ARMENIA
INSURANCE FINANCIAL REPORTING, DRAFTING AND CAPACITY BUILDING (C226)

REGULATION ON RESERVING REQUIREMENTS

Submitted to:

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Submitted by:

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Section 1

Insurance companies shall make provisions as liabilities in their financial statements for amounts reasonably calculated to be payable under its insurance policies using the methods prescribed in this regulation.

Section 2

All non-life insurance business shall have reserves for:

A. Unearned premiums;

B. Claims unpaid, including provision for amounts necessary to settle such claims ;

C. Provisions for claims not yet reported to the insurer; and

D. Any other sums payable under its insurance policies.

Section 3

Unearned premium reserves for non-life policies shall be calculated on the daily pro-rata basis. *This means that the number of days remaining that the policy is effective is divided by the total number of days that the policy effective when it was issues. The result of this calculation is multiplied by the premium to produce the amount of the premium that is unearned.*

Section 4

The reserves for unpaid claims shall be calculated by estimating the fair value of sums payable for valid claims reported to the insurer but which have not yet been paid. The insurer shall also make an estimate of the sums which may be payable for claims that will be payable but have not yet been reported to the insurer. All estimates for the liability for unpaid claims shall also include a reasonable estimate of the sums, which the company will have to pay in order to settle such claims. *The insurance company shall use the "Chain Ladder" method for estimating claims that have been incurred but not reported. That means that past experience for incurred but not reported claims is analyzed in order to determine the percentage of paid claims that have actually been incurred but not reported in the past. This percentage plus 100% is then multiplied by the reserves for reported claims unpaid. Companies may use other methods provided such are approved by the Insurance Department.*

Section 5

The reserves calculated by the insurer for non-life insurance may be reduced by the amount of any reinsurance which will be payable. The insurer may also reduce such liability by the amount of any salvage actually paid on account of any insured property taken by company under the insurance contract or any amount actually recovered under the insurer's right to subrogation. The insurer is permitted to take a deduction against its unearned premium reserve only for business ceded under a proportional treaty if and only if that treaty provides for refund of unearned reinsurance premiums to the ceding insurer.

Section 6

All life and annuity insurance shall have reserves for the actuarially determined liability of the company under those policies and for any other benefits payable under the contract.

Section 7

The reserves under life and annuity contracts shall be equal to the present value of future guaranteed benefits minus the present value of future net premiums. The calculation of present values shall be at a rate of interest not exceeding the rate of interest established by the Insurance Department or the rate of interest specified in the policy, whichever is lower. The net premiums are calculated based on the full preliminary term method as approved by the Insurance Department. Mortality rates are calculated using mortality and annuity tables approved by the Insurance Department *or used by the reinsurer.*

Section 8

The reserves on any life insurance policy must equal or exceed its cash or surrender value. In the event that negative reserves are generated by any policy, that policy's reserve shall be stated at zero for the purpose of reporting to the Insurance Department.

Section 9

The insurer shall also establish reserves for the amount of any benefit due but unpaid under a life insurance policy, together with any anticipated expenses in settling such claims.

Section 10

The reserves calculated by the insurer on life or annuity insurance may be reduced by the amount of any reinsurance or co-insurance applicable to the policies or the reserves thereon, provided that the amount of the actuarial reserve may be reduced only by actuarial reserves held by a the reinsurer or coinsurer.