the triangles in case it is found that claims are not sufficiently developed during the period of loss development provided for in paragraph 1).

52. The amount of the IBNR for claims arising from compulsory internal and external motor third party liability insurance shall be the maximum amount obtained as a result of the compulsory application of the Chain Ladder, Bornhuetter-Ferguson, and Loss ratio methods.

53. Ultimate loss ratio, used for Bornhuetter-Ferguson and Loss ratio methods is adjusted and equals at least the following value:

1) for the last 4 quarters of origin of events prior to the reporting period that have cumulative development factor values higher than 1 (one):

$RDF_i^{aj} = RDF_i + \text{at least 2 percentage points}$ – for compulsory domestic motor third party liability insurance,

$RDF_i^{aj} = RDF_i + \text{at least 3 percentage points}$ – for compulsory external motor third party liability insurance,

where:

RDF_i^{aj} – Adjusted ultimate loss ratio, used for Bornhuetter-Ferguson and loss ratio methods, expressed as a percentage,

RDF_i – The ultimate loss ratio resulting from the application of the Chain Ladder, average cost per claim methods, combinations, or variations of these methods, expressed as a percentage,

i – quarter of origin of the events.

2) for quarters of origin of events with values equal to 1 (one) of the cumulative development factors:

$RDF_i^{aj} = RDF_i$ – for compulsory internal and external motor third party liability insurance.

Section 4

Calculation of the unexpired risk reserve

54. The unexpired risk reserve (URR) shall be calculated on the basis of the estimated liabilities arising after the end of the reporting period in respect of insurance contracts concluded before that date to the extent that their estimated value exceeds the unearned premium reserve.

55. The URR shall be calculated and maintained separately for each class and type of insurance.

56. The URR shall be calculated, using the combined operational rate related to the data for the last 12 months, by the following relationship:

$$URR_i = UPR_i * \max (COR_i - 1; 0),$$

where:

URR_i – unexpired risk reserve calculated for each class and type of insurance,

UPR_i – unearned premium reserve at the date of calculation of the URR;

COR_i – combined operating ratio, related to class and type of insurance i , shall be determined by the following relationship:

$$ROC_i = RD_i + RCh_i + Rcom_i$$

where:

LR – loss ratio related to class and type of insurance i ,

$$LR = IC / EP,$$

IC – incurred claims related to class and type of insurance i :

$$IC = PC \text{ paid claims} + RBNS \text{ change} + IBNR \text{ change},$$

EP – earned premium related to class and type of insurance i :

$EP = \text{Gross written premium excluding premiums on terminated and cancelled contracts} - UPR \text{ change},$

AER – administrative expense ratio, not including acquisition costs (commissions) of insurance related to class and type of insurance i :

$$AER = AE / EP,$$

AE – administrative expenses, excluding acquisition costs, related to class and type of insurance i ,

ACR – acquisition cost ratio (commissions), related to class and type of insurance i :

$$ACR = ACE / EP,$$

ACE – acquisition costs earned, related to class and type of insurance i :

$$ACE = AC - DAC \text{ change},$$

AC – acquisition cost calculated for previous periods, related to class and type of insurance i ,

DAC – deferred acquisition cost, which cannot be depreciated.

COR_i may be adjusted on the basis of actuarial analyses and estimates of cash flows, but only upwards in relation to the value of the combined operating ratio based on data for the last 12 months.

57. Administrative expenses (AE) include all expenses of the insurance undertaking related to operational activity, except acquisition expenses (commissions), which shall be allocated by one of the following methods:

1) on the basis of gross written premiums, considering gross written premiums relating to all classes of insurance, if the insurance premiums relating to classes 5 and 11 of the Annex to Law No 92/2022 on insurance or reinsurance activity (Law No 92/2022) do not represent significant values compared to the average premiums related to the other classes of insurance,

2) on the basis of gross written premiums, except for the risks included in classes 5 and 11 of the Annex to Law No 92/2022, if the insurance premiums of these classes represent significant values compared to the average premiums related to the other classes of insurance. The allocation of administrative expenses in this case shall be carried out using the weighting system according to the portfolio of the insurance undertaking,

3) on the basis of gross written premiums combined with the number of policies issued, except for the risks included in classes 5 and 11 of the Annex to Law 92/2022, if the insurance premiums for these classes represent significant values compared to the average premiums related to the other classes of insurance. The allocation of administrative expenses in this case shall be carried out using the weighting system according to the portfolio of the insurance undertaking.

The actuary of the insurance undertaking shall assess and determine the most appropriate expense distribution technique which ensures a representative allocation of administrative expenses by classes and types of insurance.

58. The total value of the URR is the sum of the unexpired risk reserve (URR_i) calculated for each class and type of insurance.

Section 5

Methods of calculating the mathematical provision, the additional mathematical provision, and the reserve for additional benefits

59. The mathematical provision shall be calculated separately for each life insurance contract using the gross premium method based on a prospective actuarial valuation - the Zillmer provision (hereinafter - the gross prospective method).

60. The insurance undertaking may apply methods other than the gross prospective method if the actuary confirms and certifies that the mathematical provisions calculated according to the alternative methods (gross premium method based on a retrospective actuarial valuation, net premium method based on a retrospective or prospective actuarial valuation, etc.) are not lower than the amount of the provisions calculated using the gross prospective method.

61. The gross prospective method shall be applied considering:

1) all future events for which premiums or benefits are payable under the terms and conditions underlying the contracts or policies of insurance,

2) reasonable expectations of policyholders regarding surrender values or accumulated reserves, bonuses, profit-sharing or other, determined in accordance with the practices of the insurance undertaking and relating to claims,

3) cost of options, including commissions, if any, offered to policyholders in accordance with the terms and conditions of life insurance contracts.

62. The determination of the value of the liabilities for each life insurance contract shall be carried out on the basis of fair and prudent premises, based on data derived from the experience of the insurance undertaking or other statistics on the relevant parameters, and shall include an appropriate margin for adverse variations in the relevant influencing parameters, which may require an increase in the value of the mathematical provisions.

63. The method of calculation of the mathematical provisions and the parameters for their valuation shall not be changed from one year to another during the term of the insurance contract because of arbitrary changes made to the method of calculation or to the valuation parameters and shall be of such a nature as to enable the distribution of benefits to be appropriately recognised.

64. Mathematical provisions calculated at an intermediate date which does not correspond to the anniversary date of the contract shall be calculated by interpolated terminal reserve method.

65. Any negative mathematical provision shall be reported and marked as equal to zero.

66. In case where the surrender value of an insurance contract is guaranteed, the amount of the mathematical provisions for that insurance contract at any time shall be at least equal to the guaranteed surrender value.

67. In determining the mathematical provisions, account shall be taken of the nature, type and condition of the assets representing the reserve liability in order to establish

prudent reserves to prevent possible changes in the value of those assets which would affect the ability of the insurance undertaking to meet its contractual obligations.

68. Additional mathematical provisions shall be calculated if the present or foreseeable yield of assets of the life insurance undertaking becomes insufficient to meet its commitments towards policy holders in respect of the interest rate used in the calculations.

69. In determining the mathematical provisions, account shall be taken of the nature, type and condition of the assets representing the reserve liability in order to establish prudent reserves to prevent possible changes in the value of those assets which would affect the ability of the insurance undertaking to meet its contractual obligations.

68. Additional mathematical provisions shall be calculated if the present or foreseeable yield of assets of the life insurance undertaking becomes insufficient to meet its commitments towards policy holders in respect of the interest rate used in the calculations.

69. The reserve for additional benefits (insurance bonuses) is formed and maintained for the purpose of assessing the liabilities of the insurance undertaking for the payment of bonuses in respect of life insurance contracts which provide for the right of the policyholder to participate in the additional benefits (investment income) derived from the realisation of the mathematical provision. The reserve for additional benefits (insurance bonuses) shall be calculated by the retrospective method separately for each insurance contract.

Section 6

Cash flow related to life insurance contracts

70. The method of valuing the gross insurance premium shall discount at a certain interest rate the following:

- 1) premiums payable, if any,
- 2) benefits payable, if any, including:
 - a) death benefits,
 - b) survival benefits,
 - c) benefits payable to the policyholder in case of voluntary termination of the contract,
 - d) supplementary benefits,
 - e) bonuses or profit participations to which the insured or policyholders are already entitled, whether acquired, declared, or allocated,
- 3) commissions and remunerations payable, if any, with regard to life insurance contracts,
- 4) expenses of administering/maintaining the contract or policy, if any, in accordance with the parameters set out in paragraph 74,
- 5) allocation of profits to shareholders, as necessary, only in cases where there is a contractual provision and a specific relationship between profits attributable to shareholders and the declared profit participation rate for the policyholder,
- 6) interest rate used to calculate the mathematical provisions of the insurance undertaking shall not exceed 5% and shall be determined by reference to the terms of the insurance contract, the type of investments relating to the technical provisions or by using the average rate of interest on government securities with a term of more than 1 year.

71. In cases where the life assurance contract provides for options that can be exercised by the policyholder (e.g. as a supplement to the insured amount or to the reduced amount, without taking into account the insurable nature of the insurance contract, as well as the payment of guaranteed annuities at maturity, etc.), the cost of such options shall be estimated and treated as cash flow when calculating mathematical reserves for related contracts.

72. The future cash flow relating to life insurance contracts shall be calculated and discounted on the basis of the following parameters:

1) mortality, disability and morbidity tables used in the calculation of insurance reserves shall be taken from official publications, from institutions competent to draw them up or drawn up by actuaries, in the latter case by notifying the supervisory authority,

2) indicators included in the tables named in paragraph 1) and used for the calculation of the mathematical provisions (specific ratios) shall not be modified or their values shall not be less than 100 % lower than the component indicators of these tables, unless the actuary of the insurance undertaking can justify and take responsibility for the amendment or for a lower percentage value.

73. By derogation from the provisions of paragraph 72, the insurance undertaking may use its own mortality, disability and morbidity tables drawn up on the basis of its own experience and established using accurate, complete, and reliable data certified by the actuary.

74. The administration/maintenance expenses of the contract or policy shall be increased in line with annual inflation for future periods, provided that the inflation rate is estimated in accordance with the interest rate described in paragraph 75.

75. The determination of the interest rate used in the valuation shall:

1) be the same as, but not higher than, the interest rate used for the calculation of future cash flow described in paragraph 70, determined by a prudent assessment of the current and future return on invested assets assigned to portfolios of insurance contracts, this assessment shall take into account the investment risks which may arise both for the purpose of earning investment income and for the purpose of repayment of the principal (base) amount,

2) be based on the assumption that the size of future bonuses or profit-sharing is consistent with the interest rate assessed, taking into account the future investment conditions of the assets related to the profit-sharing contracts,

3) be based on the change in the interest rate of risk-free financial instruments in case of single-premium life insurance contracts,

4) be notified to the supervisory authority.

Section 7

Requirements for the unit-linked insurance product (ULIP)

76. In the context of this section, the terms:

1) "*Unit-linked insurance product*" or "*ULIP*" refers to a life insurance contract or policy, where the contract or policy holder has an individual choice of the investment option of own funds based on the number of units or fund units held in segregated investment funds created by the insurance undertaking specifically for unit-linked insurance activity. The contract or policy holder shall bear the investment risk. This product includes life insurance and annuities linked to investment funds, as referred to in paragraph 3 of the Annex "Classes of life insurance" to Law No 92/2022,

2) "*Segregated funds*" refers to a special fund or funds created by the insurance undertaking providing life insurance, the assets and income of which are specifically earmarked for the benefit of unit-linked life insurance contracts and policies. The insurance undertaking offering unit-linked life insurance products shall establish and maintain a "segregated fund" for each group of unit-linked insurance products.

77. The mathematical provisions specific to unit-linked insurance contracts or policies shall be calculated as follows:

1) The mathematical provisions for unit-linked life insurance products shall comprise two components:

a) unit-linked reserves (hereinafter - unit reserves),

b) general reserves.

The mathematical provision for each policy or insurance contract is the sum of the two components.

2) The unit reserves, at a given date, shall be calculated by multiplying the number of fund units allocated to the insurance contract or policy by the value of a segregated fund unit on the same date,

3) General reserves (non-unit component) are determined by the gross prospective method specified in paragraph 59.

Section 8

Special requirements for the calculation of mathematical provisions

78. In case it is not possible to calculate the mathematical provision for each insurance contract or (individual) policy, common mathematical provisions shall be established for:

1) policies or contracts under which additional premiums are paid for non-standard conditions which present additional risks, such as occupational risk, overweight, underweight, worsening of health, geographical conditions or other conditions classified by the insurance undertaking as living below the average level,

2) expired policies for which no mathematical provision is calculated, but for which insurance liabilities exist or may arise,

3) guarantees and/or available options for individual or group contracts or policies,

4) increases or decreases in mathematical provisions as a result of fluctuations of the official exchange rate of the Moldovan Leu, a situation specific to policies or insurance contracts denominated in foreign currency,

5) other conditions, where applicable.

Section 9

Share of reinsurer in gross technical provisions (reinsurer's account)

79. The share of the reinsurer in the gross technical provisions shall be determined in the manner set out in paragraphs 83 - 87, depending on the type of reinsurance (proportional or non-proportional, optional, or compulsory, etc.), the terms and conditions of the reinsurance contract, provided that the reinsurance premiums are transferred.

80. The insurance undertaking shall calculate the share of the reinsurer in the technical provisions at the same time as it determines the gross amount of the technical provisions. The share of the reinsurer shall be calculated and reported separately for each type of technical provisions.

81. In determining the share of the reinsurer in the technical provisions relating to contracts or policies ceded for reinsurance, account shall be taken of the ability of the insurance undertaking to pay claims or insurance benefits in respect of reinsured claims and the opportunity to receive such payments from the reinsurance undertaking. This form of risk shall be considered when assessing technical provisions. In this case, the actuary shall disclose and inform about the existence of such a risk, its potential impact on the technical provisions of the insurance undertaking and how the actuary has managed that risk in determining those provisions.

82. The transfer of value between the ceding insurance undertaking and the reinsurer or between the retroceding reinsurer and the reinsurer or retrocessionaire shall be real and complete.

83. The share of the reinsurer in the gross UPR relating to contracts ceded for reinsurance shall be calculated as follows:

1) in case the reinsurance contract provides for the principle of calculating the reinsurance premiums/reinsurer's share as a share of the gross written premiums, the

share of the reinsurer in the UPR (UPR_{RE}) for the insurance contract shall be determined by the following formula:

$$RPN_{RE} = \frac{\alpha_{RE}}{100} * RPN_B * \beta$$

where:

UPR_{RS} – share of the reinsurer in the relevant UPR,

α_{RS} – relative share (%) of gross written premiums ceded in reinsurance, calculated as the ratio of premiums ceded in reinsurance (GWP_{RS}) to gross written premium (GWP),

UPR_G – gross unearned premium reserve (before cession in reinsurance),

β – time cover ratio for reinsurance contracts, which is calculated as the ratio of the period after the reporting date during which the insurance and reinsurance contracts are valid concurrently to the unexpired period of the insurance contract (≤ 1).

2) in case of a non-proportional "excess of loss" reinsurance contract, the UPR_{RS} relating to reinsurance contracts shall not be calculated, deriving from the specific nature of the reinsurance contract.

84. The share of the reinsurer in the gross RBNS related to contracts ceded for reinsurance shall be calculated separately for each insurance contract on which the insured event has been notified and which has been ceded for reinsurance and shall be equal to the recoverable amount confirmed by the reinsurers in accordance with the terms of the reinsurance contracts.

85. The share of the reinsurer in the gross IBNR related to contracts ceded for reinsurance shall be calculated for each class and type of insurance on the basis of the aggregate statistical data on claims paid on insurance contracts ceded for reinsurance by class and type of insurance, according to the following formula:

$$RDN_{RE} = RDN_B \times \frac{D_{RE}}{D}$$

where:

$IBNR_{RS}$ – the share of the reinsurer in the gross IBNR for a given class and type of insurance,

$IBNR_G$ – gross IBNR for a given class and type of insurance, which has contracts ceded in reinsurance,

D_{RS} – value of claims and/or damages and benefits actually recovered from reinsurance during the reporting period, relating to the same class and type of insurance,

D – total value of claims and/or damages and benefits paid during the reporting period relating to the same class and type of insurance.

The corresponding values of the RBNS established at the time of the calculation may also be used as D_{RS} and D values, subject to the reasoning of the actuary. The total amount of IBNR ($IBNR_{RS}$) corresponding to each class and type of insurance represents the total share of the reinsurer in the IBNR.

86. The share of the reinsurer in the gross URR relating to contracts ceded for reinsurance, unless the reinsurance treaty/contract provides otherwise, shall be calculated for each class and type of insurance i according to the following formula:

$$RRN_{RE}^i = RRN_B^i * \frac{RPN_{RE}^i}{RPN_B^i}$$

where:

URR_{RS} – share of the reinsurer in the gross unexpired risks reserve for class and type of insurance i ,

URR_G – gross unexpired risk reserve for class and type of insurance i ,

87. The share of the reinsurer in the mathematical provision shall be calculated separately for each contract or policy (groups of contracts or policies) in accordance with the provisions of the reinsurance contract and/or the reinsurance programme.

Chapter IV

REQUIREMENTS TO INTERNAL REGULATIONS ON THE ESTABLISHMENT AND MAINTENANCE OF TECHNICAL PROVISIONS

88. Each insurance undertaking is required to draw up its own internal regulations concerning the establishment and maintenance of technical provisions.

89. The internal regulations shall be approved by the executive body of the insurance undertaking in the form of internal regulation validated by the signature of the actuary of the insurance undertaking and submitted to the supervisory authority within 10 working days of their approval or amendment and at least 10 working days before their date of entry into force.

90. The supervisory authority may request the amendment or completion of the internal regulation when it finds that its content contravenes the provisions of Law No 92/2022 and/or applicable normative acts.

91. The internal regulation shall include at least the following:

- 1) basic principles and concepts (terms and notions),
- 2) description of life insurance products which shall include:
 - a) insured risks associated with the insurance contracts,
 - b) insurance period, the periodicity of payment of insurance premiums and claims and other insurance benefits, where applicable,
 - c) method of payment of insurance premiums (single, annual, half-yearly, quarterly, monthly, staggered),
 - d) method of payment of the insured amount (lump sum, annuities),
 - e) type of insured amount (constant, increasing, decreasing),
 - f) forms of participation of the policyholder in investments, specific to contracts with participation in investments, the method of calculating additional investment benefits (bonus),
 - g) method of calculation and payment of the redemption amount,
 - h) parameters for calculating reserves (interest rate, mortality, disability, and morbidity tables, Zillmer coefficient),
 - i) absolute amount and/or expense ratios of the insurance undertaking,
 - j) methods of calculation and establishment of the reserve for additional benefits (bonus) related to insurance contracts with investment participation,
 - k) methods and formulae for calculating redemption amounts and reduced amounts,
- 3) types of technical provisions specific to classes and types of insurance, for general insurance, and insurance programmes, for life insurance,
 - 4) description of the methods and formulae for the calculation of technical provisions for classes and types of general insurance and for each life insurance programme,
 - 5) description of the methods and formulae for the interpolation of reserves at the date of calculation for life insurance and, where applicable, for general insurance,
 - 6) methods and formulae for the calculation of reserves ceded for reinsurance, description of the specifics of reinsurance programmes,
 - 7) internal processes and procedures to ensure the adequacy, completeness and accuracy of the data used in the calculation of technical provisions.

92. For the purpose of ensuring continuous activity in case of transfer or disposal of the insurance portfolio, cessation of activity or at the request of the supervisory authority,

the insurance undertaking shall be able to calculate and report technical provisions at any calendar date.

93. The insurance undertaking shall establish technical provisions on the basis of the information contained in the following registers:

1) *for general insurance:*

- a) Register of contracts for general insurance (direct insurance),
- b) Register of claims for general insurance (direct insurance),
- c) Register of contracts for general insurance (risks accepted and ceded for reinsurance),
- d) Register of claims for general insurance (risks accepted and ceded for reinsurance),
- e) Register of disputes pending before the courts, where the insurance undertaking is a defendant,

2) *for life insurance:*

- a) Register of contracts for life insurance (direct insurance),
- b) Register of claims and benefits for life insurance (direct insurance),
- c) Register of life insurance contracts (risks accepted and ceded for reinsurance),
- d) Register of claims and benefits for life insurance (risks accepted and ceded for reinsurance),
- e) Register of disputes pending before the courts, where the insurance undertaking is a defendant.

94. The Registers referred to in paragraph 93 shall contain at least the following information:

- 1) contract number (of the policy or insurance document),
- 2) surname, name, personal identification number or name and IDNO of the policyholder and, where applicable, of the contractor, the beneficiary of the insurance or the damaged third party,
- 3) data concerning the age and other characteristics of the policyholder, the contractor or the beneficiary of the insurance which affect the amount of the insurance premium,
- 4) data relating to the risk factors used in the calculation of the reference premium (insurance premium), in the case of compulsory motor third party liability insurance, in accordance with the normative acts approved by the supervisory authority,
- 5) date of commencement and end of insurance, insurance period,
- 6) date of modification of the conditions of the insurance contract,
- 7) date of termination of the insurance contract,
- 8) date of subscription of the insurance premium,
- 9) insurance class,
- 10) sum insured,
- 11) gross written premium, including in foreign currency, according to the insurance contract (policy),
- 12) amount, effective date, term, and frequency of payment of the insurance premium, in accordance with the contract,
- 13) data on administrative and acquisition expenses (commission) calculated in connection with the intermediation of the insurance contract,
- 14) amount and date of the actual payment/transfer, where applicable, frequency of payment of the reinsurance premium,
- 15) amount and date of actual payment of the insurance premium (redemption amount) refunded to the policyholder upon modification (termination) of the insurance contract,
- 16) amount, term, and periodicity of payment of the insurance benefit in life insurance,

- 17) date of the claim and the amount of the declared damage,
- 18) date of occurrence of the insured event, name of the insured risk,
- 19) date of modification and amended amount of the reported but not settled reserves,
- 20) date of payment of the insurance claim (benefit),
- 21) amount of insurance claim (benefit) paid,
- 22) date and value of additional benefits (bonuses) calculated and paid, in life insurance,
- 23) date of refusal to pay insurance claim (benefit),
- 24) data on the area, country where the accident occurred,
- 25) number of the case file,
- 26) date of receipt of the summons,
- 27) responsible court,
- 28) plaintiff's surname/name,
- 29) procedural stage at the time of reporting,
- 30) subject matter of the dispute,
- 31) amount of the claim submitted,
- 32) amount of the damage reserve created.