

LAW OF MONGOLIA

13 June 2014

Ulaanbaatar city

INDEX-BASED LIVESTOCK INSURANCE LAW

CHAPTER ONE  
GENERAL PROVISIONS

**Article 1. Purpose of the law**

1.1. The purpose of this law is to regulate relations in respect with establishment of legal framework for index-based livestock insurance activities, allocation of insurance risks and state control, compensation, livestock reinsurance, and protection of the benefits of the insurer and insured.

**Article 2. Laws and legislation on index-based livestock insurance**

2.1. The legislation on index-based livestock insurance shall be comprised of the Constitution of Mongolia<sup>1</sup>, Civic Code<sup>2</sup>, Law on Insurance<sup>3</sup>, Law on Professional Insurance Participants<sup>4</sup>, Law on the Legal Status of the Financial Regulatory Commission<sup>5</sup>, Law on Company<sup>6</sup>, Law on Statistics<sup>7</sup>, this land and other legislative acts issued in conformity with them.

2.2. If an international treaty to which Mongolia is a party is inconsistent with this Law, then the provisions of the international treaty shall prevail.

**Article 3. Regulatory scope of the Law**

3.1. General relations connected with the insurance shall be regulated by their respective laws.

3.2. The present Law shall regulate other relations than article 3.1 of this law that are connected with index-based livestock insurance activities.

3.3. Any herders, legal entities and individuals with livestock may be covered by index-based livestock insurance.

**Article 4. Definitions**

4.1. In this Law the following terms shall have the following meaning:

4.1.1. "Index-based livestock insurance activities" means the insurance activities or those specified in article 4.3 of Law on Insurance under which the insureds shall be indemnified based on not an assessment

<sup>1</sup> The Constitution of Mongolia was released on issue#1 of the State Information Publication Booklet in 1992.

<sup>2</sup> The Civic Code was released on issue#7 of the State Information Publication Booklet in 2002.

<sup>3</sup> The Law on Insurance was released on issue#20 of the State Information Publication Booklet in 2004.

<sup>4</sup> The Law on Professional Insurance Participants was released on issue 20 of the State Information Publication Booklet in 2004.

<sup>5</sup> The Law on the Legal Status of the Financial Regulatory Commission was released on issue 46 of the State Information Publication Booklet in 2005.

<sup>6</sup> The Law on Company was released on issue 42 of the State Information Publication Booklet in 2011.

<sup>7</sup> The Law on Statistics was released on issue 7 of the State Information Publication Booklet in 1997.

of their individual actual loss, but rather on a value insured and percentages exceeding a specific threshold of mortality rate of adult livestock occurred in the *soum* during the period of insurance.

4.1.2. “Mortality rate of livestock in the *soum*” means the mortality rate of adult livestock estimated based on the official results of year-end and mid-year livestock counting.

4.1.3. “Threshold of livestock mortality” (hereinafter referred to “threshold”) means mortality rates of adult livestock determined by the Government differently for each *soum* based on species of livestock.

4.1.4. “Mortality of adult livestock” means the mortality number for adult livestock (excluding newborns) for the period between the beginning of respective year and mid-year livestock counting.

4.1.5. “Event of index-based livestock insurance” (hereinafter referred to as “insurance event”) means the occurrence of livestock mortality in the *soum* exceeding threshold for the period of insurance specified in article 4.1.6 of this law.

4.1.6. “Period of insurance” means the period between the current year-end livestock counting and the mid-year livestock counting that follows.

4.1.7. “Indemnity of index-based livestock insurance” (hereinafter referred to as “indemnity”) means the cash money given to the insured by the insurer for each species of insured livestock after the occurrence of insurance event in accordance with insurance policy.

4.1.8. “Policy of index-based livestock insurance” (hereinafter referred to as “insurance policy”) means an agreement in which the insurer shall pay indemnity after the occurrence of insurance event in accordance with this law and insurance policy and the insured shall pay insurance premium.

4.1.9. “Livestock reinsurance company” (hereinafter referred to as “reinsurance company”) means a legal entity with specific functions and entitled to carry on reinsurance activities as stated in article 18.1 of this law.

4.1.10. “Mid-layer risk protection fund” means a fund designed to pay reinsurance indemnity within the layer specified in article 8.1.2 of this law.

4.1.11. “High layer risk protection fund” means a fund designed to pay indemnity within the layer specified in article 8.1.3 of this law.

4.1.12. “Loss protection fund” means a fund designed to indemnify insurance loss and to be used in the case of insufficiency of fund specified in article 4.1.10 and 4.1.11 of this law.

4.1.13. “Mutual risk fund” means a special fund established jointly by several insurers under this law in order to fulfill their joint liabilities to indemnify insurance loss occurred to the insured.

4.1.14. “Livestock reinsurance policy” (hereinafter referred to as “reinsurance policy”) means an agreement in which the insurer agreed with the reinsurance company to transfer a part of its liability to the insured.

4.1.15. “International reinsurance policy” means an agreement in which the reinsurance company shall package its liability to the insurer and retrocede to international reinsurance company fully or partially.

## **Article 5. Principles to be followed in index-based livestock insurance activities**

5.1. The following principles shall be followed in index-based livestock insurance activities.

- 5.1.1. Insurance coverage on the voluntary basis;
- 5.1.2. Livestock insurance within territory of *soum* where the livestock is counted;
- 5.1.3. Insurance per the species of livestock;
- 5.1.4. Determination of livestock mortality rate within *soum* level;
- 5.1.5. Index-based indemnity calculation.

## **CHAPTER TWO. INSURANCE EVENT AND INDEMNIFICATION**

### **Article 6. Determination and notification of livestock mortality in *soum***

- 6.1. The state administration office in charge of statistics shall issue the livestock mortality count in the *soum* based on the results of mid-year livestock counting for the current year.
- 6.2. The counting specified in article 6.1 of this law shall be organized by sample survey method within the first half of June for the current year.
- 6.3. The state administration office in charge of statistics shall divide the mortality count determined under article 6.1 of this law with the number of livestock counted in the end of previous year, shall issue the mortality rate in *soum* per species, and report to the public through media.
- 6.4. Governors of all levels shall take measures to deliver the information stated in article 6.3 of this law immediately to the insured in addition to their rights and duties on statistical information specified in the Law on Statistics and.

### **Article 7. Setting of threshold**

- 7.1. The Government shall set the threshold for the purpose of determining insurance event and allocating risks as follows.
  - 7.1.1. First threshold or risk tolerance of the insured;
  - 7.1.2. Second threshold or risk tolerance of the insurer.
- 7.2. First threshold shall account for six percent and the second threshold shall account for 30 percent.
- 7.3. The Government shall update threshold per three years in consideration with the following terms.
  - 7.3.1. Mortality rate in the *soum*;
  - 7.3.2. Number of the insured;
  - 7.3.3. Amount of premium revenue;
  - 7.3.4. Payment of indemnity.
- 7.4. When updating the threshold, the Government shall increase or decrease first threshold by one percent and second threshold by five percent.

### **Article 8. Layer of insurance risk**

- 8.1. The risk layer shall be classified into the followings based on threshold set under article 7 of this law.
  - 8.1.1. Low risk layer in the case of mortality rate up to first threshold;
  - 8.1.2. Mid risk layer in the case of mortality rate from first threshold until second threshold;
  - 8.1.3. High risk layer in the case of mortality rate more than second threshold.

## **Article 9. Insurance premium**

9.1. The following parties shall be responsible for insurance premium in conformity with threshold set by the Government.

9.1.1. The insured shall be responsible for insurance premium in mid risk layer within second threshold.

9.1.2. The Government shall be responsible for reinsurance premium in high risk layer in excess of second threshold.

9.2. The Financial Regulatory Commission and the central state administration body in charge of budget issue shall jointly approve the regulation related to insurance premium specified in article 9.1 of this law based on the comments from the insurers.

9.3. The insurers shall jointly determine insurance premium specified in article 9.1.1 of this law in accordance with regulation specified in article 9.2 of this law.

## **Article 10. Insurance event**

10.1. In the event of that the mortality rate in *soum* reported to the public under article 6.3 of this law exceeded from first threshold determined by the Government, it shall be considered the occurrence of insurance event.

10.2. The mortality rate of livestock destructed due to extreme contagion shall not apply to the insurance event.

## **Article 11. Distribution of insurance risk**

11.1. The following parties shall be responsible for insurance risk as follows:

11.1.1. The herders, legal entities and individuals with livestock shall be responsible for risk occurred in the layer specified in article 8.1.1 of this law by their own assets.

11.1.2. The insurer shall be responsible for risk occurred in the layer specified in article 8.1.2 of this law by the assets contributed in mutual risk fund.

11.1.3. The reinsurance company shall be responsible for risk other than specified in article 11.1.1 and 11.1.2 of this law by the assets of fund specified in article 27.1 of this law.

## **Article 12. Indemnity**

12.1. The insurer shall calculate indemnity per species of livestock based on information specified in article 6.3 of this law and shall grant to the insured through bank in accordance with insurance policy.

12.2. The insurer shall not make partial indemnification.

12.3. In the case of that the livestock mortality rate in the *soum* reported under article 6.3 of this law failed to reach the threshold, no indemnity shall be paid to the insured.

## **CHAPTER THREE. INDEX-BASED LIVESTOCK INSURANCE ACTIVITIES**

### **Article 13. Engagement of index-based livestock insurance activities**

13.1. An insurance company (hereinafter referred to as “insurer”) meeting the following requirements shall participate in index-based livestock insurance activities.

13.1.1. The license on engagement of insurance activities issued by the Financial Regulatory Commission must authorize the type of index-based livestock insurance.

13.1.2. The insurer must establish reinsurance agreement with the company specified in article 18.1 of this law.

13.2. The insurer not establishing reinsurance agreement as stated in article 13.1.2 of this law shall be not allowed to make insurance policy with the herders, legal entities and individuals with livestock.

#### **Article 14. Insurance policy**

14.1. The insurance policy must include the following terms in addition to those specified in the Law on Insurance and Civil Code.

14.1.1. Species of insured livestock and the amount of relevant premium;

14.1.2. Valuation of insured livestock of the insured;

14.1.3. First threshold to make indemnification.

#### **Article 15. Rights and responsibilities of the insured**

15.1. The insured shall exercise the following rights.

15.1.1. Selection of species of livestock to be insured;

15.1.2. Selection of appropriate value insured for each species of livestock and receipt of full indemnification within agreed period after the occurrence of insurance event.

15.1.3. Full payment of insurance premium within the period agreed under the insurance policy.

15.2. The insured shall be responsible to correctly report about the species and number of livestock to be insured.

#### **Article 16. Rights and responsibilities of the insurer**

16.1. An insurer who obtained license specified under article 20 of the Law on Insurance shall be entitled to participate in insurance activities immediately after establishment of reinsurance agreement with the company specified in article 18.1 of this law.

16.2. The insurers shall have the following responsibilities.

16.2.1. To use only the standard insurance policy which is approved under the article 21.2.6 of this law in their insurance activities;

16.2.2. To pay the reinsurance premium in full within agreed period.

#### **Article 17. Rights and responsibilities of the Government**

17.1. The Government shall be the founder of reinsurance company.

17.2. The Government shall comprise the loss protection fund and capital contribution in the establishment of reinsurance company on behalf of the state.

17.3. The Government shall reflect the premium specified in article 9.1.2 of this law in annual state budget and shall be insured with international reinsurance through reinsurance company.

17.4. The Government shall reflect the cost of mid-year livestock counting activities organized by state administration body in charge of statistics specified under article 6.2 of this law into annual state budget and get relevant approval.

## **CHAPTER FOUR REINSURANCE ACTIVITIES**

### **Article 18. Legal status of reinsurance company**

18.1. The reinsurance company shall be licensed as required under the Law on Insurance, for-profit joint stock company with specific functions and public and private ownership to undertake livestock reinsurance activities.

18.2. The management of reinsurance company shall follow the independency and public transparency which are main principles of corporate governance in its operation.

18.3. The member of the Government in charge of financial issues shall implement the state ownership representation in the company specified in article 18.1 of this law.

18.4. The reinsurance company shall have a shareholders meeting, board of directors and executive management as specified in the Law on Company.

18.5. The relations other than specified in this law in respect with reinsurance company shall be regulated by the Law on Company.

### **Article 19. Equity of reinsurance company**

19.1. The equity of reinsurance company shall be comprised of the following sources.

19.1.1. Assets allocated from state budget during initial constitution of equity for reinsurance company;

19.1.2. Proceedings from sale of shares;

19.1.3. Retained earnings;

19.1.4. Other sources specified in the law.

19.2. The Financial Regulatory Commission shall determine minimum equity requirement for reinsurance company.

### **Article 20. Shareholders meeting**

20.1. The superior governing body of reinsurance company shall be the shareholders meeting as stated in the Law on Company.

20.2. The member of Government in charge of financial issues shall exercise the powers of shareholders meeting until the issue of announced shares specified in the charter of reinsurance company.

### **Article 21. Board of directors**

21.1. The board of directors in reinsurance company shall be comprised of representatives from the insurer and insured, central state administration body in charge of financial and agricultural issues and state administration body in charge of statistics.

21.2. The board of directors shall exercise the following powers in addition to those specified in the Law on Company.

- 21.2.1. To make actuarial estimation and other technical studies for insurance product, to give recommendation, to provide with methodologies and to issue conclusion if necessary;
- 21.2.2. To approve mid-term action plan and strategy of reinsurance company and to ensure implementation monitoring;
- 21.2.3. To manage the assets of fund specified in article 27.1 of this law and to make decision on administration of these assets;
- 21.2.4. To discuss the report on composition and disposal of mutual risk fund on annual basis, to take control over the activities of fund and to cause eliminate the detected conflicts;
- 21.2.5. To discuss about the report of executive director on revenue from reinsurance premium and expenses;
- 21.2.6. To approve the standard insurance policy;
- 21.2.7. To make decision on coverage with international reinsurer;
- 21.2.8. To request from the Financial Regulatory Commission to examine and audit the insurance company in connection with index-based livestock insurance activities if necessary;
- 21.2.9. Other rights and duties specified in the charter of reinsurance company and the laws.

21.3. The charter of reinsurance company shall include the requirements for the member of board and executive director.

#### **Article 22. Executive director**

22.1. The executive director shall manage daily activities of reinsurance company within powers specified in the charter and agreement with the board of directors in accordance with strategic and action plan approved by the board.

22.2. The board of directors shall conduct open selection and appoint the executive director.

22.3. The executive director shall have the following rights and duties.

- 22.3.1. To maintain and report consolidated records on index-based livestock insurance;
- 22.3.2. To receive quarterly financial statements, audit opinion and other information from the insurer, to create consolidated database and to present about it to the board of directors;
- 22.3.3. To manage mutual risk fund;
- 22.3.4. Other rights and duties specified in the charter of reinsurance company.

#### **Article 23. Confidentiality of inside information**

23.1. Unless specified otherwise in law, the following persons shall be responsible to not disclose confidential information and documents on the operation of reinsurance company which were obtained or known during their duties to third parties.

- 23.1.1. Member of board;
- 23.1.2. Staff of insurance company and the company specified in article 18.1 of this law;
- 23.1.3. Persons fulfilling duties under contract, including insurance agents and brokers.

23.2. The information and document specified in article 23.1 of this law shall not be disclosed to third parties within five years after termination of agreement with reinsurance company.

#### **Article 24. Annual financial and operation report**

24.1. The financial statements of reinsurance company be issued in conformity with Law on Accounting<sup>8</sup> and annual financial and operation reports shall be audited.

24.2. The executive director of reinsurance company shall be responsible for accuracy and correctness of financial statements.

24.3. The reinsurance company shall submit annual reports and audit opinion specified in article 24.1 of this law under discussion of board for approval within first day of March of subsequent year.

24.4. The financial and operation reports of reinsurance company shall be audited by internationally recognized audit firm selected by the board of directors every other year. Audit opinion shall be submitted to the member of Government in charge of budget issue and the Commissioner of the Financial Regulatory Commission.

24.5. The annual report, balance sheet, income statement of reinsurance company and relevant audit opinion shall be disclosed to the public.

## **CHAPTER FIVE INDEX-BASED LIVESTOCK INSURANCE FUND**

### **Article 25. Types of index-based livestock insurance fund**

25.1. Index-based livestock insurance fund shall have the following types.

25.1.1. Mutual risk fund of the insurers;

25.1.2. Fund of reinsurance company.

### **Article 26. Mutual risk fund**

26.1. Mutual risk fund shall have independent accounts with separate recording affiliated to reinsurance company.

26.2. The central state administration body in charge of budgetary issue and the Financial regulatory commission shall jointly approve the regulation on assets of mutual risk fund, its financing and disposal.

26.3. The Financial Regulatory Commission shall determine the amount of assets contributable in mutual risk fund jointly with the central state administration body in charge of budgetary issue on annual basis.

26.4. In the event of liquidation, the insurance company shall dispose only its quote shares in mutual risk fund in accordance with article 11.1.2 of this law. Such amount of shares shall not be considered as assets distributed to the insurer.

### **Article 27. Fund of reinsurance company**

27.1. The reinsurance company shall have the following independent fund.

27.1.1. Risk protection fund specified in article 4.1.10 of this law;

27.1.2. Risk protection fund specified in article 4.1.11 of this law;

27.1.3. Loss protection fund.

---

<sup>8</sup> The Law on Accounting was released on issue#1 of the State Information Publication Booklet in 2002.



27.2. The Financial regulatory commission shall approve the regulation on composition, placement and administration of fund specified in article 27.1 of this law jointly with central state administration body in charge of budgetary issue.

## **CHAPTER SIX. MISCELLANEOUS**

### **Article 28. Implementation monitoring for laws and regulations on index-based livestock insurance**

28.1. The Financial regulatory commission, Governors of all levels and management of reinsurance company shall ensure implementation monitoring for laws and regulations on index-based livestock insurance within the powers specified in relevant laws & legislations.

### **Article 29. Liability of offenders**

29.1. A judge or relevant state inspector may impose the following penalties to faulted person who breached the laws and regulations on index-based livestock insurance.

29.1.1. A person conducting index-based livestock insurance activities without establishment of reinsurance agreement shall be fined by an amount equal to 60 times more than minimum wage rate of one month;

29.1.2. A person who failed to make full indemnification or rejected from indemnification without reasonable grounds shall be charged with penalty in an amount equal to 30 times more than minimum wage rate of one month;

29.1.3. A person disposing the assets of mutual risk fund in contradiction with relevant regulations shall be charged with penalty in an amount equal to 40 times more than minimum wage rate of one month;

29.1.4. A person disposing the assets of fund of reinsurance company in contradiction with relevant regulations shall be charged with penalty in an amount equal to 100 times more than minimum wage rate of one month.

29.2. The liabilities specified in Law on Statistics and Law on State service<sup>9</sup> shall be imposed to the state or governmental officers breaching this law.

29.3. If a person breached this law twice or more, it may cause cancellation of license on engagement of index-based insurance activities granted to the person.

29.4. Any losses or damages arisen from breach of this law shall be compensated by the faulted party in accordance with the Civic Code.

Chairman of the State Great Khural of Mongolia

Z.Enkhbold

---

<sup>9</sup> The Law on State service was released on issue#28 of the State Information Publication Booklet in 2002.

**LAW OF MONGOLIA**

13 June 2014

Ulaanbaatar city

**AMENDMENT TO THE LAW ON INSURANCE**

**Article 1.** The following content shall be added to the Law on Insurance.

**Subparagraph 3.5 of clause 1/3**

“3.5. The relation of index-based livestock insurance shall be regulated by laws.”

**Article 2.** The following changes shall be made. The number of “3.5” of article 3 with Law on Insurance shall be changed to “3.6”. The sentence “other specified than article 3.1-3.4 of this law” shall be changed to “other specified than article 3.1-3.5 of this law”.

**Article 3.** This Law shall become effective commencing from effectiveness of Law on Index-based livestock insurance.

Chairman of the State Great Khural of Mongolia

Z.Enkhbold

\*\*\*\*\*

**LAW OF MONGOLIA**

13 June 2014

Ulaanbaatar city

**AMENDMENT TO THE LAW ON STATISTICS**

**Article 1.** Sub-paragraph “b” of article 7.1 of the Law on Statistics shall be amended as follows:

“Counting of livestock and domestic animals shall be organized on annual basis and mid-year livestock counting shall be organized by sample survey method within the period stated in laws”

**Article 2.** This Law shall become effective commencing from effectiveness of Law on Index-based livestock insurance.

Chairman of the State Great Khural of Mongolia

Z.Enkhbold

**LAW OF MONGOLIA**

13 June 2014

Ulaanbaatar city

**AMENDMENT TO THE LAW ON NATIONAL AND LOCAL PROPERTY**

**Article 1.** The words “of index-based livestock insurance” shall be added after “of savings insurance corporation” in article 2.2 of the Law on National and Local property.

**Article 2.** This Law shall become effective commencing from effectiveness of Law on Index-based livestock insurance.

Chairman of the State Great Khural of Mongolia

Z.Enkhbold

\*\*\*\*\*

**LAW OF MONGOLIA**

13 June 2014

Ulaanbaatar city

**AMENDMENT TO THE LAW ON LEGAL STATUS OF THE FINANCIAL REGULATORY COMMISSION**

**Article 1.** The following content shall be added to the Law on Legal status of the Financial Regulatory Commission.

**Sub-paragraph 1.8 of article 1.3**

“3.1.8. Insurance activities specified in the Law on Index-based livestock insurance;”

**Sub-paragraph 2.7 of article 2.6**

“6.2.7. specified in the Law on Index-based livestock insurance on the field of livestock insurance activities.”

**Article 2.** The number of article 3.1.8 of the Law on Legal status of the Financial regulatory commission shall be changed to the number “3.1.9”.

**Article 3.** This Law shall become effective commencing from effectiveness of Law on Index-based livestock insurance.

Chairman of the State Great Khural of Mongolia

Z.Enkhbold