

Conditions for Investments to be Financed from Insurance paid-in capital and Reserve Funds

One. General Provisions

- 1.1 The purpose of this regulation is to ensure that prudential ratio standards are applied by ordinary insurers in investments from paid in capital and reserve funds in accordance with Article 6.1.2 of the Law on the Legal Status of the Financial Regulatory Commission (hereinafter, FRC), and Articles 14.2.4, 25.2, 25.3 of the Law on Insurance.
- 1.2 The purpose of the investments to be made from paid in capital and reserve funds of ordinary insurers shall be ensuring sustainable development of insurance market, protection of interests of insured persons, securing the reserve fund to be sufficient, reliable and sound for covering insurance contract claims for compensation from insured persons.

Two. Investment Requirements and Conditions

2.1 The following conditions shall be applied for investments from the paid in capital and reserve funds of insurers:

2.1.1 Insurer shall have investment plan approved by Board of Directors, shareholders/owners and founding members, which covers items provided in the Article 3.1 of this Regulation.

2.1.2 Insurer shall submit investment plan to FRC on annual basis.

2.1.3 The investment plan shall be prepared within the limitations provided in Articles 4.1, 4.3, 5.1 and 5.4 of this Regulation.

2.1.4 Investments can be made from "Loss Provision Reserve Fund/Contingency" as stipulated in the Regulation on Establishment of an Insurance Reserve Fund, its Expenditure and Control approved by the FRC.

2.1.5 Investments shall not be made from reserve fund for non-income insurance premiums, and damage claims reserve funds.

2.1.6 Insurer can carry out investment activities outside Mongolia only on the basis of a permission granted by the FRC.

2.1.7 If insurer wishes to invest in assets located in foreign countries, permission shall be obtained from the FRC upon written request.

Three. Investment Plan

3.1 Investment plan shall include the following aspects:

3.1.1 Asset distribution status of the company based on limitations provided in Articles 4.1 and 5.1 of this Regulation.

3.1.2 Investment size and share as stipulated in Articles 4.3 and 5.4 of this Regulation.

3.1.3 Risk management plan of the insurance company describing insurance and reinsurance activities of the company.

3.1.4 Prudential ratio standards for solvency

3.1.5 Liabilities to insured persons and due date of invested capital.

3.1.6 Management of potential risks related with other activities of the insurer.

3.1.7 Timely recall of invested assets/capital by insurers for damage recovery and compensation of claims in insurance events as stipulated in insurance contracts.

3.2 Executive management of the insurance company shall carry out investment in accordance with the investment plan approved by BOD (share owners, founding members).

3.3 BOD (share owners, founding members) shall supervise compliance with legal norms and regulations, implementation of the investment plan, risk management, information, internal audit, accounting and external audit activities.

Four. Investment of a Reserve Fund

4.1 The insurer shall secure funds worth 30% of the reserve fund for potential damages created for a reported year in a separate account. The remaining 70% of this fund and 100% of accrued fund for potential damages (loss provision fund) can be invested as provided in Article 4.3 of this Regulation.

4.2 Only short term investments (up to 1 year) shall be allowed from reserve funds.

4.3 70% of the fund for potential damages created for a reported year and 100% of accrued fund for potential damages can be invested as provided in Article 4.1 of this Regulation with the following investment portfolio distribution and shares.

4.3.1 bank savings account: up 100%

4.3.2 bank correspondence account: up to 100%

4.3.3 government bonds: up to 100%

4.3.4 local government bonds: up to 20 %

4.3.5 corporate bonds: up to 20%

4.3.6 Central bank securities: up 60%

4.3.7 securities backed by real estate: up to 10%

4.3.8 bank deposit certificates: up to 10%

4.3.9 financial and operational leasing: up to 5%

4.3.10 short-term loans (up to 1 year) with real estate pledge for persons not included into to the Guidelines on Identification of Related (affiliated) Parties approved by the FRC in accordance with Article 27.2 of the Law on Insurance: up to 2%

Five. Capital Fund Investments

5.1 As stipulated in Article 22.1 if the Law on Insurance of Mongolia, 25% of the minimum capital requirements of the insurer shall be secured in separate account indicated by the FRC as a “Compulsory Reserve fund”. The remaining 75% of the paid-in capital fund can be invested.

5.2 25% of the paid in capital secured in a separate account as indicated by the FRC shall be used only for the purposes for meeting insurance contract liabilities in cases of insolvency of the insurer.

5.3 Short and long term investments can be made from the paid in capital fund.

5.4 75% of the paid in capital funds as indicated in Article 5.1 of this Regulation can be invested in the following portfolio distribution and shares.

5.4.1 bank savings account: up 100%

5.4.2 bank correspondence account: up to 100%

5.4.3 government bonds: up to 100%

5.4.4 local government bonds: up to 20 %

5.4.5 corporate bonds: up to 20%

5.4.6 financial and operational leasing: up to 5%

5.4.7 Central bank securities: up 60%

5.4.8 securities backed by real estate: up to 10%

5.4.9 bank deposit certificates: up to 10%

5.4.10 short-term commercial loans (up to 1 year) with real estate pledge for persons not included into to the Guidelines on Identification of Related (affiliated) Parties approved by the FRC in accordance with Article 27.2 of the Law on Insurance: up to 2%

5.4.11 real estate: up to 20%

Six. Penalties for persons breaching this Regulation

6.1 In case of a failure to meet the requirements for investment and to secure the required amount in the compulsory reserve fund, officer of the insurance company shall be imposed a fine of 50000-100000 MNT and insurer of 500 000 – 1 000 000 MNT as stipulated in Article 83.1.32 of the Law on Insurance.

6.2 Penalties to be imposed on insurers which fail to meet minimum reserve level for over 3 months consecutively and to meet the requirements for investment on several occasions shall be drafted and submitted to the Commission Meeting for decision.

Seven. Oversight of Investments and Compulsory Reserve Funds

7.1 The FRC shall exercise supervision of the investments and compulsory reserve fund activities of the insurer.

7.2 The insurer shall submit to the FRC reports on investments and compulsory reserve funds in compliance with the format approved by the FRC on a quarterly basis.