Enhanced rules on assets covering technical reserves in Romania

On 6 November 2014, the Romanian Financial Supervisory Authority (the **"FSA"**) published on its website Norm no. 22, which amends regulatory provisions regarding the assets used to cover insurers' gross technical reserves (**"FSA Norm 22/2014"**). FSA Norm 22/2014 applies to providers of both life insurance and general insurance.

It will enter into force upon publication by the Official Gazette, and from then, it will amend: (i) Order no. 8 of 2011 which governs enforcement of norms regarding the technical reserves for life insurance, assets admitted to cover them and dispersion of the assets used to cover gross technical reserves; and (ii) Order no. 9 of 2011 which governs enforcement of norms regarding the assets used to cover gross technical reserves of general insurers, dispersion of assets used to cover gross technical reserves and the liquidity ratio.

According to the authority, FSA Norm 22/2014 is necessary to reduce the ratio of illiquid assets in insurers' overall portfolios, so as to (i) enhance insurers' ability to comply with obligations assumed by written insurance policies; (ii) better protect the interests of insureds/ damaged persons; and (iii) increase the stability of the non-banking financial market in Romania. The insurers have to comply with the new requirements starting with the fourth quarter of the 2014 financial year.

The main amendments introduced by FSA Norm 22/2014 are the following:

(i) outside of city boundaries and agricultural lands are excluded from the category of assets used to cover gross technical reserves;
(ii) technical reserves related to reinsurance agreements concluded with captive re/insurers which are not rated by at least one of the certified or registered rating agencies (as per Regulation no. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies; **"Regulation 1060/2009"**), are excluded from the category of assets used to cover gross technical reserves;
(iii) additional rules are set out governing the valuation of the receivables against insureds and against insurance intermediaries when used as assets covering technical reserves;
(iv) land and buildings may be used to cover gross technical reserves up to the market value determined in accordance with the standards of the International Valuation Standards Council;
(v) modified and new upper limits for the different types of illiquid assets that insurers may use :

(a) 20% of the gross technical reserves in land and buildings (instead of 40% as currently applicable);

(b) 90% of the gross technical reserves in deposits and cash available at credit institutions, but not more than 20% (instead of 10% as currently applicable) of the gross technical reserves at a sole credit institution;

(c) 5% of the technical reserves related to reinsurance agreements concluded with re/insurers which are not rated by at least one of the certified or registered rating agencies in accordance with Regulation 1060/2009.

If you are an insurer or reinsurer in need of clarification on the new requirements please contact us to discuss FSA Norm 22/2014 in more detail.

For further information, please contact:

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