

**Regulation On Establishment Of An Insurance Reserve Fund,
Its Expenditure And Control**

One. General Provisions

- 1.1 This regulation shall be applied for regulating relations related with implementation of Article 14.2.3 of the Law on Insurance on establishment, expenditure, and control of insurance reserve fund.
- 1.2 This regulation shall apply for insurers carrying out ordinary insurance activity.

Two. Establishment Of Insurance Reserve Fund

2.1 Insurer shall establish the following reserve funds by type of insurance product with the purpose of paying insurance claims to insured persons in insurance events in accordance with contracts.

- 2.1.1 Unowned premium reserve
- 2.1.2 Damage claims reserve
- 2.1.3 Loss provision (for potential damages)

2.2 Net premium shall be calculated by deducting re-insurance premiums and paid back premiums from total premium income.

2.3 Re-insurance premiums shall be defined by payments to domestic and foreign insurers for partial and full re-insurance of liabilities borne by insurer for insured persons.

2.4 Paid back premiums shall be defined by amount of premiums paid back from insurers to insured persons before the contract for the remaining period of the contract in accordance with insurance legislation.

2.5 Owned premium income shall be defined by the amount of insurance premiums recorded for income for the reported period from the net premium income.

2.6 Reserve fund for unowned premium income shall be established for remaining period of contract from insurance premiums collected by insurers. Reserve fund for unowned premium reserve fund shall be equal to difference between net premium income and income accounted premium income.

2.7 Owned premiums shall be calculated by the following ratio from the insurance net income for the reported quarter.

1 st quarter	1/8
2 nd quarter	3/8
3 rd quarter	5/8
4 th quarter	7/8

2.8 Damage claims reserve shall be established by the amount of the claims put from insured persons for the reported period.

2.9 Loss provision fund shall be established with the purpose of covering not actual but potential damages during the reported period.

2.10 Loss provision fund by each type of insurance product shall be established by the following ratio from the result of income accounted premiums minus damage claims for the reported period and net insurance claims paid.

2.10.1 Driver's liability	50%
2.10.2 Transport vehicle	40%
2.10.3 Others	15%

2.11 Net indemnity shall be calculated by deducting claims covered by reinsurance from the total indemnity.

2.12 Claims covered by reinsurance shall be determined by claims paid by reinsurance contracts in insurance events.

Three. Expenditure From The Insurance Reserve Fund

3.1 Damages for the reported period shall be paid from owned premiums.

3.2 In case owned premiums are not sufficient for coverage of insurance damages, claims shall be paid from loss provision fund.

3.3 In case loss provision fund is not sufficient to cover damages, then written notice shall be given to FRC 7 days before financing damages from the capital/statutory fund.

Four. Insurance Reserve Fund Supervision / Control

4.1 FRC shall exercise supervision of insurance reserve fund establishment and expenditure on a quarterly basis.

4.2 Reports on establishment and expenditure of the reserve fund shall be submitted to FRC on a quarterly basis in accordance with the approved formats.