

## **METHODOLOGY FOR ESTIMATION OF INSURANCE RATE AND INSURANCE PREMIUM RATE**

### **ONE. GENERAL PROVISION**

- 1.1 This methodology shall be adhered with purpose to estimate insurance rate and insurance premium rate in compliance with provisions 7.2 and 14.2.5 of Insurance Law of Mongolia.
- 1.2 This methodology shall not be used for estimation of insurance premiums which has less frequency or amount of loss is high per single occurrence.

### **TWO. INSURANCE RATE**

- 2.1 Insurance rate means an actual value that is considered in estimation of insurance premium or rate of compensation to be reimbursed by insurer to insured.
- 2.2 Insurance rate shall be established by mutual consensus of an insurer and insured in compliance with provision 438.1 of Civil Code of Mongolia.

### **THREE. INSURANCE PREMIUM RATE**

- 3.1 Insurance premium rate shall consist of amounts as follows:
  - 3.1.1 Net insurance premium;
  - 3.1.2 Additional insurance premium
- 3.2 Reserve fund to compensate insurance loss shall be established by net insurance premium.
- 3.3 Additional insurance premium shall cover costs with respect to basic insurance operation, insurance intermediary that is responsibility of insurer, insurance premium, taxes and charges.

### **FOUR. ESTIMATION OF INSURANCE PREMIUM RATE**

- 4.1 The principles shall be adhered during estimation of insurance premium as follows:
  - 4.1.1 Rate of insurance premium should be consistent with the interests of both insurer and insured;
  - 4.1.2 Sufficient to cover losses;
  - 4.1.3 Sufficient to cover costs of insurer when performing insurance operation;
  - 4.1.4 Insurance premium rate shall be relatively sustainable;

4.2 Insurance premium rate shall be estimated as follows:

$$\text{a/ Average compensation (AC)} = \frac{\text{Provided compensation} + \text{reserve estimated to cover compensation}}{\text{Number of claimed compensations} + \text{number of claims occurred but not reported}}$$

$$\text{b/ Frequency of loss (FL)} = \frac{\text{Number of claims reported} + \text{Number of claims occurred but not reported}}{\text{Total number of insurance policies}}$$

$$\text{4.2.1 Net insurance premium (NIP)} = \text{average compensation} * \text{frequency of loss} + \text{additional charges}$$

(additional charge = charge intended to cover sudden compensation that might increase in the future)

$$\text{4.2.2 Additional insurance premium (AIP)} = \text{NIP} * \text{percentage of operational cost}$$

4.2.3 An insurer shall estimate percentage of NIP from additional insurance premium or insurance operation cost considering insurance type and specification of the insurance company.

$$\text{4.2.4 Total insurance premium} = \text{NIP} + \text{AIP} + \text{insurance commission} + \text{tax}$$

## **FIVE. CERTIFICATION OF INSURANCE PREMIUM RATE**

5.1 The Commission shall certify estimation of insurance premium rates submitted by the insurer within 15 working days.

5.2 The following requirements shall be observed during certification of insurance premium rate:

5.2.1 An estimation of insurance premium rate shall be performed by authorized actuaries;

5.2.2 Accuracy of information used for survey set forth in provision 5.2.1 of this Regulation shall be certified by evidences obtained from a respective organization.

## **SIX. MISCELLANIOUS**

- 6.1 Insurance premium rate might be estimated differently considering objects exposed to risk, probability of risk and administrative unit respectively.
- 6.2. Annual insurance premium rate may be estimated by dividing insurance premium rate by number of years of frequency for insurance type which occurs with frequency of a year or more and has high frequencies of occurrences.
- 6.3 Survey on losses that might occur by each type of risk shall be performed using statistical information of not less than 3 years.
- 6.4 An insurer shall notify the Commission if estimation of insurance premium rate has to be done using other methodology.
- 6.5 The Commission shall submit an official letter specifying comments and justification if it considers that estimation method used by an insurer does not meet requirements.
- 6.6 The Commission shall impose a liability to an insurer in accordance with provision 83.1.32 of Law on Insurance if it does not use methodology that meets requirements stipulated in provision 6.5 of this Regulation.